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Decision 24-12-074 December 19, 2024

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U904G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application 22-05-015
And Related Matter.	Application 22-05-016

DECISION ADDRESSING THE 2024 TEST YEAR GENERAL RATE CASES OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

TABLE OF CONTENTS

Title **Page**

Appendix A – Results of Operations Model
Appendix B – Settlement on Insurance
Appendix C – Settlement on Customer Services Information
Appendix D – PricewaterhouseCoopers LLP Audit Report

DECISION ADDRESSING THE 2024 TEST YEAR GENERAL RATE CASES OF SOUTHERN CALIFORNIA GAS COMPANY AND SAN DIEGO GAS & ELECTRIC COMPANY

Summary

This decision addresses Track 1 of the 2024 Test Year (TY) general rate case (GRC) applications of San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) (jointly Sempra Utilities).

Given the current economic landscape, characterized by inflation, disrupted supply chains, increasing wildfire risks, and the need for improved energy distribution infrastructure, we adopt the following revenue requirements and resulting rate changes. These economic and financial factors present significant challenges that can lead to higher labor and material costs, project delays, and impacts on the utility service industry. Additional economic and financial factors present challenges for the average ratepayer to make ends meet. California ratepayers are facing an affordability crisis with record-high arrearages and utility bills. The decision carefully weighs ratepayer affordability with the critical task of maintaining safe and reliable electric and gas infrastructure and services.

The decision adopts a 2024 TY revenue requirement of $3.805 billion for SoCalGas, which is $ 628.658 million lower than the $4.434 billion that SoCalGas requested in its Update Testimony.[1] The adopted revenue requirement represents an increase of $323.634 million or a 9.3 percent increase over the current revenue requirement of $3.482 billion for 2023.[2] Based on a high-level estimate, it is

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[1] Appendix A-1 of this decision contains the Statement of Earnings, which reflects the revenue requirements adopted for SoCalGas and SDG&E.

[2] Appendix A-2 contains 2024 revenue requirement comparisons for SoCalGas and SDG&E, showing the current rates and the rates to be adopted for 2024. For comparison purposes, the 2023 authorized SoCalGas revenue requirement has been revised to exclude Pipeline Safety Enhancement Plan (PSEP) ($46 million O&M and capital revenue requirement) and $12 million

Footnote continued on next page.

anticipated that an average residential non-California Alternate Rates for Energy (CARE) customer can expect an average monthly bill increase of $2.48 or 3.5 percent.[3, 4] An average residential CARE customer can expect an average monthly bill increase of $1.40 or 3.5 percent.[5]

The decision adopts a 2024 TY revenue requirement of $2.698 billion for SDG&E's combined operations ($2.192 billion for electric and $506.062 million for gas operations), which is $308.313 million lower than the $3.007 billion that SDG&E requested in its Update Testimony. The adopted revenue requirement represents an increase of $188.609 million or a 7.5 percent increase over the current revenue requirement of $2.510 billion for 2023.[6]

Based on a high-level estimate, it is anticipated that a typical SDG&E non-CARE residential electric customer can expect a monthly bill increase of $4.38 or 2.6 percent, and a CARE residential electric customer can expect a monthly electric bill increase of $2.85 or 2.7 percent.[7] An average SDG&E non-CARE residential gas customer can expect a monthly bill increase of $1.02 or 1.8 percent, and a CARE residential gas customer can expect an increase of $0.71 or 1.8 percent for gas services.

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of Mobile Home Parks capital revenue requirement. For additional discussion about the recovery of these revenues, please see Section 8.1.1.3 and Section 43.1.2.

[3] Using 37 therms per month.

[4] Appendix A-3 of this decision contains the bill impacts, which reflects the bill comparison for SoCalGas and SDG&E.

[5] Using 27 therms per month.

[6] For comparison purposes, the 2023 authorized SDG&E revenue requirement has been revised to exclude PSEP ($23 million capital revenue requirement). For additional discussion about the recovery of these revenues, please see Section 43.1.2.

[7] These averages are for inland and coastal combined, Non-Net Energy Metering (NEM) bundled customers using 400 kilowatt-hours. The bill calculation excludes the California Climate Credit and includes the impact of the 2024 TY only, with 18-month amortization.

SoCalGas requested a post-test year (PTY) revenue requirement of $4.726 billion (6.58 percent increase) in 2025, $4.987 billion (5.52 percent increase) in 2026, and $5.367 billion (7.63 percent increase) in 2027. SDG&E requested a PTY revenue requirement of $3.352 billion (11.49 percent increase) in 2025, $3.684 billion (9.91 percent increase) in 2026, and $3.988 billion (8.23 percent increase) in 2027.

Today's decision does not adopt the PTY Ratemaking framework that SDG&E and SoCalGas have proposed. Our decision is based on the principle that utilities should be provided with a fair opportunity to earn their authorized rate of return, while ensuring rates are just and reasonable and do not impose any undue burden on ratepayers.

The decision authorizes a PTY base revenue increase (operations and maintenance and capital revenue requirement) of 3 percent each year for 2025, 2026, and 2027. For SoCalGas, the decision adopts a PTY revenue requirement of $3.995 billion for 2025, $4.112 billion for 2026, and $4.232 billion for 2027. For SDG&E, the decision adopts a PTY revenue requirement of $2.845 billion for 2025, $2.964 billion for 2026, and $3.086 billion for 2027.

The decision adopts a budget-based capital exception for undergrounding and system hardening for wildfire capital expenditure of $166.5 million for 2025, $167.4 million for 2026 and $168.6 million for 2027. For gas integrity programs, the decision adopts memorandum accounts.

The balance recorded in SoCalGas's and SDG&E's GRC Revenue Requirement Memorandum Account from January 1, 2024, until the new tariffs authorized in this decision are implemented, shall be amortized in rates over 18 months from the date the new tariffs are implemented.

SoCalGas's and SDG&E's applications base their requested revenue requirement increases on changes expected to occur over the term of this rate case cycle and corresponding investments, including investments in safety, reliability, resiliency, sustainability, innovation, and technology to meet operational and customer needs, customer service, and investments in their workforces.

Over 21 days of evidentiary hearings were conducted, and 17 intervenors actively participated in Track 1 of the proceeding by submitting exhibits, cross-examining hearing witnesses, and filing motions and briefs. The exhibits consisted of testimony, workpapers, and other exhibits from utility and intervenor witnesses.

After carefully reviewing the record and analysis, the Commission finds many of Sempra Utilities' incremental cost requests did not meet the requirement of California Public Utilities Code Section 451 to provide safe and reliable service at "just and reasonable" rates. The information provided to support the requests was either unsupported or not demonstrated to be reasonable due to their lack of cost-effectiveness within the Commission's risk-based decision-making framework. As a result, the Commission adopts reduced revenue requirements and PTY adjustments for SoCalGas and SDG&E.

The adopted revenue requirement and PTY increases will ensure that SoCalGas and SDG&E can maintain the safety, reliability, and efficiency of their natural gas transmission, distribution, and storage systems and electric distribution systems. This will enable them to continue providing their customers with safe and reliable energy services while maintaining reasonable rates. Additionally, the funds and provisions adopted in the decision support ongoing investments in infrastructure, technology, and customer service initiatives.

This decision authorizes funds to underground additional miles of electric lines, but not to the degree requested by SDG&E. Some electric lines can be more cost-effectively protected with different wildfire mitigations, including covered conductors.

Other improvements adopted in this decision include upgrades to natural gas compressor stations, control centers, natural gas leak detection systems, and drones to inspect electric lines. This decision authorizes clean energy innovations that Sempra Utilities demonstrated would benefit ratepayers and be cost-effective, but not other innovations, such as using hydrogen, that have not been demonstrated to be directly related to its core function of providing safe and reliable gas service.

Given the advances in the clean-fuel vehicle market, this decision finds that ratepayers should not subsidize education programs for alternate fuel vehicles, including electric, hydrogen fuel cell, and renewable natural gas vehicles. California offers ample resources for information on clean vehicles, and educating industry stakeholders is not the financial responsibility of Sempra Utilities' ratepayers.

Ratepayer recovery for hydrogen projects proposed by SoCalGas and SDG&E within their Clean Energy Innovations initiative lacked sufficient substantiation. These projects overlap with pending proposals before the Commission regarding hydrogen blending demonstrations or are pilot and demonstration projects, which are better evaluated through research, development, and demonstration programs. We acknowledge SoCalGas's and SDG&E's commitment to exploring hydrogen technology. However, to justify ratepayer funding, further planning and cost-benefit analysis are needed to align their sustainability efforts with the state's energy goals. Hydrogen has been identified as a component of California's greenhouse gas reduction strategy in the California Air Resources Board (CARB) adopted Scoping Plan. The Commission continues to partner with CARB and interagency partners to understand the role of investor-owned utilities in the hydrogen market. Commission staff are monitoring the creation of CARB's SB 1075 report on hydrogen development, deployment, and use which will help serve as the foundation of building the hydrogen market in California, and guide analysis to review future utility proposals for hydrogen infrastructure development.

To ensure that incremental cost requests are reasonable, the Commission has ordered several audits and studies, including the cost-effectiveness of Sempra Utilities' gas pipeline integrity program and its incentive compensation program (ICP). Each utility's ICP is modified by eliminating financial metrics that do not benefit ratepayers, sharing the cost of ICP metrics that benefit shareholders and ratepayers, and requiring the inclusion of cost-effectiveness as a new utility incentive compensation metric to promote more affordable rates.

The Commission also denies requests for two-way balancing accounts. The decision converts some existing accounts to one-way balancing accounts to incentivize better cost controls and more efficient operations to protect ratepayers from future cost recoveries due to undercollection.

The decision highlights a pattern of misclassification of costs at Sempra Utilities, where the company has charged ratepayers for lobbying, political activities, and expenses related to outside legal firms. These costs have been improperly booked as above-the-line expenses when forecasting future costs. However, the 2024 Test Year forecast excludes these costs. If the costs had been included in the forecast, it would have placed an undue financial burden on ratepayers.

Based on the material facts of hiring outside legal firms for litigation and booking those costs in this GRC, this decision distinguishes between hiring outside law firms for routine information requests that provide service provisions to benefit ratepayers and denying recovery from ratepayers for defense against accusations of wrongdoing or litigation to advance shareholder interests.

This decision requires SoCalGas to report its compliance with booking political activity costs as below-the-line costs to shareholders, not ratepayers, through annual affidavits or declarations. This reporting will cover policy, governance, process, and monitoring controls. Additionally, to prevent improper charging of outside legal expenses to above-the-line accounts, SoCalGas and SDG&E shall improve their cost classification reporting and accountability.

The Commission also recognizes the critical roles of SoCalGas and SDG&E in delivering safe, reliable, and affordable energy services to their customers. SDG&E's decision to maintain the same depreciation parameters for electric plant assets will prevent rate increases for customers. The closure of SDG&E branch offices demonstrates efficiency, resulting in annual savings of $1.517 million. Efforts to settle litigated issues related to the Corporate Center and insurance have helped mitigate costs, demonstrating a balanced approach.

The decision adopts two settlement agreements, Insurance and Customer Services-Information, without modification, as they are reasonable in light of the whole record, consistent with law, and in the public interest. We deny the settlement between Sempra Utilities and Cal Advocates on various issues. Based on the whole record, the settlement is not reasonable, not consistent with law, and not in the public interest.

This consolidated proceeding remains open.

1. Procedural Background

On May 16, 2022, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E), referred to collectively as Sempra Utilities, Sempra, or the Companies,[8] filed 2024 Test Year (TY) general rate case (GRC) Applications (A.) 22-05-015 and A.22-05-016, respectively. On May 17, 2022, SoCalGas filed a Motion for Expedited Consolidation of the Applications. On June 8, 2022, an Administrative Law Judge (ALJ) Ruling consolidated the two GRC dockets.

Pacific Gas and Electric Company (PG&E) filed its response to the SoCalGas Application on June 9, 2022. Southern California Edison Company (SCE) filed its response to the consolidated Applications on June 15, 2022.

Timely protests were filed on June 20, 2022, by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), Clean Energy Fuels (Clean Energy), the Environmental Defense Fund (EDF), the California Environmental Justice Alliance (CEJA), Indicated Shippers (IS), the City of Long Beach Energy Resources Department (Long Beach), the Mussey Grade Road Alliance (MGRA), San Diego Community Power and Clean Energy Alliance (Joint Community Choice Aggregators or Joint CCAs), Southern California Generation Coalition (SCGC), The Utility Reform Network (TURN), and the Utility Consumers' Action Network (UCAN).

Small Business Utility Advocates (SBUA) and the Coalition of California Utility Employees (CUE) filed their responses to the consolidated Applications on June 20, 2022.

Sempra Utilities filed its reply to the protests on June 30, 2022.

[8] SoCalGas and SDG&E are affiliated companies owned by Sempra Energy.

Several parties filed their respective motions for party status.

A July 19, 2022, ALJ ruling granted the following motions for party status: National Diversity Coalition, filed on June 30, 2022, Federal Executive Agencies (FEA), filed on June 30, 2022, Wellhead Services, Inc., filed on July 11, 2022 and Center for Accessible Technology, filed on July 12, 2022.

A July 26, 2022, ALJ ruling granted motions for party status of The Protect Our Communities Foundation (PCF) filed on July 26, 2022, and the City of San Buenaventura, filed on July 26, 2022.

A July 27, 2022, ALJ ruling granted the motion for party status for the City of San Diego filed on July 26, 2022.

An August 24, 2022, ALJ ruling granted the following motions for party status: California City County Streetlight Association filed on August 9, 2022, Climate First: Replacing Oil and Gas filed on August 17, 2022, and California Community Choice Association filed on August 23, 2022.

An August 29, 2022, ALJ ruling granted motions for party status of Community Legal Services (CommLegal) filed on August 2, 2022, and Utility Workers Union of America (Local 132) filed on August 26, 2022.

On September 8, 2022, an ALJ ruling granted Utility Workers Union of America's (Local 483) motion for party status filed on August 26, 2022.

On September 26, 2022, an ALJ ruling granted a motion for party status of Patagonia, Inc. (Patagonia) filed on September 8, 2022.

On March 1, 2023, an ALJ ruling granted a motion for party status filed by Air Products and Chemicals, Inc. (Air Products) on February 15, 2023.

A virtual Webex prehearing conference (PHC) was held on July 27, 2022. Parties were provided the opportunity to file a joint PHC statement of their positions on July 18, 2022.

Sempra Utilities' Motion for a Protective Order was granted on August 9, 2022.[9]

On October 3, 2022, the Assigned Commissioner's Scoping Memorandum and Ruling (Scoping Ruling) set forth the procedural schedule and the issues to be addressed in this case. The Scoping Ruling also required additional information regarding the effects of the proposed rate hikes on affordability and disconnections for non-payment.

On October 27, 2022, Sempra Utilities filed a Joint Motion to Amend the Assigned Commissioner's Scoping Memorandum and Ruling.

On November 18, 2022, Sempra Utilities served the results of its analysis on the impacts of the proposed rate increases on affordability and disconnections for non-payment.

The December 5, 2022 ALJ ruling required Sempra Utilities to provide access to its gas demand computer model and respond to a series of questions related to gas demand in response to EDF's motion.

On December 6, 2022, the ALJ clarified and revised the procedural schedule and set the date for submittal of the Joint Comparison Exhibit and Update Testimony.

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[9] Sempra Utilities filed a Motion for Protective Order on June 23, 2022 and a revised Motion for Protective Order on August 1, 2022 in compliance with the July 25, 2022 ALJ Ruling to add: (1) a revised draft Protective Order incorporating provisions pursuant to the ruling, (2) a draft Administrative Law Judge Ruling Approving Protective Order, and (3) a revised draft Non-Disclosure Certificate to be signed by a party receiving Protected Materials from a producing party.

On January 12, 2023, Cal Advocates filed a motion to compel SoCalGas to answer its data requests regarding booking of advocacy costs and to provide Cal Advocates with remote access to SoCalGas's SAP database. On February 14, 2023, the ALJ issued a ruling that denied in part and granted in part Cal Advocates' motion to compel. The motion was granted to the extent that Cal Advocates could only ask about advocacy expenses in ratepayer accounts, not individual or aggregated shareholder expense information. This matter was discussed during the evidentiary hearings and continued in the form of additional motions and rulings, which are summarized later in this Section.

The Commission held four public participation hearings (PPHs) for Sempra Utilities customers (two for each utility) remotely on March 6, 2023 and March 15, 2023, and two in-person PPHs for SDG&E customers on March 23, 2023.

On March 27, 2023, Intervenor testimony was served by 14 parties.[10] Rebuttal testimony was served on May 12, 2023.

An ALJ ruling issued on May 1, 2023 granted a joint motion filed by TURN and SCGC regarding removing the review of the longer-term remediation option of repairing or replacing gas transmission Line 235, but allowed costs related to integrity assessment and interim remediation activities to remain in the GRC.

On May 18, 2023, the Commission approved Decision (D.) 23-05-012 granting Sempra Utilities the authority to establish the requested GRC Memorandum Accounts (GRCMAs). PCF filed an application for rehearing of D.23-05-012, which was denied by the Commission in D.23-11-049 on November 2, 2023.

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[10] Intervenors that served testimony: CEJA; Cal Advocates; CUE; CommLegal; EDF; FEA; IS; MGRA; PCF; Joint CCAs; SBUA; TURN; SCGC; and UCAN.

The Commission held four weeks of evidentiary hearings from June 5, 2023, through June 29, 2023, with an additional day on July 17, 2023, for Update Testimony and other issues.

Sempra Utilities served Update Testimony on July 7, 2023, reflecting the most recent available cost escalation rates and to reflect changes arising from governmental actions, such as tax or postage rate changes.

Opening briefs were filed on August 14, 2023, and reply briefs were filed on September 7, 2023.

On July 7, 2023, Cal Advocates filed a motion requesting permission to introduce exhibits into evidence regarding the booking of advocacy costs to ratepayer accounts. On October 19, 2023, a ruling granted in part the motion filed by Cal Advocates on July 7, 2023. The ruling also granted some of the relief that SoCalGas requested in opposition to the motion.

On October 19, 2023, EDF filed a motion to sever hydrogen projects from this proceeding. EDF's motion is discussed later in the decision.

On October 24, 2023, three separate motions to adopt settlement agreements were filed. The first motion is the Joint Motion of SoCalGas, SDG&E, Cal Advocates, TURN, UCAN, , and CommLegal to resolve all insurance issues (Insurance Settlement). The second motion is the Joint Motion of SoCalGas, SDG&E, TURN, Cal Advocates, and the SBUA to resolve certain Customer Services – Information (CSIN) issues (CSIN Settlement). The third settlement motion is the Joint Motion of SoCalGas, SDG&E and Cal Advocates to resolve various issues in the GRC (Other Issues Settlement).

On November 27, 2023, parties filed opening comments, and on December 12, 2023, reply comments were filed on the motions to adopt the three proposed settlements.

On May 17, 2024, Cal Advocates filed a motion for official notice of a performance audit issued by the Commission's Utility Audits Branch. On June 3, 2024, SoCalGas filed a response to the motion and on June 11, 2024, Cal Advocates filed its reply to SoCalGas's response to the motion.

On August 20, 2024, Sempra filed a motion for official notice of the Court of Appeal, Fourth Appellate District, Division One decision D081883. On September 4, 2024, Cal Advocates filed a response to the motion, and on September 10, 2024, Sempra Utilities filed its reply to the response.

Oral arguments were held on November 4, 2024.

Pursuant to Public Utilities (Pub. Util.) Code Section 1701.3(d) and the Commission Rules of Practice and Procedure (Rules) Rule 13.13, PCF requested oral arguments.

To the extent that any outstanding motions or requests have not been addressed in this decision or elsewhere, we deny those outstanding motions or requests. We also confirm all of the oral and written rulings that the assigned ALJs have issued in these proceedings.

1.1. Submission Date

This matter was submitted on November 26, 2024 with Cal Advocates filing its sur-reply to Sempra Utilities' November 12, 2024, reply comments on the proposed decision.

1.2. Public Participation Hearings and Public Comments

The Commission held four PPHs for Sempra Utilities customers (two for each utility) remotely on March 6, 2023, and March 15, 2023, and two in-person PPHs for SDG&E customers on March 23, 2023.

At each PPH, the assigned ALJ provided a background of the Commission, the proceeding process, and a summary of the Applications. Parties were allowed to make presentations at the PPHs. SoCalGas, SDG&E, TURN, Cal Advocates, MGRA, and PCF made brief statements. The ALJ emphasized that the applications filed do not include the cost to purchase natural gas for SoCalGas and SDG&E customers and do not determine how revenues are allocated to customer groups, as those areas are evaluated and authorized in separate proceedings.[11]

SoCalGas and SDG&E representatives were present during the PPHs. They discussed that the rate request filed is to fund the infrastructure, facilities, and employee costs necessary to maintain a safe and reliable system.

Members of the public, including small business owners, raised affordability concerns and asserted that the proposed increases are unreasonable, unjust, and unconscionable. The speakers highlighted rate affordability concerns especially for low-income and fixed-income families, such as the elderly, the retired, and California's vulnerable populations. Many speakers also requested transparency on SoCalGas and SDG&E accounting and presented details on allocating utility revenues. Some even suggested that utilities should find innovative, cost-effective ways to address climate impacts or energy infrastructure without significantly increasing rates[12] and create sustainable plans that will allow customers to pay their bills. Small businesses highlighted how extreme rate hikes will have a disproportionate impact on small businesses and other ratepayers in low-income communities.

Some speakers expressed support for both SoCalGas's and SDG&E's GRC Applications. They mentioned that the revenue request plays an important role in

[11] PPH Transcript Volume (Vol) 1 at 12:4-9, 137:13-17.

[12] PPH Transcript Vol 2 at 349: 19-21.

the region's economic vitality and appreciated the Companies' commitment to exploring a wide variety of options for delivering a safe, reliable, and sustainable energy supply.[13, 14] In addition, it was also emphasized that a source of funds is needed to upgrade and modernize pipelines, compression stations, and storage-monitoring technology, among other things, to ensure that Southern California families can enjoy continued uninterrupted service.[15] Aside from environmental concerns, speakers also emphasized the need for planning to develop wildfire mitigation programs as well as critical investments in system safety, reliability, and utility-represented workforce.[16]

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

In addition to the comments at the PPHs, the Commission received over 500 written comments, letters, and emails from customers and other members of the public. In written comments, customers expressed similar concerns to those presented at the PPHs, such as the unaffordability of SoCalGas's and SDG&E's proposed rate increases and the need for increased transparency of Sempra's operations and spending. Much of this written correspondence can be found on the Commission's website at the Docket Card for this proceeding.

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13 PPH Transcript Vol 1 at 153:2-8.

14 PPH Transcript Vol 1 at 171:7-12.

15 PPH Transcript Vol 1 at 43:5-12.

16 PPH Transcript Vol 2 at 281:23-25.

2. Burden of Proof and Evidentiary Standards

Pub. Util. Code Section 451 provides in part that all utility charges demanded or received must "be just and reasonable." Pursuant to Pub. Util. Code Section 454(a):

> [A] public utility shall not change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified.

It is well-established that, as the applicants, SoCalGas and SDG&E must meet the burden of proving that they are entitled to the relief sought in this proceeding. SoCalGas and SDG&E also have the burden of affirmatively establishing the reasonableness of all aspects of their application.[17] The Commission has held that the standard of proof the applicant must meet in rate cases is that of a preponderance of the evidence.[18] Preponderance of the evidence usually is defined "in terms of probability of truth, e.g., 'such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.'"[19] An applicant utility must present more evidence that supports the result requested than would support an alternative outcome.[20] Sempra Utilities must establish requested rate changes are *prima facie* just and reasonable.[21] Costs are just and reasonable if "prudently incurred by competent management exercising the best practices of the era, and using well-trained, well-

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[17] D.09-03-025 at 8; D.06-05-016 at 7.

[18] D.19-05-020 at 7; D.15-11-021 at 8-9; D.14-08-032 at 17.

[19] D.08-12-058 at 19, citing Witkin, Calif. Evidence, 4th Edition, Vol. 1 at 184.

[20] D.16-06-056 at 23.

[21] D.19-05-020 at 7.

informed and conscientious employees and contractors who are performing their jobs properly."[22]

Although Sempra Utilities bears the ultimate burden to prove the reasonableness of the relief it seeks and the costs it seeks to recover, the Commission has held that when other parties propose a different result, they too have a "burden of going forward" to produce evidence to support their position and raise a reasonable doubt as to the utility's request.[23]

Since the evidence and arguments in this proceeding are voluminous, the discussion in this decision focuses on the major points of contention and does not provide detailed summaries of the evidence and arguments for every issue. However, we have reviewed and considered all exhibits in this proceeding pertaining to each Section, the evidentiary hearing transcripts, and all the arguments raised by the parties, in deciding the revenue requirements and related policy directives adopted in this decision.

Ultimately Sempra Utilities must meet its burden of proof by a preponderance of the evidence demonstrating requested rate changes, "if adopted, will result in fair and reasonable rates at a just and reasonable rate of return."[24]

3. Scoping Ruling Issues

The October 3, 2022 Scoping Ruling identified the following issues to be addressed in this proceeding:

1. Whether Sempra Utilities' proposed revenue requirements, costs, and recovery mechanisms for Test Year 2024 are just

[22] D.14-06-007 at 31.

[23] D.20-07-038 at 3-4; D.87-12-067 at 25-26, 1987 Cal. PUC LEXIS 424, *37.

[24] D.19-05-020 at 7.

and reasonable and should be adopted by the Commission and reflected in rates;

2. Whether Sempra Utilities' post-test year (PTY) Ratemaking mechanisms are just and reasonable;
3. Whether the various regulatory account proposals are just and reasonable;
4. Whether SDG&E's recorded amounts in its Wildfire Mitigation Plan Memorandum Account from its inception in May 2019 through December 31, 2023, are reasonable and prudent for cost recovery;
5. Whether Sempra Utilities' Applications align with the Commission's Environmental and Social Justice (ESJ) Action Plan;
6. Whether the identified risks and recommendations in the Safety Policy Division's evaluation report of Sempra Utilities' joint Risk Assessment and Mitigation Phase Applications and the data on revised risk spending efficiency calculation, required pursuant to March 30, 2022, Scoping Memo issued in A.21-05-011, have been adequately integrated into this GRC proceeding and whether mitigation programs and projects that address safety risks are reasonably balanced with the costs associated with such programs and projects; and
7. Whether programs align with California's climate objectives, decarbonization goals, forecasts of future natural gas demand, and whether the expenditures result in just and reasonable rates.[25]

The Scoping Ruling also clarified that the following two issues fall within the above seven issues:

a. The impact of the proposed rate increases on affordability and disconnections for non-payment, under §718(b); Supplemental testimony is due by November 18, 2022.

[25] Scoping Ruling at 4-5.

b. Whether proposed investments in alternative fuels, including bio-methane and hydrogen, are reasonable and sourced without disproportionally burdening disadvantaged communities with air pollution.[26]

4. General Rate Case Ratemaking

4.1. Test Year Forecasting Methods

To develop forecasts for GRCs, utilities and parties utilize generally accepted forecast methodologies to reflect future funding needs. These forecasting methods include 2021 base year (2021 Base Year), historical averages, linear trends, or zero-based (a method that does not rely on history and rather bases the forecast on other information).[27]

Historical averages may be used when costs fluctuate over time to smooth the ups and downs of recorded data. Linear trends may be used when there is a pattern of growth or decrease over time. The base year may be selected when costs are steady, there is not adequate historical data, or to recognize the most recent financial data is the preferred starting point for forecasting the future. Lastly, a zero-based forecasting method may be used when historical information is not relevant or where there is detailed information available that is more indicative of future needs. Zero-based methods can include: an arithmetic method such as unit cost multiplied by expected volume; referencing a Request for Proposal response, an invoice, or other reference document; use of Subject Matter Expert judgment; reference to a like-kind project or activity performed elsewhere; and reference to a similar project or work done in the past and updated for current conditions.[28]

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[26] Scoping Ruling at 5.

[27] Sempra Opening Brief at 12.

[28] Sempra Opening Brief at 12.

SBUA recommends that the Commission require the utilities to use only two forecasting methods in all future GRCs in order "to reinforce consistency across programs, enhance transparency and better enable review by the Commission and other parties," and that one of the approaches be a zero-based approach.[29] The Commission finds such recommendations to be ill-advised because utilities and parties need the flexibility to make use of a variety of approaches to recommend forecasts under a multitude of scenarios, depending on the facts and circumstances of the various operational areas.[30]

PCF generally contends that utilities provide too little information.[31] In the case of certain forecasts this is true. However, when a utility provides insufficient information to demonstrate that a certain forecast meets its burden of proof of reasonableness, as discussed above, the funding request is subject to reduction or denial, as has occurred in this GRC.

4.2. Rate Formula

The Results of Operations (RO) model compiles expense and capital expenditure forecasts and calculates the revenue requirement based on the following standard cost of service ratemaking formula:

$RRQ = [E + D + T + (r \times RB)]$, where

RRQ is the revenue requirement;

E is all operating and maintenance expenses, administrative and general expenses, and taxes other than income;

D is book depreciation expense;

T is income taxes paid to federal and state governments;

[29] SBUA Opening Brief at 20.

[30] Sempra Opening Brief at 21 to 22.

[31] PCF Opening Brief at 20.

r is the allowed return on rate base; it is a direct input obtained from a Cost of Capital proceeding; and

RB is rate base, the total used and useful capital investment in plant and equipment dedicated to providing utility service.

4.3. Use of Recorded and Forecasted Costs

Given the complexity of GRCs, the Commission has a Rate Case Plan to expedite the processing of these proceedings. The plan includes defining the scope of the data to be considered.[32] Ideally, all relevant evidence is filed with the utility's application, thereby allowing timely, thorough, and transparent review by all parties.

Sempra Utilities submitted recorded data for 2021 consistent with the Commission's Rate Case Plan[33] because 2021 was the last available year of recorded financial data at the time of the filing of its Application on May 16, 2022.[34] As required by the Rate Case Plan, Sempra Utilities included the following in this GRC: 1) "base year historical and estimated data and subsequent years with evaluation of changes up to and including the Test Year;" 2) "at least five years of recorded data;" 3) a showing of "the development of all adjustments;" and 4) "all data for expenses shall be stated in recorded dollars and dollars inflation adjusted to a constant base year." The Companies started with 2021 Base Year financial data and included five years of recorded data (2017-2021). The Companies evaluated their historical financial data and made adjustments as

[32] D.89-01-040, *Opinion* (January 27, 1989); D.93-07-030; D.07-07-004, *Opinion Modifying Energy Rate Case Plan* (July 12, 2007); D.20-01-002, *Decision Modifying the Commission's Rate Case Plan for Energy Utilities* (January 16, 2020).

[33] D.20-01-002, *Decision Modifying the Commission's Rate Case Plan for Energy Utilities* (January 16, 2020).

[34] Sempra Opening Brief at 10.

necessary. Examples of adjustments that are made to historical data include excluding costs not recovered through the GRC, transferring data to different cost centers, and excluding one-time expenditures.[35]

From the base year of recorded data, Sempra Utilities states that it prepared forecast estimates for each year up to and including the 2024 Test Year, as required. In accordance with the Rate Case Plan, these forecast estimates are presented in 2021 adjusted-recorded constant dollars.[36] Sempra Utilities now requests Commission approval of its forecasts for operations and maintenance (O&M) expenses in 2024 Test Year and forecasted capital expenditures for the years 2022, 2023, and 2024, with expected in-service dates such that the costs of capital (including depreciation, tax, and return) can be estimated from the resultant additions to rate base. The 2024 O&M and 2022-2024 capital direct cost forecasts contribute to the Companies' revenue requirement request.[37]

Consistent with its plan, the Commission only allows amendments or updates to applications under certain circumstances, in order to reduce the complexity of, and delays in, processing the rate case application.[38] Intervening parties often seek to use the most recent data available. For some forecasts, the Commission finds that more recent data is more accurate. However, a GRC cannot be completed on time if data is constantly updated. Consequently, for this

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35 Sempra Opening Brief at 10.

36 Sempra Opening Brief at 10-11.

37 Sempra Opening Brief at 10-11.

38 For example, in D.93-07-030, the Commission only permitted an update of certain marginal cost and revenue data.

GRC, the Commission will use the 2021 Base Year data consistent with the Rate Case Plan, unless it may be reasonable to apply updated data.[39]

For SoCalGas and SDG&E, O&M expense forecasts are presented in two groupings. Utility Shared Services (USS) are O&M expenses incurred by one utility and subject to billing to the other utility or a Sempra Utilities affiliate. In the GRC, costs for USS O&M expenses and shared assets are reflected in forecasts where the costs are incurred. The second group of O&M expenses is Non-Shared Services (NSS), which are expenses incurred by a utility that are not subject to Shared billing.[40]

In addition to O&M expenses, there are shared assets on the capital side. For example, SoCalGas incurs much of the cybersecurity capital costs on behalf of both SoCalGas and SDG&E. While these costs appear in this GRC as SoCalGas capital forecasts, the RO model appropriately assigns such costs to the company or companies that benefits from these activities, which results in some of the cybersecurity costs being billed to and ultimately paid for by SDG&E ratepayers.[19]

4.4. Regulatory Accounts: Balancing and Memorandum Accounts

The amount customers pay for electrical and gas service is determined from the total amount utilities record and recover from ratepayers once the costs are authorized for recovery by the Commission. The Commission authorizes the recovery of costs through a system of accounts the Commission establishes[41] and

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[39] D.23-11-069, *Decision on Test Year 2023 General Rate Case of Pacific Gas & Electric Company* (November 17, 2023) at 32 citing to D.19-09-051, *Decision Addressing the Test Year 2019 General Rate Cases of San Diego Gas & Electric Company and Southern California Gas Company (September 26, 2019)* at 59-60.

[40] Sempra Opening Brief at 11.

[41] Pub. Util. Code Section 792.

by determining the amount of costs that may be recovered through general rate cases, and the manner in which costs are recorded in them.[42]

For large energy utilities, the Commission authorizes the recovery of rates in specific cost categories that are forecasted for a Test Year and three subsequent PTYs. For this proceeding, Sempra Utilities applied for the recovery of costs forecasted for the 2024 Test Year and PTYs 2025-2027.

For utility costs that are difficult to forecast or that are likely to change, the Commission establishes different types of accounts to track changes in costs and how they may be authorized, in accordance with the Commission's authority to review and audit cost accounts.

A balancing account is used when specific necessary expenditures are authorized by the Commission and their recovery is included in rates, but the amounts are uncertain. The account tracks the difference between actual expenditures authorized for recovery and the revenues collected within customer rates to cover those expenses. Undercollections are carried forward to ensure full recovery over time, and overcollections are returned to ratepayers. Balancing accounts can operate in two different ways. One-way accounts track actual expenses up to an amount authorized for recovery by the Commission. A utility is required to refund to customers any difference between the amount authorized for recovery in rates and the actual recorded expense, if the actual recorded expenses are less. These accounts tend to exist for defined periods of time. Two-way accounts track actual expenses compared to an amount authorized for recovery by the Commission. Typically, these accounts are ongoing and do not have a definitive end date. Such accounts can be adjusted up or down. If actual

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[42] Pub. Util. Code Section 794.

recorded expenses are more (or less) than already reflected in rates, a rate increase (or decrease) is applied in order to bring the account balance to zero.

A memorandum account is used to record specifically identified expenses that have not yet been found necessary and reasonable, and the amounts of which are very uncertain. The expenses are authorized to be recorded in the memorandum account and are subject to later reasonableness review through a separate application proceeding. Some memorandum accounts are regulated by statutes, including catastrophic event memorandum accounts which are governed by Pub. Util. Code Section 454.9.

Balancing and memorandum accounts are ratemaking tools created to reduce the risks to both ratepayers and investors when some costs are too uncertain to forecast in general rate cases.[43] They are used to ensure the recovery in rates of only the reasonable amounts of specified expenditures authorized by the Commission, for which the Commission has broad authority to determine the method for recovery of used and useful costs.[44]

The structure of every balancing and memorandum account determined by the Commission is stated within each preliminary statement for each account and may include thresholds for approval by advice letter (AL), caps, and the process for the recovery of costs in accordance with its authority to review and audit accounts.[45] The Commission's authority to review and audit accounts includes developing a risk-based approach for reviewing or auditing balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are

[43] Standard Practice U-27-W.

[44] Pub. Util. Code Section 454.8.

[45] Pub. Util. Code Section 792.5.

for allowable purposes and are supported by appropriate documentation,[46] adopting balancing account review or audit procedures that are consistent with a risk-based approach,[47] and requiring independent audits.[48] Sempra Utilities has requested the modification or elimination of several balancing accounts, which the Commission addresses in the Regulatory Accounts Section of this decision.

4.5. Reprioritization of Authorized GRC Funding

CEJA is concerned about SoCalGas reallocating approved funds for projects that contradict Commission direction or are unnecessary for safe and reliable gas service.[49] CEJA says that SoCalGas reprioritized authorized GRC funds for projects not approved by the Commission or serving core functions.[50] CEJA further states that it recognizes that utilities may need to reprioritize spending between GRCs for projects necessary to provide safe and reliable utility service, such as higher than forecasted costs for gas pipeline repairs.[51] As a result, CEJA recommends that the Commission reduce GRC funds and impose penalties where reallocations contravene the Commission's expressed direction. It further requests that the Commission also require the utilities to identify how funds approved in the previous GRC were reallocated when it files its next GRC application.

SoCalGas and SDG&E state that the Commission has acknowledged that utilities may need to reprioritize spending between GRCs.[52] In their reply brief,

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[46] Pub. Util. Code Section 792.5(b).

[47] Pub. Util. Code Section 792.5(c).

[48] Pub. Util. Code Section 792.5(d).

[49] CEJA Opening Brief at 13.

[50] CEJA Opening Brief at 13-14.

[51] CEJA Opening Brief at 14.

[52] Sempra Opening Brief at 17.

SoCalGas and SDG&E state that, after revenue requirements are set in this GRC, the Commission monitors utility spending compared to authorized funding through various means, including the Risk Spending Accountability Reports (RSAR) filed annually.[53]

Pursuant to D.19-04-020, SDG&E filed its 2023 RSAR in this proceeding on April 30, 2024. Cal Advocates filed comments on the 2023 RSAR.

While we generally agree that GRC-authorized O&M funding can be reprioritized for other company activities, the Commission finds that tracking these funds in a GRC can be cumbersome due to differing timing requirements for RSAR filings and GRC applications.

In our review of Sempra's GRC, we observed that Sempra deferred investments for a few years and then made rapid capital investments in later years. Using data from the later PTYs to forecast the next GRC could lead to overestimating expenses. This, in turn, could result in a deviation from reasonable capital expense forecasts needed to serve customers effectively.

Our review of the 2023 RSAR report highlights the difficulty of correlating Risk Assessment and Mitigation Phase (RAMP) risk descriptions with GRC exhibits and cost information. For example, the Summary of SDG&E O&M RAMP Variances shows that SDG&E incurred \$0.211 million in 2023, but the imputed authorized RAMP cost in 2023 is \$0.587 million.[54] However, no further information is available to ascertain which projects were reprioritized or deferred. This ambiguity continues to other cost areas. However, it is not a new issue or one that is unique to Sempra Utilities.

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[53] Sempra Reply Brief at 23-24.

[54] 2023 RSAR at 42.

To promote transparency and accountability of reprioritized spending and deferred work, the Commission requires SoCalGas and SDG&E to use a deferred work or reprioritization framework in its next GRC similar to the types of deferred work principles adopted in GRCs for other large investor-owned utilities (IOUs). For example, in its GRCs, PG&E is required to make an explicit and specific showing at the program level when PG&E seeks ratepayer funding for work previously authorized on the basis of safety and reliability but whose completion was deferred to a future rate case cycle.[55]

5. Affordability Customer Impacts / Alternatives and Affordability Metrics

There are several sections of the Pub. Util. Code that require the Commission to ensure that rates are affordable across different utility industries. For example, Pub. Util. Code Section 382(b) states, "recognizing that electricity is a basic necessity and that all residents of the state should be able to afford essential electricity and gas supplies, the Commission shall ensure that low-income ratepayers are not jeopardized or overburdened by monthly energy expenditures." Further, Pub. Util. Code Section 739(d)(2) states that the Commission shall ensure that rates recover a just and reasonable amount of revenue, "while observing the principle that electricity and gas services are necessities, for which a low affordable rate is desirable." Also, in adopting the Public Utilities Commission Accountability Act of 2015, the Legislature stated its intent "that the commission reduce rates for electricity and natural gas to the lowest amount possible," which is codified in Pub. Util. Code Section 747.

[55] D.23-11-069 at 45-49.

5.1. SoCalGas and SDG&E Affordability and Customer Impacts

Sempra's opening brief states that, to advance affordability for customers, SoCalGas and SDG&E have removed long-term incentive compensation and Sempra executive officer compensation from this proceeding.[56]

SoCalGas contends that it is sharing millions of dollars in shareholder funding to help customers with bill assistance and support community resources.[57] SDG&E states that it has pursued numerous rate affordability initiatives outside of this proceeding, such as rate reform in response to Assembly Bill (AB) 205 (Stats. 2021- 2022, ch. 61), supporting proposed legislation aimed at lowering rates, and applying for up to $100 million in federal funds through the United States Department of Energy's Grid Resilience and Innovation Partnerships Grant program under the Infrastructure Investment and Jobs Act.[58] However, the proposed legislation did not move forward in the legislative process. SDG&E also proposes keeping its common and electric plant depreciation levels constant throughout this GRC cycle to support affordability.[59]

5.2. SoCalGas and SDG&E Affordability Metrics

SoCalGas and SDG&E presented metrics including: (1) Essential usage bills by climate zone; (2) Average usage bills by climate zone; (3) Affordability Ratio 50 (AR50) by climate zone; (4) Affordability Ratio 20 (AR20) by climate zone; (5) Hours required to work at minimum wage to pay monthly gas bill (HM); and (6) For climate zones with Areas of Affordability Concern (AAC) as defined in the

[56] Sempra Opening Brief at 42.

[57] Sempra Opening Brief at 39.

[58] Sempra Opening Brief at 41.

[59] Sempra Opening Brief at 42.

most recent 2020 Annual Affordability Report, AR20 by climate zone subdivided by Public Use Microdata Area (PUMA).[60] SoCalGas and SDG&E included additional analyses of (1) the California Alternate Rates for Energy (CARE) discounts for low-income households; and (2) the energy burden (EB) to isolate the impact of the electric and gas revenue requirements being requested.

5.3. Intervenor Comments on Affordability Customer Impacts and Affordability Metrics

Intervenor testimony and briefs can be separated into two categories: qualitative assessment of rate affordability policy and quantitative assessment of the impact of each utility's affordability metrics. TURN, CEJA, EDF, IS, SBUA, and UCAN filed comments on the policy of the overall affordability of Sempra Utilities' requests. TURN, UCAN, EDF, and SBUA also addressed the affordability metric calculations presented by Sempra Utilities.

TURN and UCAN argue that SDG&E's and SoCalGas's rates are increasing faster than customer income. TURN argues that current energy rates and bills are not affordable for many low-income customers despite low-income assistance programs. Using Sempra's data, TURN calculates that electric bill affordability, measured by the affordability ratio at the 20th percentile of income (AR20), will decline by 40 to 50 percent (%) across all SDG&E climate zones by 2027 relative to 2020.[61] According to TURN, electric bill affordability will be over 50 percent less affordable for the inland climate zone.[62]

TURN also provided its affordability analysis by combining the metrics for dual commodity usage, arguing that affordability will decrease by about

[60] SCG Ex-43-S at SBC-1; SDG&E Ex-50-S at RRB-1; SDG&E Ex-51-S at SBC-1.

[61] TURN Opening Brief at 52.

[62] TURN Opening Brief at 52.

30 percent under SDG&E's proposal.[63] TURN further states that rate increases impact disadvantaged communities and underrepresented populations more due to lower wages and higher burdens.[64] Referring to the SoCalGas witness Ms. Brown's testimony during the evidentiary hearings, TURN notes that no guidance was provided to the company on how to consider or evaluate affordability, and the witness either acknowledged that customers' incomes are likely to grow less than the requested revenue requirement increases or claimed that she does not have a view of customers' income growth.[65]

UCAN and SBUA state that SDG&E's electric rates are currently the highest in the continental United States.

UCAN argues that SDG&E's requested rate increases will lead to a "death spiral," with customers seeking to avoid utility services and pursuing off-grid energy strategies.[66] It argues that SDG&E's affordability analysis failed to separately account for significant costs such as smart meter upgrades and stranded costs from failed gas modules and instead bundled these "big dollar" costs with all other costs.[67] UCAN claims that SDG&E's all-electric bills will increase by 24.5 percent[68] and gas bills will increase by 54.0 percent.[69] UCAN argues that as of January 2023, 25.1 percent of SDG&E's residential customers had

[63] TURN Opening Brief at 52.

[64] TURN Opening Brief at 56.

[65] TURN Opening Brief at 62.

[66] UCAN Opening Brief at 35.

[67] UCAN Opening Brief at 37.

[68] UCAN Opening Brief at 22.

[69] UCAN Opening Brief at 39.

arrearages despite available utility assistance programs such as LIHEAP, CARE, and FERA.[70]

SBUA argues that the utilities should be required to propose in testimony and apply an affordability benchmark for small commercial-class customers in their next GRC.[71]

EDF states that Sempra Utilities' affordability metrics are based on stale demand assumptions that overstate gas demand, resulting in rates—and affordability impacts—significantly lower than what should be the case.[72]

EDF and IS raise concerns that Sempra Utilities offers no plan to manage customer affordability in the 2024 GRC proposals.[73, 74]

CEJA states that, given the severity of the affordability crisis, the Commission should approach GRC requests with a high degree of scrutiny and reconsider whether ratepayers should continue to cover the costs of activities that are not strictly necessary for the safe and reliable provision of service. CEJA argues that the costs of SoCalGas's Research, Development, and Demonstration (RD&D) program, which continues to funnel money into polluting technologies, should no longer be borne by ratepayers.[75]

5.4. TURN's Alternative Proposal

TURN recommends a framework for Sempra Utilities to prepare an alternative budget in which SoCalGas and SDG&E can increase their expenses

[70] UCAN Opening Brief at 51.

[71] SBUA Opening Brief at 2.

[72] EDF Opening Brief at 48.

[73] IS Opening Brief at 3.

[74] EDF Opening Brief at 42.

[75] CEJA Opening Brief at 17.

beyond inflation so long as the overall increase in total expenses and capital expenditure in the GRC remains within the inflation constraint. TURN further recommends starting with authorized 2027 GRC spending to calculate increases and using the best available Consumer Price Index (CPI) forecast to calculate cost-of-living-adjustment for Social Security recipients between 2024-2027. TURN recommends that Sempra Utilities should provide a breakdown of proposed expenses and capital expenditures under the Inflation-Constrained Alternative and show the difference between the alternative proposal and SoCalGas's and SDG&E's preferred GRC proposal. TURN recommends that SoCalGas's and SDG&E's alternative budgets should be treated as testimony, including being subject to discovery and cross-examination and eligible for admission into the evidentiary record. It further recommends that SoCalGas and SDG&E clarify the differences between their proposals and explain why they support their preferred option over the CPI-constrained alternative.

5.5. SoCalGas and SDG&E Response to Intervenors

Sempra Utilities states that TURN's comments on affordability relate to broad social problems that cannot be solved in this GRC.[76] In response to intervenor comments, Sempra Utilities states that it evaluated affordability in the aggregate, assessing rates based on an overall value proposition, including reliability, safety, service quality, and electrification potential.[77] Sempra Utilities disagrees with UCAN's assertion of a "death spiral" while contending that under electrification scenarios, the population is using higher volumes of electricity to achieve decarbonization.[78]

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[76] Sempra Reply Brief at 27.

[77] Sempra Reply Brief at 34.

[78] Sempra Reply Brief at 35.

Sempra Utilities asserts that its affordability metrics are calculated correctly, and its presentation in this GRC complies with all directives currently required by the Commission.[79] Sempra Utilities argues that TURN and UCAN ignore other metrics as they base electric affordability solely on their analysis of the AR20 metric and the AAC metric, respectively.[80] Sempra Utilities asserts that SDG&E's bills are below the national average.[81]

Disagreeing with TURN's proposal that the Affordability Ratio metrics for electric and gas can and should be added for combined metrics, Sempra Utilities states that "[b]ecause electric utility essential service is removed from income for purposes of the gas calculation and vice versa for purposes of the electric calculation, this results in different denominators for the gas AR metric and the electric AR metric, which is why a combined AR metric is not possible."[82] Sempra Utilities contends that the intervenors' arguments should be considered in context and against the backdrop of all the affordability metrics, as intended by the Commission, and other proceedings addressing affordability.[83]

Responding to EDF's argument on using out-of-date gas demand data, Sempra Utilities states that it used 2018 demand information and rates data effective at the time of the affordability analysis, noting that the current triennial cost allocation proceeding, A.22-09-015, was pending before the Commission at the time of filing the applications and when the opening briefs were filed.[84]

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[79] Sempra Reply Brief at 41.

[80] Sempra Reply Brief at 654-655.

[81] Sempra Reply Brief at 654.

[82] Sempra Reply Brief at 655.

[83] Sempra Reply Brief at 655.

[84] Sempra Reply Brief at 656.

Sempra Utilities further asserts that affordability metrics are meant to be relative and standardized to show change over time.[85]

Regarding SBUA's recommendations to include an affordability benchmark for small commercial customers in the next GRC, Sempra Utilities states that the Commission has already ruled on the issue and should disregard SBUA's request.[86]

SDG&E contends that the Commission should reject TURN's inflation-constrained alternative, SBUA's zero-based method, and other proposals limiting the Commission's ratemaking authority and investment in electrification.[87] SDG&E argues that a proposal cannot be deemed affordable or unaffordable based on a single ratio or metric. It argues that the Commission can determine just and reasonable rates by considering economic conditions such as inflation, legal requirements, and policy goals such as wildfire mitigation and electrification.

Regarding TURN's inflation-constrained alternative proposal, Sempra Utilities states that the proposal is unjustified and would have widespread implications better addressed in a rulemaking or other Commission proceeding.[88]

5.6. Discussion

Pursuant to D.20-07-032 and D.22-08-023, Sempra Utilities calculated the required metrics (Affordability Ratio and Hours-at-Minimum-Wage) and related data (Areas of Affordability Concern, essential usage bills, and average usage bills). These metrics are based on the relevant usage data available when filing the

[85] Sempra Reply Brief at 656.

[86] Sempra Reply Brief at 657.

[87] Sempra Opening Brief at 43-44.

[88] Sempra Reply Brief at 41.

application, and no further changes are required to these metrics in this proceeding.

Sempra Utilities presented affordability metrics for the first time in this GRC cycle. While there are no established benchmarks for when a rate becomes unaffordable, affordability is generally defined as a customer's ability to pay their utility bill.[89] Tables 5.1-5.3, below, summarize the affordability metrics for Sempra Utilities' most disadvantaged customers: those at the lower end (20th percentile) of the income distribution and those earning minimum wage.

Table 5.1[90]
SDG&E Most Disadvantaged Customers Affordability Impacts Over GRC Cycle Electric Proposal Summary

SDG&E Electric Proposal	Incremental Change in Affordability Ratio for 20th Percentile Households (AR20)		Incremental Change in Time for Households Earning Minimum Wage (HM)[91]	
	CARE	Non-CARE	CARE	Non-CARE
Range of Lowest – Highest Affordability Impact by Climate Zone	0.6% - 1.3%	0.9% - 2.0%	0.3 - 0.5 hours or 18 - 30 minutes	0.4 - 0.7 hours or 24 - 42 minutes

[89] D.20-07-032, Conclusion of Law (CoL) 6 defines affordability "as the degree to which a representative household is able to pay for an essential utility service charge, given its socioeconomic status."

[90] SDG&E Ex-50-S at RRB-10-RRB-19.

[91] SDG&E presented two sets of HM metrics—City of San Diego and Non-City of San Diego—because the minimum wage for these two areas diverged in 2023. Non-City of San Diego values are shown in the table as non-City of San Diego areas comprise approximately 60 percent of SDG&E's households. City of San Diego HM data indicates an incremental decrease in time over the GRC cycle for households earning minimum wage of 0.1 – 0.2 hours, or 6 - 12 minutes (CARE), and 0.2 – 0.3 hours, or 12 – 18 minutes (Non-CARE).

The AR20 impacts of SDG&E's electric proposal show that the proposed revenue request may further burden these customers' financial resources, e.g. income-after-housing, at anywhere from 0.6 percent to 2.0 percent. The HM impact is that for households earning minimum wage, the electric essential use bill increase may equate to an additional 18 – 42 minutes of work per month.

Table 5.2[92]
SDG&E Most Disadvantaged Customers Affordability Impacts Over GRC Cycle Gas Proposal Summary

SDG&E Gas Proposal	Incremental Change in Affordability Ratio for 20th Percentile Households (AR20)		Incremental Change in Time for Households Earning Minimum Wage (HM)[93]	
Affordability Impact for Service Territory	CARE	Non-CARE	CARE	Non-CARE
	1.1%	1.5%	0.7 hours or 42 minutes	0.8 hours or 48 minutes

The AR20 impacts of SDG&E's gas proposal show that the proposed revenue request may further burden these customers' financial resources at anywhere from 1.1 percent to 1.5 percent. The HM impact is that for households earning minimum wage, the gas essential use bill increase may equate to an additional 42 – 48 minutes of work per month.

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92 SDG&E Ex-51-S at SBC-5-SBC-9.

93 SDG&E presented two sets of HM metrics—City of San Diego and Non-City of San Diego—because the minimum wage for these two areas diverged in 2023. For SDG&E HM data, Non-City of San Diego values are shown as Non-City of San Diego areas make up approximately 60 percent of SDG&E's households. City of San Diego HM data indicates an incremental increase in time over the GRC cycle for households earning minimum wage of about 0.5 hours, or 30 minutes (CARE), and 0.6 hours, or 36 minutes (non-CARE).

Table 5.3[94]
SoCalGas Most Disadvantaged Customers Affordability Impacts Over GRC Cycle Proposal Summary

SoCalGas Proposal	Incremental Change in Affordability Ratio for 20th Percentile Households (AR20)		Incremental Change in Time for Households Earning Minimum Wage (HM)	
Range of Lowest - Highest Affordability Impact by Climate Zone	CARE	Non-CARE	CARE	Non-CARE
	0.7% – 2.1%	0.8% – 2.2%	0.4 – 0.6 hours or 24 – 36 minutes	0.5 – 0.8 hours or 30 – 48 minutes

The AR20 impacts of SoCalGas's proposal show that the proposed revenue request may further burden these customers' financial resources at anywhere from 0.7 to 2.2 percent. The HM impact is that for households earning minimum wage, the essential use bill increase may equate to an additional 24 – 48 minutes of work per month.

Based on Sempra's proposed revenue requirement request, this analysis shows that lower-income households' financial resources may be further burdened and households earning minimum wage may have to work longer hours to afford essential utility bills.

Enrolling in public-purpose programs can help reduce the impact of rate increases for ratepayers in low-income, disadvantaged, and ESJ communities. Sempra Utilities can significantly impact customers' lives and contribute to a

94 SCG Ex-43-S at SBC-5-SBC-11.

more equitable and sustainable energy future by incorporating this information into its annual rate comparison mailers.[95]

We have considered intervenor comments on the need to review the requests in this GRC through the affordability lens. We agree that, given the current rate levels, customer affordability is a critical factor to consider in this proceeding. The Commission will use the available policy, metrics, and records developed in this proceeding to evaluate each cost request through the lens of affordability, allowing only reasonable and justified investments and costs and disallowing those that provide minimal safety and reliability benefits.[96] In D.20-07-032, the Commission did not define what constitutes affordability but instead emphasized the need to assess the relative impacts of affordability over time. In Phase 2 of R.18-07-006, the Commission adopted D.22-08-023 to apply the affordability metrics within rate-setting proceedings by examining the impact of utility rates on customers in different geographic areas of California.

While EDF is correct that SoCalGas and SDG&E used 2018 gas demand assumptions, it should be noted that pursuant to D.22-08-023, the utilities are required to use "revenues in effect at the time of filing."[97] We agree with Sempra Utilities that the most recently approved triennial cost allocation proceeding filed in 2018 and a final gas forecast approved in D.20-02-045 are appropriate for the affordability metric calculation given the timing of the triennial cost allocation proceeding. The affordability metrics offer a historical baseline for tracking

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[95] Annual rate comparison mailers are mailed to customers pursuant to Pub. Util. Code Section 745(c)(5).

[96] D.19-05-020, *Decision on Test Year 2018 General Rate Case for Southern California Edison Company* (May 16, 2019) at 18–19.

[97] D.22-08-023 at Ordering Paragraph (OP) 5.

changes in affordability, provided the Commission maintains consistent measurement standards.

We decline to adopt TURN's inflation-constrained alternative budget framework proposal, CEJA's proposal to eliminate ratepayer funding of gas RD&D,[98] and SBUA's affordability benchmark metric.

Requiring Sempra Utilities to submit additional testimony in the next GRC cycle with an inflation-constrained alternative budget proposal, as suggested by TURN, would add unnecessary complexity. TURN contends that if SDG&E surpasses the inflation rate in one business line, they should balance it out in another. However, this approach would force utilities to focus on justifying their spending adjustments across all units to meet the inflation cap, rather than basing requested expenditures on actual need. Given the challenges of tracking reprioritized projects and authorized costs, the Commission needs to understand and evaluate how further reprioritizing spending to meet a CPI inflation cap could meet safety, reliability, and regulatory requirements for clean energy and electrification efforts. It is challenging to adopt these alternative GRC budget proposals without a more detailed analysis of the framework of a CPI-inflation-adjusted budget. TURN's framework could impose an unnecessarily burdensome task on utilities and the Commission's review process. We appreciate TURN's recommendation and find that it is a suitable topic for rulemaking where the benefits of this proposal can be evaluated according to the benefits achieved across all investor-owned utilities.

We decline SBUA's recommendation to establish an affordability benchmark for small commercial customers in this rate case. The Commission has

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[98] The decision addresses gas RD&D further in the Clean Energy Innovations Section.

not yet determined a metric for measuring affordability impacts on non-residential customers. The affordability benchmarks should be considered in the Affordability proceeding, and it would not be reasonable to establish such requirements on a case-by-case basis without a complete record. We do not have sufficient information in this proceeding to determine what data would constitute a reasonable measure of affordability for small businesses.

Sempra Utilities should continue to utilize the Affordability Metrics adopted in D.22-08-023 and D.20-07-032 to evaluate the impact of its rate increases on its customers and continue to take necessary measures to ensure that its rates are affordable for the customers most impacted as demonstrated by the Affordability Metric calculations.

6. Climate and Sustainability Policy

SoCalGas argues that its proposed investments support state climate goals, align with clean fuel deployment and decarbonization initiatives, and require modest customer contributions.[99,100] SoCalGas points to its investments in Renewable Natural Gas, hydrogen, and hydrogen-blended natural gas as projects working to meet the state goals.[101, 102]

CEJA argues that ratepayers are not benefitted by costs related to SoCalGas's hydrogen and carbon dioxide pipelines. It additionally argues that the

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[99] Sempra Opening Brief at 45-49.

[100] Sempra Opening Brief at 54.

[101] Sempra Opening Brief at 51.

[102] Sempra Opening Brief at 52.

Clean Fuels Infrastructure Development project and its hydrogen-related activities constitute new lines of business.[103,104]

SDG&E requests approval of its proposed investments in "sustainability, particularly climate change mitigation, adaptation, and grid transformation, in accordance with the Commission's environmental and social justice policies."[105] SDG&E refers to D.20-08-046 to support its request.[106]

Intervenors argue that SDG&E's Clean Energy Innovation projects are "new lines of business" that fail to advance decarbonization and do not benefit SDG&E ratepayers.[107, 108]

SDG&E argues its investments are required by the "California Legislature, California Governor, and this Commission," which mandate SDG&E to advance decarbonization in California and reduce SDG&E customers' energy use emissions.[109] SDG&E further supports its investment request by arguing the potential of hydrogen to advance transitioning to clean energy.[110] Sempra Utilities defends hydrogen-related initiatives, arguing the proposals are not yet new products or services and that the Affiliate Transaction Rules do not prohibit new lines of business.[111]

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103 CEJA Opening Brief at 32, 33.

104 CEJA Opening Brief at 33.

105 Sempra Opening Brief at 56.

106 Sempra Opening Brief at 58.

107 Sempra Opening Brief at 62; SDG&E Ex-202 (de Llanos) at 12.

108 Sempra Opening Brief at 61; SDG&E Ex-202 (de Llanos) at 9-10.

109 Sempra Opening Brief at 60.

110 Sempra Reply Brief at 45.

111 Sempra Opening Brief at 7.

Intervenors consistently argue that Sempra Utilities fails to meet prudent manager standards in its sustainability efforts. They argue that Sempra Utilities has neglected to prioritize environmental integrity and cost-effectiveness over alternative approaches. Specifically, EDF contends that Sempra Utilities has failed to substantiate the reasonableness, cost-effectiveness, or benefit to ratepayers of its investments.[112] Additionally, EDF argues that none of Sempra's hydrogen projects are justified as cost-effective or environmentally sound and that they constitute new lines of business that do not comply with the Commission's Affiliate Transaction Rules.[113]

6.1. Discussion

The Commission has considered the arguments presented by Sempra Utilities, intervenors, and other parties in this proceeding. The Commission has carefully reviewed the evidence and testimony submitted supporting and opposing SoCalGas's and SDG&E's proposed investments in clean energy and sustainability initiatives.

While we acknowledge the intervenors' concerns, we also recognize the importance of each utility's efforts to advance decarbonization in California and reduce greenhouse gas (GHG) emissions. The California Legislature and the Commission have mandated that utilities take significant steps to transition to cleaner energy sources. However, the Commission also recognizes the intervenors' concerns regarding rate affordability impacts and the potential costs and benefits of these investments.

[112] EDF Opening Brief at 36.

[113] EDF Reply Brief at 6-7.

Sempra Utilities argues that hydrogen-related initiatives do not currently qualify as new products or services and that the Affiliate Transaction Rules do not specifically prohibit new lines of business. While this argument may hold up in the short term, there are potential risks and concerns to consider. These include the possibility of imposing excessive costs on ratepayers, potential conflicts of interest, and the risk of gaining an unfair advantage in the market. The decision discusses a more thorough analysis of the various hydrogen-related projects. In the following sections of the decision, we carefully considered the arguments presented by all parties in this proceeding as we reviewed specific projects proposed by Sempra Utilities in this rate case.

7. Risk-Based Decision-Making Framework and Methodology

One of the central tasks facing the Commission in this proceeding is to balance safety and reliability risks in comparison with cost. Sempra Utilities is required by law to "promote the safety, health, comfort, and convenience of its patrons, employees, and the public" while including only "just and reasonable" charges in its rates.[114] The Commission's "fundamental challenge in many disputed areas of this case is to reach an outcome consistent with these twin objectives. This is a familiar challenge that has been present in countless previous GRCs and other proceedings, even though the approach, framework, and language surrounding the issues continue to evolve."[115]

The Commission's use of risk assessment tools for measuring and reducing risk is the culmination of multiple Commission proceedings, starting in 2013 with

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[114] Pub. Util. Code Section 451.

[115] D.15-11-021, *Decision on Test Year 2015 General Rate Case for Southern California Edison Company* (November 5, 2015) at 9 (footnote (fn.) omitted.)

the Safety Model Assessment proceeding (S-MAP) in R.13-11-006. In the S-MAP proceeding, the Commission established a risk-based decision-making framework and methodology for energy utilities set forth in D.14-12-025 to increase transparency and accountability regarding how utilities prioritize and manage risk.[116] This framework includes risk management programs and data-driven tools to be employed by utilities across their enterprises and operations. These tools assist utilities, interested parties, and the Commission in evaluating how energy utilities assess safety risks and manage and mitigate such risks. Such risk analysis aims to provide information to help understand the cost-effectiveness of programs to improve the safety of utility customers, employees, contractors, and communities.[117]

To further the goals of the S-MAP proceeding, the Commission established two procedures designed to ensure that the large energy utilities include thorough risk assessment and mitigation plans in all future GRC applications in which utilities request general funding, including funding for safety-related activities: (1) an S-MAP application to be filed by each of the large utilities in the S-MAP proceeding;[118] and (2) a subsequent RAMP report to be filed as a preliminary step before a utility's GRCs.[119] The purpose of the RAMP report is to

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[116] D.14-12-025, *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of Decision 07-07-004* (December 4, 2014) at 32, 40, describes a key objective of the then-soon-to-be-implemented RAMP proceedings (which are filed before general rate cases) as presenting a prioritization of risk mitigation alternatives, in light of estimated mitigation costs to risk mitigation benefits.

[117] D.18-12-014 *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) at 28.

[118] The filing of S-MAP applications by energy utilities was a one-time directive. In contrast, the RAMP filings are required prior to each general rate case filing, every four years.

[119] D.14-12-025, *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of Decision 07-07-004* (December 4, 2014).

"examine the utility's assessment of its key risks and its proposed programs for mitigating those risks."[120] The two purposes of the S-MAP application are: (1) to allow parties to understand the models the utilities propose to use to prioritize programs and projects intended to mitigate risks; and (2) to allow the Commission to establish standards and requirements for those models.[121] The Commission's decisions in S-MAP application proceedings have determined whether particular risk assessment approaches or models can be used for RAMP filings. The risk-based decision-making framework fulfills the state policy of ensuring that the Commission and energy utilities prioritize safety and implement safety policy consistent with the principle of just and reasonable rates.

Several years of adjudicating S-MAP and RAMP proceedings led to the approval of the 2020 Safety Model Assessment Settlement Agreement in D.18-12-014 (S-MAP Settlement Agreement).[122] In the S-MAP Settlement Agreement, the Commission standardized risk-based decision-making modeling for utilities to employ in RAMP and GRC filings. The S-MAP Settlement Agreement framework includes the following minimum steps for analyzing risk and mitigations for the RAMP and GRCs:[123]

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[120] D.14-12-025 at 35.

[121] D.14-12-025 *Decision Incorporating a Risk-Based Decision-Making Framework into the Rate Case Plan and Modifying Appendix A of Decision 07-07-004* (December 4, 2014); D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP Settlement Agreement with Modifications* (December 13, 2018) at 5.

[122] The Commission's Safety Model Assessment Proceeding A.15-05-002, *et al*. (a consolidated proceeding involving all large energy utilities) led to the S-MAP Settlement Agreement adopted by the Commission in D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) at Attachment A.

[123] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) at 22.

- Step 1A - Building a Multi-Attribute Value Function (MAVF) model. In this GRC, the risk attributes assessed are safety, electric reliability, gas reliability, and financial loss.
- Step 1B - Identifying Risks for the Enterprise Risk Register for purposes of determining which risks will be addressed in RAMP reports.
- Step 2A - Risk Assessment and Risk Ranking in Preparation for filing RAMP reports.
- Step 2B - Selecting Enterprise Risks for RAMP reports.

As set forth above, the S-MAP Settlement Agreement requires utilities to build a MAVF to uniformly model risk in a way that quantifies the potential risk reduction of an activity together with its cost.[124] As the Commission has previously explained, the MAVF allows utilities to compare different enterprise risk events by positioning the risk scores on a common scale (the MAVF risk unit).

On December 21, 2022, the Commission adopted a "Cost-Benefit Approach that includes standardized dollar valuations of Safety, Electric Reliability and Gas Reliability Consequences from Risk Events."[125] Since the initial testimony in this case was filed on May 16, 2022, the Commission is not

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[124] D.15-11-021, *Decision on Test Year 2015 General Rate Case for Southern California Edison Company* (November 5, 2015) at 9, citing D.14-12-25 at 4, stating: "In Decision (D.) 14-12-025, we adopted a new framework for future GRCs to assist the utilities, interested parties and the Commission, in evaluating the various proposals that the energy utilities use for assessing their safety risks, and to manage, mitigate, and minimize such risks." *See also* D.16-08-018.

[125] D.22-12-027, *Phase II Decision Adopting Modifications To The Risk-Based Decision-Making Framework Adopted In Decision 18-12-014 And Directing Environmental And Social Justice Pilots* (December 15, 2022) at 12, stating that the Commission's decision "replaces the MAVF framework — currently used in the RDF to translate different risk Consequences into unitless Risk Scores that can be compared and ranked — with the Cost-Benefit Approach, which expresses risk Consequences in dollar values and provides an indication of the cost-effectiveness of proposed mitigations …."

able to fully utilize that framework in today's decision, as TURN advocates.[126] These principles will apply to Sempra's next RAMP application and its 2028 GRC. Nevertheless, the Commission reviews Sempra's application with an eye toward balancing cost and risk.

The S-MAP Settlement Agreement adopted by the Commission requires utilities to divide asset groups associated with risk events into subgroups or tranches with similar characteristics or risk profiles.[127] The division of tranches is to be based on how the risks and assets are managed by the utility, data availability, and model maturity with the goal of striving to achieve as deep a level of granularity as is reasonably possible. This is important because risk reductions from mitigations and risk spend efficiencies are designed to be determined at the level of tranches with homogeneous or similar risk profiles.[128] The Commission has been clear that Risk Spend Efficiency values (RSEs) are one factor among many that Sempra Utilities may use to select its mitigation strategy.[129] In this GRC proceeding, the Commission-adopted S-MAP Settlement Agreement requires Sempra Utilities to clearly and transparently explain its rationale for selecting risk mitigations for each risk tranche and, in addition,

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126 TURN Opening Brief at 90–91.

127 The S-MAP lexicon defines a tranche as "a logical disaggregation of a group of assets (physical or human) or systems into subgroups with like characteristics for purposes of risk assessment." D.18-12-014 at 18. For the purposes of S-MAP analysis, a tranche is considered to have a homogeneous risk profile, including the same likelihood of risk event and consequence of risk event. D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A (S-MAP Settlement) at A-11, Element 14.

128 D.23-11-069 at 41.

129 D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A, at A-14.

explain its rationale for the selection of its overall portfolio of risk mitigations.[130] The Commission has acknowledged that risk mitigation selection can be influenced by other factors, beyond just the RSE, including funding, labor resources, technology, planning and construction lead time, compliance requirements, and operational and execution considerations.[131] According to the S-MAP Settlement Agreement, as adopted by the Commission, if Sempra Utilities uses other factors in selecting risk mitigations, Sempra Utilities must explain whether and how any such factors affected Sempra's ultimate risk mitigation selections.[132]

7.1. Integration of RAMP and RSEs in Sempra's General Rate Case

This is Sempra Utilities' first GRC that incorporates the requirements of D.18-12-014.[133] SoCalGas and SDG&E filed their respective 2021 RAMP applications and RAMP reports on May 17, 2021, as the first phase of their 2024 GRC process.[134] SoCalGas and SDG&E state that they acted in accordance with the S-MAP Settlement Agreement to: (i) build a MAVF methodology; (ii) identify risks for their respective Enterprise Risk Registers; (iii) perform risk assessment and risk ranking in preparation for their respective RAMP Reports; (iv) select

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[130] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A, at A-14.

[131] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A, at A-14.

[132] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A, at A-14.

[133] Sempra Opening Brief at 65.

[134] Sempra Opening Brief at 69.

enterprise risks for inclusion in their respective RAMP Reports; and (v) perform mitigation analysis for risks in RAMP, including the calculation of RSEs.[135]

In November 2021, the Commission's Safety Policy Division (SPD) issued a report that evaluated Sempra's RAMP applications and made recommendations that could be addressed in Sempra's 2024 GRC.[136] On March 30, 2022, the Commission issued a ruling directing Sempra Utilities to incorporate certain SPD recommendations into the 2024 GRC applications.[137] Sempra Utilities contends that its RAMP filing and the adjustments it made to address SPD's recommendations described in testimony result in a 2024 GRC application that meets the requirements of the S-MAP Settlement Agreement as well as the Commission's Ruling. These adjustments include increasing tranche granularity as part of the risk analysis performed in this GRC.[138]

7.2. Intervenor Recommendations

TURN disputes Sempra's risk modeling and argues that the risk-spend efficiency "methodology used by the Sempra Utilities has significant flaws that, in most cases inflate the risk-spend efficiencies"[139] or distort the results.[140] In response, Sempra Utilities strongly disagrees with TURN's allegations, which Sempra Utilities addresses more fully in its rebuttal testimony.[141]

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135 SCG Ex-03-2R-E/SDG&E Ex-03-2R-E, Chapter 2, at 1 (citing D.18-12-014).

136 Sempra Opening Brief at 69.

137 Assigned Commissioner's Ruling Directing Sempra Utilities to Incorporate Staff Recommendations on Their Risk Assessment and Mitigation Phase in the Upcoming 2024 General Rate Case Application dated March 30, 2022 in RAMP Proceeding A.21-05-011.

138 Sempra Opening Brief at 70–71.

139 TURN Opening Brief at 82.

140 TURN Opening Brief at 88.

141 Sempra Reply Brief at 70.

PCF alleges that Sempra's prior GRC applications and RAMP reports indicate that Sempra Utilities has "escaped any meaningful safety regulation by the Commission for over 8 years." Sempra Utilities strongly disagrees with this characterization as well.[142]

The Commission does not reconsider its previous decisions regarding Sempra's risk-related showings in its prior RAMP and GRC proceedings.[143] Neither is it productive to address every alleged deficiency in Sempra's integration of the adjustments to its RAMP presentation in this lengthy decision regarding Sempra's 2024 revenue requirements. PCF's allegations and TURN's recommendations above are addressed below to the extent they are relevant to evaluating Sempra's requested forecasts. To the extent that the Commission does not address specific recommendations of TURN and PCF in relation to the forecasts below, TURN and PCF should raise remaining recommendations in future S-MAP proceedings.

Finally, TURN and Sempra Utilities debate the degree to which the Commission should consider RSEs in evaluating forecasts and making decisions regarding adopting them in this GRC. Sempra Utilities argues that RSE calculations were never intended to be deterministic;[144] whereas, TURN denies that it ever characterized its recommended use of RSE in a "deterministic" manner in Commission funding decisions.[145] In fact, both Sempra Utilities and

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142 Sempra Reply Brief at 66–67.

143 Sempra Reply Brief at 67, citing D.19-09-051 at 21-22 (discussing Sempra's risk analysis in the context of the 2019 Test Year GRC) and D.20-09-004 (closing the 2019 RAMP proceedings).

144 Sempra Opening Brief at 71.

145 TURN Opening Brief at 92–94.

TURN agree that RSEs are "useful tools to assist in decision-making"[146] that "require consideration of other qualitative and quantitative data points to evaluate whether to proceed with a particular investment,"[147] as the Commission has previously determined.

The S-MAP Settlement Agreement provides a rigorous, quantitative method of risk assessment and risk prioritization "to better understand the cost-effectiveness of proposed mitigations."[148] "RSE calculations are critical for determining whether utilities are effectively allocating resources to initiatives that provide the greatest risk reduction benefits per dollar spent, thus ensuring responsible use of ratepayer funds."[149] The S-MAP Settlement Agreement allows utilities to "use risk reduction per dollar spent to prioritize projects"[150] and for RSEs to provide a useful point of comparison regarding the relative cost-effectiveness of proposed mitigations.[151] As a result, the Commission reiterates the value of RSEs and that mitigations may be influenced by other factors[152] as the Commission addresses the specific risk mitigations forecasted in this proceeding.

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[146] Sempra Opening Brief at 71, fn. 403.

[147] Sempra Opening Brief at 72; TURN Opening Brief at 92–94.

[148] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) at 44.

[149] D.21-08-036, *Decision on Test Year 2021 General Rate Case for Southern California Edison Company* (August 19, 2021) at 38.

[150] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) at 12, 14.

[151] D.23-11-069, *Decision on the Test Year 2023 General Rate Case for Pacific Gas and Electric Company* (November 17, 2023) at 45.

[152] D.18-12-014, *Phase Two Decision Adopting Safety Model Assessment Proceeding (S-MAP) Settlement Agreement with Modifications* (December 13, 2018) Attachment A, S-MAP Settlement Element 26, at A-14.

7.3. SoCalGas Safety and Risk Management Systems O&M Expenditures

SoCalGas's forecasted Safety and Risk Management Systems and forecasted Safety, Risk, & Asset Management O&M expenses and capital expenditures include activities that support continuous improvement of operations and programs, increased regulatory requirements, and maintaining and strengthening a well-informed and knowledgeable workforce.[153] For Safety and Risk Management Systems O&M expenditures, SoCalGas's 2024 forecast is $23.636 million. This forecast includes $21.250 million for Non-Shared service activities and $2.386 million for Shared service activities. This forecast represents an increase of $8.338 million over updated 2021 adjusted-recorded costs[154] and includes $18.730 million in RAMP-related costs. SoCalGas bases its forecast for these costs on 2021 costs plus adjustments for changes it states are incremental.[155]

7.3.1. SoCalGas's Request for Non-Shared Operations and Maintenance

For Non-Shared O&M expenditures, SoCalGas forecasts $21.250 million for 2024. This forecast represents an increase of $7.860 million over updated 2021 costs.[156] This forecast includes the following cost categories: (1) the Safety Management System; (2) Strategy; (3) Risk Management; (4) Continuous Improvement; (5) Safety Management; (6) Emergency Services;, and (7) Technology & Analytics.[157]

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153 Sempra Opening Brief at 73-74.

154 SCG Ex-401/SDG&E Ex-401 at A-12.

155 Sempra Reply Brief at 77.

156 SCG Ex-401/SDG&E Ex-401 at A-12.

157 Sempra Reply Brief at 78.

7.3.2. Continuous Improvement

SoCalGas requests $1.623 million[158] for 2024 Continuous Improvement O&M expenses, which is an increase of $582,000 or 56 percent over its 2021 adjusted recorded expenses of $1.041 million. In support of this request, SoCalGas states that this forecast includes labor and non-labor expenses that support Continuous Improvement and strengthen SoCalGas's safety performance and culture for achieving safety excellence as it relates to decision-making, activities, and processes. More specifically, SoCalGas states that a key cost driver is an increase in labor and non-labor costs to enhance data collection tools and to expand the number and type of quality assessments, including developing and implementing an electronic data collection tool for field and office assessments to increase efficiency, accuracy, and data sharing capabilities.[159]

Cal Advocates recommends a downward adjustment of $436,000 in SoCalGas's forecast based on 2021 recorded adjusted expenses, which was the highest level over the 2019-2021 historical period, because SoCalGas failed to justify its incremental request of this amount for several reasons. First, Cal Advocates contends that SoCalGas's recorded expenses stayed relatively flat between 2019 and 2020 and increased by $173,000 between 2020 and 2021 without adequate explanation. Second, SoCalGas's historical Continuous Improvement data shows expenses for activities that are one-time, non-recurring costs. Third, Cal Advocates states that SoCalGas confirms that its incremental request for full-time equivalents (FTEs) in 2024 is not for newly created positions but is associated with FTEs in existing positions. Fourth, SoCalGas did not provide any verifiable

[158] SCG Ex-27-WP-R-E at 35

[159] Sempra Reply Brief at 78-79.

documentation demonstrating that its current staffing level was insufficient or unable to address the anticipated increased program activities in 2024, nor that its 2021 recorded adjusted expenses were insufficient to address its 2024 program activities. Fifth, SoCalGas's request also does not consider or incorporate costs already in rates into its 2024 forecast.[160]

In reply, SoCalGas states that its forecast used 2021 Base Year data plus activity it claims is incremental, including the implementation of new programs, the recent establishment of the Safety Management System (SMS) organization, and expected growth in safety-related activities.[161] SoCalGas claims that it anticipates an increase in labor and non-labor costs to enhance data collection tools and to increase the number and type of assessments, including quality assessments that provide data for evaluating, measuring, and enhancing compliance activities within gas operations and construction. SoCalGas states that it seeks to develop and implement an electronic data collection tool for field and office assessments to increase efficiency, accuracy, and data sharing capabilities.[162]

However, SoCalGas does not quantify the number of assessments to demonstrate that its current staffing level was insufficient or unable to address the anticipated increased program activities in 2024. Based on that and the arguments made by Cal Advocates, the Commission does not find SoCalGas's 2024 forecast for Continuous Improvement to be reasonably supported. Instead, the Commission finds Cal Advocates' recommended reduction to be reasonable and adopts a forecast for Continuous Improvement O&M expenses for 2024 of $1.207 million.

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160 Cal Advocates Opening Brief at 42-43.

161 Sempra Reply Brief at 77.

162 Sempra Reply Brief at 78-79.

On February 12, 2024, SoCalGas clarified in an attestation served on the service list[163] that the requested Continuous Improvement O&M expenses are separate from SoCalGas's assessment, development, and implementing of the Improvement Plan that D.23-12-034 ordered SoCalGas not to include in this GRC application.[164] As a result, SoCalGas requests that $425,746 be removed from the SoCalGas People and Culture cost category (2HR001) and that $419,454 be removed from the Administrative and General cost category (2AG008).[165] The Commission finds SoCalGas's served attestation and request to remove these costs to be reasonable and adopts this adjustment to the People and Culture and Administrative and General cost categories.

7.3.3. Safety Management

SoCalGas forecasts $6.437 million[166] for its Safety Management department in 2024. This department is responsible for managing employee and contractor safety.[167]

SoCalGas bases its forecast for Safety Management in 2024 on increases in labor and non-labor costs to enhance safety through an increase in the number of policies and programs being implemented, enhanced client support, and by identifying and addressing safety and health issues. More specifically, SoCalGas attributes the increases to the following:

- defensive driving refresher training;

[163] Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

[164] D.23-12-034 OPs 8, 9, 12. Sempra's statement in its Opening Brief at 80, fn. 453 does not fully clarify this issue.

[165] SCG Ex-28-Work Paper (WP)-R; SCG Ex-29-WP-R; SCG Ex-29-R-E.

[166] SCG Ex-401/SDG&E Ex-401 at A-12.

[167] Cal Advocates Opening Brief at 43; Sempra Opening Brief at 83-84.

- industrial hygiene;
- the Occupational Health Nurse program;
- environmental and safety compliance management;
- the development of a comprehensive potential Serious Injury program;
- Fatality program to provide assessments on incidents that could have led to a serious injury or fatality but did not;

  support for Contractor Safety programs to bring in dedicated resources to provide oversight on both Contractor Safety Standard Program and Contractor Safety Manual; and
- implementing an electronic library for employees to access current safety information, such as ladder safety and fire extinguisher training.[168]

Cal Advocates recommends $4.790 million for SoCalGas's Safety Management O&M expenses, which is $1.647 million less than SoCalGas's forecast. Cal Advocates recommends this downward adjustment because SoCalGas's request is a steep increase of 69 percent over its 2021 adjusted recorded expenses of $3.818 million. In support of its recommendation, Cal Advocates states that SoCalGas's Safety Management spending increased from 2017 to an average of $3.683 million per year for the four-year period from 2017 to 2020 based on some activities that were one-time, non-recurring costs. Therefore, Cal Advocates argues that increased funding for these activities is not required.[169]

Cal Advocates' forecast of $4.790 million for Safety Management is a 25 percent increase over SoCalGas's 2021 expenses. In the absence of additional quantitative support from SoCalGas, the Commission finds the increase

[168] Sempra Reply Brief at 79-80.

[169] Cal Advocates Opening Brief at 43-44.

recommended by Cal Advocates to be reasonable based on the cost of the additional activities listed above. Accordingly, the Commission adopts a 2024 forecast for Safety Management for SoCalGas of $4.790 million.

7.3.4. Emergency Services

SoCalGas's Emergency Services department is responsible for supporting its business operations with first responder outreach and emergency response, preparedness, and recovery.[170] For Emergency Services in 2024, SoCalGas requests $2.865 million,[171] which is approximately 55 percent over updated 2021 recorded adjusted expenses of approximately $1.844 million.[172]

SoCalGas bases its forecast for Emergency Services in 2024 on increases in labor and non-labor costs to enhance the following:

- Federal Emergency Management Agency Incident Command System (ICS) response structure training;
- First responders' gas-related safety training, and expansion of the operation of a 24 hour/7 day per week Watch Office, which proactively monitors potential emergency incidents within the service territory; and
- Enhancements to the ICS training designed to cover the material that emergency responders would need to build the skill set that will make them successful in the management of an emergency incident; and an increase in responsibilities for lines of business under the Chief Safety Officer associated with regulatory reporting related to RAMP, GRC, Safety Performance Metrics Report (SPMR), and RSAR.[173]

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[170] Sempra Reply Brief at 80.

[171] Sempra Reply Brief at 80.

[172] Cal Advocates Opening Brief at 45; SCG Ex-401/SDG&E Ex-401 at A-12.

[173] Sempra Reply Brief at 80-81.

Cal Advocates recommends $2.332 million for SoCalGas's Emergency Services O&M expenses, which is $533,000 less than SoCalGas's forecast. Cal Advocates bases its reduced forecast on the following: 1) SoCalGas's adjusted recorded Emergency Services O&M expenses fluctuated between 2017 and 2021 and averaged $2.186 million per year for the five-year period; 2) SoCalGas's expenses decreased by $732,000 between 2019 and 2021; 3) SoCalGas's historical data shows expenses for some activities that are one-time, non-recurring costs; and 4) SoCalGas did not fully document its request for 2024 Emergency Services and demonstrate that SoCalGas was unable to meet compliance or operational needs or that its 2021 recorded adjusted expenses were insufficient to address its 2024 activities for Emergency Services activities.

Cal Advocates' recommendation of $2.332 million for Emergency Services is a 16.6 percent increase over SoCalGas's 2021 expenses. In the absence of additional quantitative support from SoCalGas, the Commission finds the increase recommended by Cal Advocates to be reasonable based on the additional activities listed above. Accordingly, the Commission adopts a 2024 SoCalGas Emergency Services forecast of $2.332 million.

7.3.5. Technology and Analytics Group

SoCalGas's Technology and Analytics Group supports various internal and external technology applications, safety reporting, technology, analytics, and SMS) organization programs and initiatives. For the Technology and Analytics Group in 2024, SoCalGas requests $2.181 million,[174] which is a 63 percent increase over 2021 recorded adjusted expenses.[175]

[174] Sempra Reply Brief at 81.

[175] Cal Advocates Opening Brief at 46.

SoCalGas bases its Technology and Analytics Group 2024 labor and non-labor expenses on the following: 1) enhancements to various quality management and safety data-related reporting and analytics dashboards; and 2) licensing and maintenance costs for safety applications, including the addition of seven FTEs to build a comprehensive, centralized safety reporting group that supports the SMS organization, operational business units, and SoCalGas's safety culture.[176]

Cal Advocates utilized SoCalGas's 2021 adjusted recorded expense and its 2024 forecast with adjustments for proposed activities to recommend $1.550 million for SoCalGas's Technology and Analytics Group O&M expenses, which is $631,000 less than SoCalGas's forecast. Cal Advocates' recommendation is based on the following: 1) SoCalGas does not show any recorded O&M expenses for 2017 and 2018 for its Technology and Analytics activities; and 2) SoCalGas's adjusted recorded expenses for these activities were relatively flat between 2020 and 2021, averaging $1.32 million.[177]

Cal Advocates' recommendation of $1.550 million for the 2024 activities of the Technology and Analytics Group is a 16 percent increase over SoCalGas's 2021 expenses. The Commission finds this increase in funding for additional safety-related activities is reasonable and adopts it. The Commission does not find sufficient support for SoCalGas's higher request amounting to a 63 percent increase of such expenses from 2021 to 2024.

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[176] Sempra Reply Brief at 80-81.

[177] Cal Advocates Opening Brief at 46-47.

7.3.6. Uncontested SoCalGas Safety Management System: Safety, Risk, and Asset Management

SoCalGas's SMS focuses on three primary areas: employee and contractor safety, customer and public safety, and the safety of the company's gas system. The scope of SoCalGas's SMS includes initial employee training, installation, operation, and maintenance of SoCalGas's utility infrastructure, and providing safe and reliable service to its customers.[178]

The following forecasts are unopposed:[179]

- SoCalGas requests $2.386 million for 2024 Safety and Risk Management Systems Shared O&M expenses.
- SoCalGas requests $2.348 million for 2024 Test Year Safety Management Systems O&M expenses.
- SoCalGas requests $4.687 million for 2024 Test Year Risk Management O&M expenses.
- SoCalGas requests $1.109 million for 2024 Strategy O&M expenses.

The Commission finds the above requests to be reasonable and adopts them.

7.4. SDG&E's Request for Non-Shared Operations and Maintenance

SDG&E's Safety Management, Risk Management, and Asset Management programs are the key components of SDG&E's SMS.[180] SDG&E's SMS provides a standardized approach for managing risk and safety across all assets and operations by implementing processes and risk assessment methodologies that

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[178] SCG Ex-27-2R-E at NNM 3-5. The adoption of SoCalGas's SMS in its current structure began in 2019, when SoCalGas reorganized existing safety-focused departments under one consolidated organization named the Safety Management System.

[179] Cal Advocates Opening Brief at 41. No other party opposed these requests.

[180] SDG&E Ex-31-R at KJD-i.

can be consistently applied enterprise wide.[181] The SMS framework creates an integrated approach and a company-wide resource to guide SDG&E's actions, decisions, and behaviors, so that SDG&E efficiently and effectively manages risk and continually improves upon all aspects of its safety performance.[182]

7.4.1. Safety Management System

SDG&E's funding request for its company-wide SMS is driven by the Commission's risk-informed decision-making framework designed to advance employee, contractor, and public safety. SDG&E forecasts $1.654 million[183] for its Safety Management department to implement management, ongoing review, assessment, and continuous improvement of SDG&E's company-wide Safety Management System in 2024.[184] This forecast is based on the following: 1) completing and maintaining key elements of the SMS, including training, process implementation, data analytics, benchmarking, evaluation, and Continuous Improvement; and 2) historical costs fluctuated as the program was initiated and are not representative of full build-out of a mature SMS.[185]

Cal Advocates recommends $1.4 million for SDG&E's Safety Management Systems O&M expenses, which is $254,000 less than SDG&E's forecast and $536,000 over SDG&E's 2021 recorded adjusted expense. Cal Advocates recommends this reduction because SDG&E does not support how SDG&E calculated the $1.7 million non-labor expense for the 2024 Safety Management Systems category in the Safety, Risk, and Asset Management Systems department.

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181 SDG&E Ex-31-R at KJD-6.

182 SDG&E Ex-31-R at KJD-6.

183 SDG&E Ex-31-R-E at KJD-1; SDG&E Ex-31-WP-R_E at 3, Workpaper 1SM001.000.

184 Sempra Opening Brief at 82; Cal Advocates Opening Brief at 50.

185 Sempra Reply Brief at 82-83.

Cal Advocates' recommended forecast of $1.4 million is based on SDG&E's 2021 recorded adjusted expense and its normalized 2024 non-labor incremental expense request of $1.204 million.[186]

The parties do not dispute that additional activities SDG&E forecasts for the Safety Management System in 2024 are needed. Rather, the issue is whether SDG&E supported its forecast for the additional activities. In this regard, the Commission finds that SDG&E provided insufficient information. In the alternative, the Commission finds Cal Advocates' forecast of $1.400 million for SDG&E's 2024 Safety Management Systems O&M expenses to be reasonable and adopts it.

7.4.2. Asset Management

SDG&E's Asset Management activities include asset compliance, business technology, and data management,[187] for which SDG&E requests $2.076 million in 2024. SDG&E bases this forecast on a number of factors. First, SDG&E forecasts the need for additional staff for Asset Integrity Management (within the Asset Management Program) to perform integrated asset management evaluation, analysis, and governance for key operational support assets including Gas, Facilities, Information Technology, Fleet, Customer Operations and other developing asset areas, such as energy storage and clean transportation. These advisors will support the ongoing maintenance of the Investment Prioritization software solution and associated processes.[188]

Second, SDG&E requests additional staff in Asset Data Systems & Records Management (within Asset Management Program) to further develop and

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[186] Cal Advocates Opening Brief at 51.

[187] Cal Advocates Opening Brief at 53.

[188] Sempra Reply Brief 83.

implement asset data aggregation, integration, and asset health models for an expanded scope of assets within Gas, Smart Meter, Facilities, Information Technology, and emerging lines of business. The workgroup also requests additional O&M dollars dedicated to one Senior Data Analyst to develop and maintain asset management-related data governance activities, including addressing the recent focus directed by the Commission on advancing asset data accessibility, including wildfire risk proceedings, microgrids, and electric pole database rulemakings.[189]

Third, SDG&E requests additional staff in the newly formed Asset Risk & Accountability Reporting workgroup (within Asset Management Program) to lead and manage SDG&E's annual RSAR process. This includes one RSAR Manager (hired in the second half of 2021), one Project Manager, and two Business Analysts. These FTEs will be dedicated to optimizing technology to minimize manual processes and improve information (data/records) management to comply with RSAR accountability reporting, RAMP to GRC integration, visibility of risk-informed decision-making attributes throughout the various management information systems, and implementing overall process improvements with a particular focus on forecasting and recording units of work performed, per RAMP and RSAR requirements.[190]

Fourth, SDG&E requests additional staff to support the expanded wildfire safety and regulatory scope of the group, which includes requirements to provide greater data portal access during weather emergency events and other regulatory proceedings.[191]

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[189] Sempra Reply Brief 84.

[190] Sempra Reply Brief 84.

[191] Sempra Reply Brief 84.

Cal Advocates recommends $804,000 for SDG&E's Asset Management O&M expenses, which is $1.273 million less than SDG&E's forecast of $2.077 million. Cal Advocates justifies this recommendation because 1) SDG&E did not document how it estimated its forecast; and 2) SDG&E failed to demonstrate why the current staffing level is insufficient to address the anticipated increased program activities in 2024. Cal Advocates' reduced forecast is based on SDG&E's 2021 recorded adjusted expenses plus incremental funding of $111,000 to annualize one Asset Management Risk and Accountability Manager added in 2021.[192]

SDG&E claims that Cal Advocates' recommended reduction ignores the critical need for SDG&E to advance and sustain its Asset Management System for a variety of reasons.[193] The Commission does not find that to be the case. SDG&E's need to advance its asset management system is not in dispute. The issue is its cost, for which SDG&E has not provided sufficient information to support the additional funding it seeks. In the alternative, the Commission finds Cal Advocates' forecast for 2024 SDG&E Asset Management O&M expenses of $804,000 to be reasonable and adopts it.

7.5. SDG&E Contractor Field Safety Management Overhead Pool – Capital

SDG&E's capital costs associated with SDG&E's Contractor Field Safety Management Overhead Pool are for additional contractors, purchase of a new enterprise-wide schedule software system, and an expanded contractor safety oversight program.[194] For these capital costs SDG&E requests $2.2 million in 2022,

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[192] Cal Advocates Opening Brief at 51-52.

[193] Sempra Reply Brief at 83.

[194] SDG&E Ex-31-R at KJD-85.

$2.373 million in 2023, and $2.372 million in 2024.[195] This forecast is less than the forecast of Cal Advocates, which did not include SDG&E's revised forecast.[196] The Commission finds SDG&E's revised capital costs associated with SDG&E's Contractor Field Safety Management Overhead Pool of $2.2 million in 2022, $2.373 million in 2023, and $2.372 million in 2024 to be reasonable and adopts them.

7.6. Uncontested SDG&E Safety, Risk, and Asset Management Systems

The following forecasts are unopposed:[197]

- SDG&E requests $1.239 million[198] for 2024 Safety, Risk, and Asset Management Systems Shared O&M expenses;
- SDG&E requests $4.219 million[199] for 2024 Safety, Risk, and Asset Management Systems Enterprise Risk Management O&M expenses;
- SDG&E requests $2.385 million for 2024 Safety, Risk, and Asset Management Systems Business Technology Solutions O&M expenses;
- SDG&E requests $1.473 million for 2024 Test Year Safety, Risk, and Asset Management Systems Energy Risk Management O&M expenses;
- SDG&E requests $1.289 million for 2024 Safety, Risk, and Asset Management Systems Safety - Contractor Safety Services Activities O&M expenses;

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195 Sempra Opening Brief at 85.

196 Sempra Opening Brief at 84-85.

197 Cal Advocates Opening Brief at 47-49.

198 SDG&E Ex-31-WP-R-E at 92, Workpaper 2100-0214.000.

199 SDG&E Ex-31-WP-R-E at 50, Workpaper 1SM005.000.

- SDG&E requests $919,000 for 2024 Test Year Safety, Risk, and Asset Management Systems Safety - Safety Compliance Activities O&M expenses;
- SDG&E requests $488,000 for 2024 Test Year Safety, Risk, and Asset Management Systems Safety - Employee Safety Programs and Oversight O&M expenses;
- SDG&E requests $418,000 for 2024 Test Year Safety, Risk, and Asset Management Systems VP - Risk Management & Chief Compliance Officer O&M expenses; and
- SDG&E requests $186,000 for 2024 Test Year Safety, Risk, and Asset Management Systems Safety - Electric and Magnetic Field O&M expenses.

The Commission finds the above requests to be reasonable and adopts them.

Cal Advocates' recommendation that the Commission require SDG&E to submit an annual Tier 1 advice letter that includes detailed information related to its Vegetation Management tree-trimming program[200] is considered in the section on Vegetation Management.

TURN opposes SDG&E's forecast for two vehicles used by SDG&E internal safety advisors who support emergency response and safety operations.[201] This forecast is discussed in the Fleet Services Section.

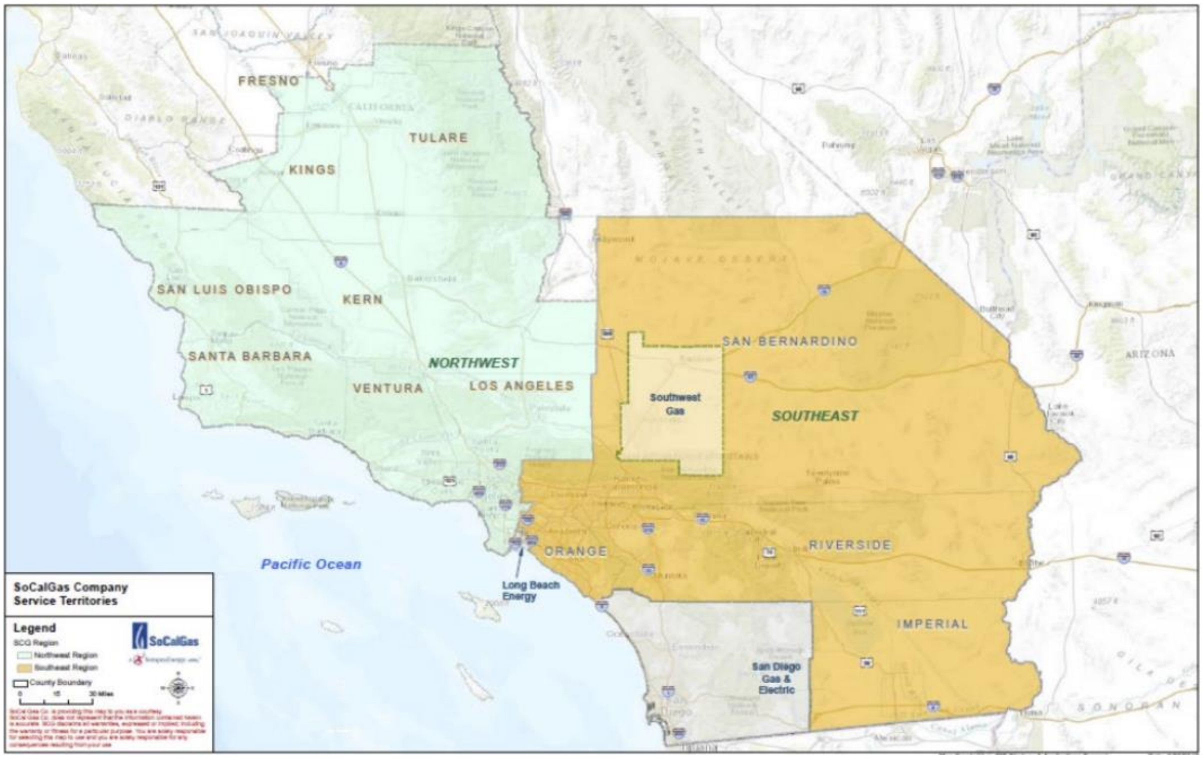
8. SoCalGas and SDG&E Gas Distribution

SoCalGas's and SDG&E's gas distribution system forecast includes requests to fund the operation, maintenance, and construction of gas facilities to provide safe, clean, and reliable delivery of natural gas to its customers in the service area

[200] Cal Advocates Opening Brief at 55.

[201] Sempra Opening Brief at 81, 87.

below.[202]**Table 8.1SoCalGas's and SDG&E's Service Area**



[202] The map is from page 111 of the 2022 California Gas Report; SoCalGas's service territory is shaded in green and dark orange colors; SDG&E's is shaded in gray.

	SoCalGas	SDG&E	Ratios: SoCalGas's to SDG&E's Miles of Mains, Service Lines and Meters
Miles of Gas Mains	51,670[203]	8,247[204]	6.27
Miles of Service Lines	49,933[205]	7,081[206]	7.05
Customer Meters	5,900,000[207]	900,000[208]	6.56
Average			6.63

The gas distribution requests are based on identifying key safety risks in the RAMP reports that assess which gas distribution risk mitigation activities Sempra Utilities performs and what incremental efforts are needed to further mitigate these risks.[209] The forecasts summarized below are consistent with operational laws, codes, and standards established by local, state, and federal authorities.[210]

The tables above demonstrate that SoCalGas's gas distribution system is over six times that of SDG&E's in terms of gas mains, service lines, and meters. However, SDG&E's O&M costs are significantly greater than 1/6 or 0.167 those of SoCalGas. Instead of the proportional number of 0.167 of those of SoCalGas, SDG&E's O&M and capital requests are for some forecasts approximately

203 SCG Ex-04-R-E at 3. Gas mains operate at either high pressure (over 60 pounds per square inch) or medium pressure (60 psi and below).

204 SDG&E May 2023 Errata Testimony at LPK-4.

205 SCG Ex-04-R-E at 3. Gas service lines connect high and medium pressure mains to each customer's meter set assembly.

206 SDG&E Ex-04-R-E at 4.

207 SCG Ex-04-R-E at 2.

208 SDG&E May 2023 Errata Testimony at LPK-3.

209 Sempra Opening Brief at 91.

210 Sempra Opening Brief at 88.

25 percent and 31 percent, respectively, of those of SoCalGas. This difference in costs for companies that share management functions, along with SDG&E's relatively high gas rates, raises questions regarding the reasonableness of SoCalGas's and SDG&E's O&M and capital costs reviewed in detail below.

The tables below summarize SoCalGas's and SDG&E's Non-Shared O&M and capital funding requests and the amounts the Commission authorizes.

Table 8.2
SoCalGas's Total Non-Shared Services

SOCALGAS NON-SHARED SERVICES O&M[211]					
	2021 Adjusted-Recorded ($000s) A	TY2024 Estimated ($000s) B	Change ($000s) B – A	PD Authorized ($000s) C	Difference ($000s) C – B
A. Field Operations and Maintenance	142,865	136,414	-6,451	120,564	-15,850
B. Asset Management	13,119	15,691	2,572	13,119	-2,572
C. Operations and Management	10,739	11,613	874	11,613	0
D. Regional Public Affairs	3,843	3,968	125	3,968	0
Total O&M	**170,566**	**167,686**	**-2,880**	**149,265**	**-18,241**

Table 8.3
SoCalGas's Field Operations and
Maintenance Non-Shared Services O&M (In 2021 $)[212]

	2021 Adjusted-Recorded (000s) A	TY2024 Estimated (000s) B	Change (000s) B – A	PD Authorized (000s) C	Difference (000s) C – B
1. Field Support	18,402	22,200	3,798	16,957	-5,243
2. Leak Survey	10,448	7,548	-2,900	7,548	0
3. R – Locate and	19,092	21,302	2,210	20,300	-1,002

211 SoCalGas's 2021 and TY 2024 figures are from SCG Ex-401 at A-3.

212 SCG Ex-401 at A-3 reflects SoCalGas's request.

	2021 Adjusted-Recorded (000s) A	**TY2024 Estimated (000s) B**	**Change (000s) B – A**	**PD Authorized (000s) C**	**Difference (000s) C – B**
Mark					
4. Main Maintenance	15,360	8,955	-6,405	5,871	-3,084
5. Service Maintenance	5,787	5,004	-783	5,004	0
6. Tools Fitting & Materials	20,547	24,709	4,162	19,330	-5,379
7. Leakage	25,637	17,214	-8,423	17,214	0
8. Measurement & Regulation	10,399	11,147	748	11,147	0
9. Cathodic Protection	17,193	18,335	1,142	17,193	-1,142
Total O&M	**142,865**	**136,414**	**-6,451**	**120,564**	**-15,850**

Table 8.4
SoCalGas Distribution - Capital (In 2021 $)[213]

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Diff between PD and Request
A. New Business	53,273	54,308	60,300	62,164	176,772	40,414	40,300	39,917	120,631	-56,141
B. Pressure Betterments	18,845	18,846	18,846	18,846	56,538	0	0	0	0	-56,538
C. Main Replacements	24,767	19,839	17,626	17,626	55,091	19,839	17,626	17,626	55,091	0
D. Service Replacements	49,472	45,229	42,597	42,597	130,423	45,229	42,597	42,597	130,423	0
E. Main and Service Abandonments	11,898	14,135	14,135	14,135	42,405	11,898	11,898	11,898	35,694	-6,711
F. Regular Stations	8,292	10,014	10,014	10,014	30,042	8,292	8,292	8,292	24,876	-5,166
G. Control Center Modernization (CCM) Distribution Projects	15,046	23,506	26,403	21,534	71,443	21,931	24,588	19,879	66,398	-5,045
H. Cathodic Protection Capital	5,096	6,993	6,527	6,527	20,047	6,993	6,527	6,527	20,047	0
I. Pipeline Relocation – Freeway	3,376	1,904	1,904	1,904	5,712	1,904	1,904	1,904	5,712	0
J. Pipeline Relocations – Franchise	18,050	20,289	20,289	20,289	60,867	17,727	17,727	17,727	53,181	-7,686
K. Meter Protection	7,045	8,250	9,900	11,550	29,700	3,143	3,143	3,143	9,429	-20,271
L. Other Distribution Capital Projects	10,419	13,367	26,313	9,045	48,725	13,367	26,313	9,045	48,725	0
M. Measurement and Regulation Devices	27,479	42,224	42,891	46,426	131,541	31,081	28,456	30,613	90,150	-41,391
N. Capital Tools	24,971	14,635	14,635	14,635	43,905	14,635	14,635	14,635	43,905	0
O. Field Capital Support	100,336	93,301	99,654	92,912	285,867	75,272	77,929	70,689	223,890	-61,977
P. Remote Meter Reading	2,159	1,877	1,252	1,252	4,381	1,877	1,252	1,252	4,381	0
Total Capital	**380,524**	**388,717**	**413,286**	**391,456**	**1,193,459**	**313,602**	**323,187**	**295,745**	**932,533**	**-260,926**

213 SoCalGas Opening Brief at 107-108 reflects SoCalGas's 2022-2024 request.

Table 8.5
SDG&E NON-SHARED SERVICES O&M (In 2021 $)[214]

	2021 Adjusted-Recorded (000s) A	TY2024 Estimated (000s) B	Change (000s) B-A	PD Authorized C	Difference C-B
Other Services	69	90	21	0	-90
Leak Survey	2,068	2,068	0	2,068	0
R-Locate & Mark	7,115	10,096	2,981	3,648	-6,448
Main Maintenance	5,009	5,823	814	4,693	-1,130
Service Maintenance	3,294	4,116	822	2,772	-1,344
Tools	1,708	1,667	-41	1,667	0
Electric Support	515	495	-20	495	0
Measurement & Regulation	4,638	5,153	515	5,153	0
Cathodic Protection	2,050	1,834	-216	1,834	0
Asset Management	1,077	1,374	297	1,374	0
Operations Management, Sup, & Training	9,003	9,128	125	9,128	0
Total O&M	**36,546**	**41,844**	**5,298**	**32,832**	**-9,012**

[214] SDG&E Ex-401 at B-7.

Table 8.6
SDG&E Gas Distribution - Capital (In 2021 $)[215]

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Diff between PD and Request
A. New Business	8,613	19,658	13,042	9,928	42,628	8,613	8,613	2,333	19,559	-23,069
B, System Minor Additions, Relocations, and Retirement	5,412	5,221	5,221	5,221	15,663	5,221	5,221	5,221	15,663	0
C. Gas Meters & Regulators	8,374	8,598	9,348	9,348	27,294	8,374	8,374	8,374	25,122	-2,172
D. Gas System Reinforcement	1,609	529	529	529	1,587	0	0	0	0	0
E. Street & Highway Relocation	6,733	14,596	15,008	5,776	35,380	14,596	15,008	5,776	35,380	0
F. Tools & Equipment	3,659	5,006	4,006	3,936	12,948	3,659	3,659	3,659	10,977	-1,971
G. Code Compliance	3,101	2,712	3,087	3,087	8,886	2,712	3,087	3,087	8,886	0
H. Leak Repair	10,082	11,935	12,973	14,010	38,918	10,082	10,082	10,082	30,246	-8,672
I. Cathodic Protection Program	4,409	4,493	4,493	4,493	13,479	4,409	4,409	4,409	13,227	-252
J. Cathodic Protection System Enhancements	2,919	1,996	1,996	1,996	5,988	0	0	0	0	-5,988
K. System Reliability & Safety	645	1,956	3,456	1,956	7,368	645	645	645	1,935	-5,433

[215] SDG&E Opening Brief at 115-116.

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Diff between PD and Request
L. Underperforming Steel Replacement Program – Threaded Main (Pre-1934 Vintage)	13,682	7,000	7,000	7,000	21,000	7,000	7,000	7,000	21,000	0
M. Underperforming Steel Replacement Program (1934-1965 Vintage)	14,712	3,000	3,000	3,000	9,000	3,000	3,000	3,000	9,000	0
N. Underperforming Steel Replacement Program – Other (Post 1965 Vintage)	4,207	3,001	3,001	3,001	9,003	3,001	3,001	3,001	9,003	0
O. Early Vintage Program – Dresser Mechanical Coupling Removal	3,934	2,000	2,000	2,000	6,000	500	500	500	1,500	-4,500
P. Early Vintage Program – Oil Drip Piping Removal	3,668	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	0
Q. Early Vintage Program – Removal of Closed Valves between High Medium Pressure Zones	893	1,500	1,500	1,500	4,500	893	893	893	2,679	-1,821

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Diff between PD and Request
R. Pipeline in Vaults Replacement Program	2,925	1,500	1,500	1,500	4,500	1,500	1,500	1,500	4,500	0
T. Control Center Modernization (CCM) Project	0	449	3,235	4,080	7,764	424	3,010	3,778	7,212	-552
U. Curb Valve Replacement	0	1,000	1,750	1,750	4,500	1,000	1,000	1,000	3,000	-1,500
V. CNG Station Upgrades	0	137	137	137	411	0	0	0	0	-411
W. Local Engineering Pool	23,764	22,990	25,112	24,574	72,676	22,990	23,764	23,764	70,518	-2,158
X. Gas Distribution Overhead Pool	8,097	5,342	5,695	5,893	16,930	5,342	5,695	5,893	16,930	0
Y. Gas Distribution Contract Administration Pool	8,717	6,466	6,803	6,584	19,853	6,466	6,803	6,584	19,853	0
Total Capital	**140,155**[216]	**132,585**	**135,392**	**122,799**	**390,776**	**111,927**	**116,764**	**101,999**	**330,690**	**-60,086**

8.1. Common Issues

8.1.1. Regulatory Accounts

8.1.1.1. Locate and Mark Balancing Account (LMBA)

To prevent damage caused by third-party excavators working near underground gas structures, federal regulations[217] and California's "one-call"

[216] The 2021 Adjusted-Recorded value of $140.158 million in Sempra's Opening Brief at 115-116 includes a rounding error. The correct amount is $140.155 million.

[217] 49 C.F.R. Section 192; SCG Ex-04-R-E at 28.

statutes[218] require the owner of underground facilities to identify substructures at locations of planned excavations. Prior to excavating, the statutes require work crews to call 811 to obtain an Underground Service Alert (USA) ticket. Once a notification is received from USA (the Underground Service Alert Region Notification Center), SoCalGas has two working days to respond and to locate and mark SoCalGas's and SDG&E's underground pipelines, conduct job observations, and perform depth checks.[219]

SoCalGas and SDG&E request a balancing account for Locate and Mark activities to address potential uncertainty related to such expenses. They request a two-way Locate and Mark Balancing Account (LMBA), due to new regulations[220] that Sempra Utilities claims will increase the amount of Locate and Mark activities to an uncertain degree that may be exponential.[221] Sempra Utilities states further that if these activities continue along the same trend trajectory as in recent history, the authorized expenditure based on the Post-Test Year mechanism will be inadequate.[222]

Cal Advocates opposes Sempra's request for a balancing account to track expenses because the relevant statutes were already in effect as of 2021. In addition, Cal Advocates argues that its 2024 forecast provides adequate funding for Locate and Mark activities.[223] TURN also asserts that SoCalGas has access to

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[218] Cal. Gov. Code Section 4216 *et seq.*

[219] Sempra Opening Brief at 101; SCG Ex-04 at 28.

[220] Cal. Gov. Code Section 4216 *et seq.*; Cal Advocates Opening Brief at 58.

[221] Sempra Opening Brief at 94; SCG Ex-204 at 11-14; SDG&E Ex-204 at 11-12.

[222] Sempra Opening Brief at 94-95.

[223] Cal Advocates Opening Brief at 59.

sufficient data to predict with reasonable accuracy the scope of work that will need to be performed for Locate and Mark activities.[224]

In the Locate and Mark Sections below, the Commission adopts a forecast for 2024 Locate and Mark activities based on an increase that averaged 5.4%[225] per year from 2017 to 2021 and then increased by 3.7 percent from 2021 to 2022. The Commission finds that this record does not support a finding of possible exponential growth or uncertainty to a degree that warrants a balancing account to track uncertain costs for SoCalGas. SDG&E has not provided data regarding the increase in its Locate and Mark activity. Accordingly, the request for authorization to establish Locate and Mark balancing accounts for SoCalGas and SDG&E is denied.

8.1.1.2. Litigated Project Cost Memorandum Account (LPCMA)

Sempra Utilities requests authorization to create an LPCMA to record capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers (e.g., Contributions in Aid of Construction from a local governmental entity) instead of ratepayers, but later are deemed by a court to be non-collectible from third-party customers. Doing so would allow Sempra Utilities the opportunity to litigate whether the third-party customer should bear the cost at issue, while preserving the ability to later seek recovery of the incremental capital-related costs from ratepayers associated with the projects that can no longer be collected from a third-party

224 TURN Opening Brief at 109-110.

225 SCG Ex-04-R-E at 29.

customer if the litigation is unsuccessful. Establishing the LPCMA would also serve to avoid the prohibition against retroactive ratemaking.[226]

Cal Advocates objects to authorizing an LPCMA for several reasons.[227] First, a court-ordered classification reversal (of a capital project originally deemed to be collectible) is an extremely rare occurrence. In support of that, Cal Advocates states that during the six-year period from 2017 through 2022, no court-ordered classification reversals have occurred for any Gas Transmission projects or Gas Distribution projects. Second, Cal Advocates contends that Sempra's proposed LPCMA is designed for the occurrence of a rare court-ordered ruling that deems a collectible project to be considered non-collectible, but that it fails to protect ratepayers in the event of a similar ruling where a court deems that a non-collectible project should be considered collectible.

The Commission finds that Sempra Utilities has not demonstrated sufficient uncertainty to warrant the authorization of a LPCMA. Sempra Utilities is not at significant risk of experiencing systematic major unfunded capital costs due to court-ordered reversals of the classification of capital projects that were originally deemed to be collectible. In addition, utility regulation, especially when based on a future Test Year, is not designed to be 100 percent risk-free. It is designed to allow a utility to retain the difference between what it was authorized in the future Test Year and what it spent, if it can devise more cost-effective ways to do business. In addition, with Test Year rate making, utilities assume the risk of spending more than what they were authorized if unexpected expenses or capital additions are necessary.

[226] Sempra Opening Brief at 95.

[227] Cal Advocates Opening Brief at 137-140.

8.1.1.3. Mobile Home Park Utility Upgrade Program – Reasonableness Review

In accordance with D.14-03-021 (MHP Program Decision),[228] Sempra Utilities presented its O&M and capital expenditures incurred in executing the ongoing Mobile Home Park (MHP) Utility Upgrade Program (MHP Program) in this GRC. This program includes converting master-metered natural gas and electricity service to service provided directly to mobile home residents. The cost for such conversions is separated into the cost of "to-the-meter" utility facilities (to be owned by the utility) and the cost of "beyond-the-meter" utility facilities (to be owned and maintained by the MHP owner).[229] SDG&E's MHP Program covering 2017-2021 gas and electric expenses includes $192.2 million in capital expenditures and $3.5 million in O&M expenditures. [230] SoCalGas's MHP Program covering 2016-2021 expenses includes $180.4 million in capital expenditures and $4.6 million in O&M expenditures.[231]

Sempra Utilities asserts that the MHP Program costs were incurred for activities related to the conversion of MHP Projects through 2021 pursuant to the MHP Program Decision and are reasonable and justified.[232]

The Commission finds that: (1) these costs are consistent with the Commission's approved MHP Program Decision and tariffs, applicable codes,

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[228] D.14-03-021 at OP 8 authorizes Sempra "to fully recover in distribution rates the costs of the conversion program approved in [OP] 2, subject to reasonableness review," including that "actual, prudently incurred program costs shall be entered in a balancing account for recovery in the first year following cut over of service; … Review for reasonableness of 'to the meter' costs will occur in the general rate case where those costs are put into rate base."

[229] D.14-03-012 at 3-4, 21.

[230] SDG&E May 2023 Errata Testimony at LPK-134.

[231] SoCalGas May 2023 Errata Testimony at MAA-1.

[232] Sempra Opening Brief at 97–98.

and standards established by local, state, and federal authorities and SoCalGas and SDG&E standards; (2) the activities enhance the safety and reliability of Mobile Home Park Communities; (3) the activities are conducted by qualified employees and contractors; and (4) the activities support Sempra's commitment to enhance public safety and system reliability. However, the Commission finds a substantial difference between SoCalGas and SDG&E costs for the same work that is not explained in the record.[233] For example, SoCalGas's and SDG&E's respective To-The-Meter (TTM) costs are $134,485,359 and $77,119,474. Dividing these totals by each utility's TTM spaces converted results in a per mobile home space conversion cost of $7,631[234] for SoCalGas and $11,361 for SDG&E, meaning that the unit TTM space conversion work performed in SDG&E's service territory is 49 percent more costly. These unit costs are contrary to those reported by SoCalGas. For example, SoCalGas reports its TTM "average cost per space" as being $4,861 in Table MA-72.[235]

Table 8.7
Average Cost Per Space

	SoCalGas	SDG&E (Gas Only)
Total TTM Costs	**$134,485,359**[236]	**$77,119,474**[237]
TTM Spaces Converted	17,624[238]	6,788[239]
Total Cost Per Space Converted	**$7,631**	**$11,361**

233 SCG Ex-04-R-E at 133–149; SDG&E Ex-04-R-E at 134–149.

234 $7,631 = $134,485,359/17,624.

235 SCG Ex-04-R-E at 149.

236 SoCalGas May 2023 Errata Testimony at MAA-147.

237 SDG&E May 2023 Errata Testimony at LPK-147.

238 SoCalGas May 2023 Errata Testimony at MAA-147.

239 SDG&E May 2023 Errata Testimony at LPK-149.

When the itemized costs associated with the work components feeding into SDG&E's and SoCalGas's respective TTM costs are analyzed using the same cost-per-space-converted methodology as in the table above,[240] SDG&E's gas TTM costs are higher for seven out of 10 categories: "contractor costs, materials/structures" (42%), "program management office" (67%), "program management costs, outreach" (307%), "other TTM non-labor" (220%), "other TTM property taxes" (765%), and "other TTM AFUDC" (Allowance for Funds Used During Construction) (285%). SDG&E's costs are lower for "program management costs, construction management" (34%) and "other TTM" (58%). For the 10th category, "contractor costs, labor," SDG&E reports $0 but appears to include these costs in "contractor costs, civil/trenching." SoCalGas and SDG&E "Beyond-the-Meter" (BTM) per space conversion costs are $3,099 and $3,003, respectively. It is unclear why SDG&E's BTM costs included $907,473 in "civil/trenching" costs while SoCalGas's BTM costs do not, and why SDG&E's "Other TTM AFUDC" cost category is over three times higher on a per space conversion basis than SoCalGas's. It is also unclear if SoCalGas labor costs are 50 percent higher because it does not reap cost efficiencies SDG&E may reap when performing combined gas and electric BTM work activity, or if SoCalGas's labor costs are higher because it includes in its labor amount costs that SDG&E includes in the "Other" category.

[240] *See* SoCalGas May 2023 Errata Testimony at MAA-147 (Table MA-71) and SDG&E May 2023 Errata Testimony at LPK-147 (Table LPK-74).

Table 8.8
SoCalGas's BTM Costs, Conversions, and Per Space Conversion Cost

SoCalGas's BTM Costs		SoCalGas's BTM Conversions	SoCalGas's BTM Per Space Conversion Cost
Labor	$33,244,746	16,292	$2,041
Materials/Structures	$12,241,185		$751
Other	$4,999,857		$307
Total	**$50,485,788**		$3,099

Table 8.9
SDG&E's BTM Costs, Conversions, and Per Space Conversion Cost

SDG&E BTM Costs		SDG&E's BTM Conversions	SDG&E's BTM Per Space Conversion Cost
Civil / Trenching	$907,473	6,393	$142
Labor	$8,678,523		$1,358
Materials/Structures	$3,254,293		$509
Other	$6,356,627		$994
Total	**$19,196,916**		$3,003

Given that SDG&E's MHP Subtotal TTM Cost Per Space Converted is 49 percent higher than SoCalGas's Subtotal TTM Cost Per Space Converted, the Commission does not find it reasonable for SoCalGas and SDG&E to recover costs for the same or similar MHP activity that are significantly different especially since they share common ownership and management. As a result, the Commission finds it reasonable to reduce SDG&E's 2021 MHP TTM capital expenditures by $25.32 million, which is derived by adopting SoCalGas's Total Cost Per Space Converted of $7,631 instead of SDG&E's $11,361 amount and multiplying the difference by the 6,788 To-The-Meter spaces converted.

Given the above questions, the Commission does not find SoCalGas's and SDG&E's 2021 MHP Program costs to be reasonable. As a result, the Commission directs the Commission's Utility Audits Branch (UAB) to conduct an audit to verify SoCalGas's and SDG&E's labor and other MHP-related costs, to document how SoCalGas and SDG&E determined their MHP labor rates and costs, to document the degree to which they may differ from prevailing wages, and to report audit finding recommendations.

Sempra Utilities may seek recovery for each utility's MHP capital costs by filing an application for cost recovery. In the interim, the Commission grants cost recovery for half the capital costs amount SDG&E requested (after subtracting the amount of the disallowance) or $83.44 million[241] and half the capital costs amount SoCalGas requested which equals $90.2 million. For the MHP Program O&M, the Commission adopts the amounts of $3.5 million for SDG&E and $4.6 million for SoCalGas.

8.1.2. Elimination of Line Extension Allowances

In D.22-09-026, the Commission eliminated gas line extension allowances for project applications received on or after July 1, 2023.

CEJA argues that the authorized capital costs should be revised to reflect the impact of the elimination of line extension allowances, which would save costs for ratepayers. It recommends that the Commission reduce the Sempra Utilities' 2024 Test Year new construction capital requests from $42 million to $7.70 million for SoCalGas and from $8.614 million to $1.167 million for SDG&E. CEJA argues that SoCalGas and SDG&E claim that they will reduce new business costs in 2024 that would have been charged to ratepayers as non-collectibles by 63 percent and 71 percent respectively, with this percentage increasing in post-test

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241 SDG&E requested $192.2 million in capital expenditures; subtracting the $25.32 million disallowance equals $166.88 million, 50 percent of which is $83.44 million.

years as D.22-09-026 is fully implemented.[242] CEJA recommends that the same be reflected in the cost forecast for the 2024 Test Year.

CEJA contends that the Commission should adjust customer forecast methodology to account for eliminating line extension allowances. It states that TURN's methodology corrects for overestimations in 2022 that have unduly influenced subsequent forecasts by reducing the forecast by approximately one-third. CEJA recommends that for SoCalGas, the Commission should adjust the new business costs by 63 percent to account for the line extension decision, which reduces the ratepayer cost to $15.54 million. CEJA further recommends that to account for the rapid decline in line extension allowances in PTYs, an additional adjustment of 50 percent should be applied, approving only $7.70 million in new business costs. CEJA argues that if the Commission were to award SoCalGas $15.54 million, SoCalGas would recover increased new business costs from ratepayers in post-test years even though it will already be collecting those costs from project applicants.[243]

For SDG&E, CEJA recommends that the Commission reduce the new business capital costs by $569,000 to remove purging costs. It recommends further adjusting for line extension costs by reducing them by 71 percent as it argues that this cost will now be collected directly from line extension applicants under D.22-09-026. To account for the rapid decline in ratepayer costs, CEJA recommends that the Commission should further reduce the costs by 50 percent. Based on the costs adopted further in the decision, CEJA calculates that the Commission should authorize $1.167 million for SDG&E's new business capital request.

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[242] CEJA Opening Brief at 20-21; CEJA Opening Comments at 3-4.

[243] CEJA Opening Comments at 10.

CEJA also recommends a one-way-balancing account for New Business costs to ensure that any overcollection is adequately tracked and credited to ratepayers.

In its reply comments on the proposed decision, SoCalGas and SDG&E state that the total New Business forecasts are split between collectible and non-collectible forecasts within the RO model, with only the forecasted non-collectible project costs included in the rate base calculation. SoCalGas and SDG&E oppose CEJA's recommendation for a one-way balancing account, arguing that it would be overly burdensome, complicated, and would divert resources.

Our review of SoCalGas's RO Model shows that SoCalGas reduced new business costs in 2024 that would have been charged to ratepayers as non-collectibles by 58 percent instead of 63 percent, and similarly, SDG&E reduced costs by 55 percent instead of 71 percent. However, this information is embedded in the RO Model and not presented in the comments. We find merit in CEJA's argument to adjust the New Business cost forecasts (non-collectible) for the 2024 Test Year by 63 percent for SoCalGas and 71 percent for SDG&E since that is based on each utility's assessment and data request response on the impact of line extension allowances.

Accordingly, SoCalGas is authorized New Business ratepayer costs (non-collectibles) of $15.540 million for the 2024 Test Year.

We agree with CEJA's recommendation to adjust purging costs and then reduce New Business costs by 71 percent for SDG&E's cost estimates. Accordingly, SDG&E is authorized $2.333 million in New Business ratepayer costs (non-collectible) for the 2024 Test Year.

We decline to adopt CEJA's additional recommendation to further cut the costs by 50 percent to account for PTY decline in line extension allowances because it is an arbitrary adjustment for which CEJA has offered no calculations or support.[244] Instead, we adopt the one-way balancing account as recommended by CEJA and TURN to ensure that if ratepayers ultimately pay more than estimated for line-extension allowances, they should be refunded. Accordingly, SoCalGas and SDG&E shall each file an Advice Letter within 30 days of this decision to establish a one-way line extension allowance balancing account. SoCalGas and SDG&E shall track actual expenditure on gas new business construction costs over the four-year GRC period, with any overcollection returned to ratepayers.

8.2. SoCalGas's Gas Distribution Request

SoCalGas provides natural gas service to 5.9 million customers through 51,670 miles of gas mains and 49,933 miles of service lines.[245] SoCalGas requests that the Commission adopt SoCalGas's 2024 forecast for Gas Distribution O&M of $168.096 million, which is composed of $167.686 million for Non-Shared service activities and $410,000 for Shared service activities. This forecast represents a decrease of $2.880 million[246] over 2021 adjusted-recorded costs. After review of the issues below, the Commission adopts a total reduction of $21.739 million for a total of $145.947 million in Non-Shared O&M costs.[247]

For capital expenditures, SoCalGas forecasts $388.717 million, $413.286 million, and $391.456 million in 2022, 2023, and 2024, respectively.[248]

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244 *See* Sempra Reply Comments at 3.

245 SCG Ex-04-R-E at 3.

246 Sempra Opening Brief at 98; SCG Ex-04-R-E.

247 Field Operations and Maintenance; Asset Management; Operations and Management; and Regional Public Affairs.

248 Sempra Opening Brief at 98.

After review of SoCalGas's capital requests below, the Commission adopts capital amounts of $313.602 million for 2022, $323.187 million for 2023, and $297.827 million for 2024, for total capital expenditures for the 2022-2024 period in the amount of $934.616 million.

8.2.1. SoCalGas's Non-Shared Operations and Maintenance

SoCalGas requests that the Commission adopt SoCalGas's 2024 forecast of $167.686 million for Gas Distribution O&M expenses, representing a 1.7 percent decrease of $2.880 million over 2021 adjusted-recorded costs of $170.566 million. As shown in the table below, Non-Shared operations and maintenance expenses are aggregated to include Field Operations and Maintenance, Asset Management, Operations and Management, and Regional Public Affairs.

Table 8.10
Non-Shared O&M Summary of Costs

GAS DISTRIBUTION (In 2021 $)			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**2024 Test Year Estimated (000s)**	**Change (000s)**
A. Field Operations and Maintenance	142,865	136,414	-6,451
B. Asset Management	13,119	15,691	2,572
C. Operations and Management	10,739	11,613	874
D. Regional Public Affairs	3,843	3,968	125
Total Non-Shared Services	**170,566**	**167,686**	**-2,880**

Field Operations and Maintenance costs include the following nine workgroups with similar functions cost drivers.[249]

Table 8.11
Non-Shared O&M Summary of Costs[250]

GAS DISTRIBUTION (In 2021 $)			
A. Field Operations and Maintenance	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
1. Field Support	18,402	22,200	3,798
2. Leak Survey	10,448	7,548	-2,900
3. R – Locate & Mark	19,092	21,301	2,209
4. Main Maintenance	15,360	8,955	-6,405
5. Service Maintenance	5,787	5,004	-783
6. Tools Fittings & Materials	20,547	24,709	4,162
7. Leakage	25,638	17,214	-8,424
8. Measurement & Regulation	10,399	11,147	748
9. Cathodic Protection	17,193	18,335	1,142
Total	**142,865**	**136,414**	**-6,451**

8.2.1.1. Field Support

This workgroup includes scheduling and dispatch operations, field employee training and meetings, and materials to support gas distribution O&M activities.[251] SoCalGas states that the amount of work in this group is driven by the need for contractor support, the complexity of jobs, the number of employees,

249 SCG Ex-04-R-E at 23; Sempra Opening Brief at 113.

250 SoCalGas's 2021 and 2024 Test Year figures are from SCG Ex-401 at A-3.

251 SCG Ex-04-R-E at 53-54.

and incremental operations, compliance, and safety requirements that impact the gas distribution workforce.[252]

For this category, SoCalGas forecasts $22.200 million in 2024, which is a 21 percent increase over the amount adopted in 2021 of $18.402 million.[253] SoCalGas bases this increased forecast on historical work units and unit costs for the 2017-2021 period and an increase in its field workforce and dispatch office workforce based on a linear projection of associated workforce costs for the 2019-2021 period, instead of the average for this period.

SoCalGas generally claims that additional work and other factors support this 21 percent cost increase. According to SoCalGas, this additional work includes training costs associated with the Control Center Modernization (CCM) project and safety-related issues.[254] However, SoCalGas does not explain why its labor and non-labor costs will continue to grow beyond 2021, whether the field support for the CCM is needed, or whether it is excluded from the CCM project costs. The statements that describe the work as incremental to support activities in 2024 are conclusory and not supported by information required by the Rate Case Plan.[255] Accordingly, the Commission denies the requested increase above and

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[252] SCG Ex-04-R-E at 54.

[253] SCG Ex-04-R-E at 53.

[254] SCG Ex-04-R-E at 56-57.

[255] The Rate Case Plan requires the applicant to provide the following pertinent information: 1) the list all of the assumptions necessary for the derivation of each individual estimate and explain the rationale why the assumptions were used; 2) how each assumption was used in each estimate; 3) where judgment is involved in setting an estimate level, explain why that particular level was adopted; 4) furnish base year historical and estimated data and subsequent years with evaluation of changes up to and including the test year; 5) if there was no precise basis for certain estimates and the derivation was purely subjective, the workpapers should so state; 6) state management's review criteria including the factors considered by the utility's management in approving various expenditures levels; 7) supporting material must have a clear tieback to

Footnote continued on next page.

adopts an amount for 2024 Field Support of $16.957 million based on an average of costs for the 2019-2021 period.[256]

8.2.1.1.1. Locate and Mark Expenses

As discussed above, the Commission denied the establishment of a Locate and Mark balancing account for the expenses described. For 2024 Locate and Mark O&M expenses, SoCalGas requests $21.301 million,[257] which represents an increase of $2.209 million over the 2021 adjusted-recorded amount of $19.092 million.[258] SoCalGas states that its request for $21.3 million in 2024 is supported by: 1) SoCalGas's efforts to advertise the use of "one-call" calling before digging; and 2) the average increase in USA tickets from 2017 to 2021 of approximately 9 percent per year that results in an average increase in expenses over the same period of approximately 5.4 percent per year.[259]

For Locate and Mark expenses, Cal Advocates recommends $19.7 million for 2024, compared to SoCalGas's request of $21.3 million. Cal Advocates recommends its reduction in the forecast because: 1) new laws were enacted in 2021 and earlier,[260] and are not new requirements; 2) the changes in Locate and Mark activities required by statute in 2021 are reflected in SoCalGas's adjusted forecast for 2022; and 3) it is reasonable to base the 2024 forecast on the 2022 adjusted forecast.[261]

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base data from the stated expenditure; and 8) justification for the methodology used to develop each estimate shall be included. D.07-07-004, Appendix A at A-30-A-31.

[256] SCG Ex-04-WP-R-2E at 6.

[257] SCG Ex-401.

[258] Sempra Opening Brief at 100.

[259] Sempra Opening Brief at 101-102.

[260] Cal. Gov. Code Section 4216 *et seq.*

[261] Cal Advocates Opening Brief at 57-58.

SoCalGas does not agree that the full effects of those pieces of legislation have yet been felt in regard to USA ticket volume. SoCalGas also projects that Locate and Mark expenses will continue to increase at the same rate in 2023 and 2024 as they did from 2017 to 2021 before the 2021 legislation was enacted whereas Cal Advocates projects no change in Locate and Mark activity from 2022 to 2024. The Commission finds that some increase above the level of the 2022 forecast is warranted. Since the cost of Locate and Mark activity rose 3.7 percent from $19.092 million in 2021 to $19.793 million in 2022, after the implementation of both pieces of legislation, the Commission finds an increase of 3 percent to $20.300 million in 2024 to be reasonable, which is consistent with SoCalGas's revised workpapers.[262] Accordingly, the Commission adopts a forecast for SoCalGas's Locate and Mark activity in 2024 of $20.300 million.

8.2.1.1.2. Leak Surveying and Repair Workgroup

The leak surveying costs of this workgroup include the labor and non-labor costs for surveying pipelines for leaks in accordance with federal and state pipeline safety regulations. These surveys support the safety and reliability of the gas system and the goal of reducing carbon emissions. SoCalGas determines the method and frequency of leak surveys based on regulatory requirements, the pipe material involved (i.e., plastic or steel), the operating pressure, the cathodic protection of the pipe, and the proximity of the pipe to various population densities.[263]

The leaks that are being repaired according to federal, state, and local safety ordinances are considered Business as Usual (BAU), and the leaks that are

[262] SCG Ex-04-WP-R-2E at 33.

[263] Sempra Opening Brief at 102-103.

repaired faster than required by safety ordinances to minimize emissions are considered a part of the Natural Gas Leak Abatement (NGLA) Proceeding, R.15-01-008, a program scope mandated by Senate Bill (SB) 1371 (Stats. 2013-2014, ch. 525). SoCalGas has reduced the base forecast for the Leakage and Main Maintenance workpapers to account for leak repairs and the associated work that it anticipates will be addressed through R.15-01-008 and not through BAU.[264] In 2021 and 2022, SoCalGas recovered $182.97 million for leak repairs authorized through proceeding R.15-01-008 in Advice Letter (AL) 5603-G-C47, and SoCalGas forecasted $58 million in 2024, which is being tracked in the Natural Gas Leak Abatement Program Memorandum Account.[265]

For leak survey work SoCalGas requests $7.548 million in 2024, which is $2.9 million less than for 2021.[266] SoCalGas bases its 2024 forecast on reductions for expected efficiencies from improved scheduling procedures.[267] This is reflected in SoCalGas's reduction in employees from 104 in 2021 to 75 forecasted for 2024.[268] SoCalGas states that the amount requested is for federally mandated leak survey work and not costs incurred related to SB 1371.[269]

TURN recommends reducing SoCalGas's 2024 leak survey work forecast by $3.318 million to $4.23 million based on denying the addition of 40 LSTs. In support of this recommendation, TURN makes several claims. First, TURN contends that the activities of the requested leak survey technicians (LSTs) are

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[264] Sempra Opening Brief at 97.

[265] TURN Opening Brief at 111.

[266] SCG Ex-04-WP-R-2E at 24.

[267] Sempra Opening Brief at 103.

[268] SCG Ex-04-WP-R-2E at 24.

[269] Sempra Reply Brief at 102-103.

duplicative of similar positions such as Construction Technicians, Energy Technicians – Distribution, and Lead Construction Technician, all of whom previously performed leak survey duties.[270] Second, TURN argues that SoCalGas has not provided a reasonable justification for why it should increase the number of employees conducting leak surveys or why the current number is not sufficient.[271] Lastly, although the 40 technicians would be paid at a lower pay class than existing construction technicians, hiring 40 more leak survey technicians would still result in an increase in overall costs.[272]

In its Opening Comments, SoCalGas states to the contrary that costs related to SB 1371 for leak surveys are separate and in addition to activities described in testimony, and that the hiring of LSTs has not added costs to this area.[273] This is reflected in SoCalGas's reduction in employees from 104 in 2021 to 75 forecasted for 2024.[274] Although the discrepancies between the evidence cited by SoCalGas and TURN[275] are not entirely clear, the Commission finds that SoCalGas meets the burden of proof for this forecast. Accordingly, the Commission finds SoCalGas's forecast for 2024 leak survey work of $7.548 million to be reasonable and adopts it.

The Commission also finds it reasonable to increase transparency of accounting of BAU and SB 1371 activities that may overlap in terms of activity

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[270] TURN Opening Brief at 107.

[271] TURN Opening Brief at 107

[272] TURN Ex-05-R-E1 at 35.

[273] Opening Comments of SoCalGas and SDG&E at 14-15.

[274] SCG Ex-04-WP-R-2E at 24.

[275] TURN's reference to the hiring of 40 Leak Survey Technicians was in 2022 in SCG-Ex-04 (at 27), which was replaced with corrected versions.

level and costs. Based on TURN's recommendation,[276] SoCalGas and SDG&E shall define the full impact of activities under SB 1371 on cost forecasting within future GRCs. This definition should include the identification of specific thresholds of work that otherwise would not have been performed under BAU activities. In addition, SoCalGas and SDG&E shall demonstrate the prudency of work placed into the SB 1371 Emissions Strategy Program (ESP) to demonstrate that all activities in the ESP are in excess of BAU work and reasonable to perform.

8.2.1.1.3. Main Maintenance

SoCalGas's gas main maintenance work includes costs needed to meet federal[277] and state[278] standards for pipeline safety. SoCalGas forecasts $8.955 million for 2024 for gas maintenance work[279] based on its claim that the 2021 Base Year best represents the anticipated activity in this workpaper, including two RAMP activities.[280]

TURN recommends a 2024 forecast for main maintenance work of $5.871 million,[281] which is $3.084 million less than SoCalGas's forecast, based on the 5-year average of such costs. For its recommendation, TURN contends that a 5-year historical average is more appropriate than using only one year as SoCalGas proposes for this routine maintenance. In addition, TURN states that many costs in this budget category are also being shifted to the SB 1371 ESP.

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[276] TURN Opening Brief at 111-112.

[277] 49 C.F.R. Section 192.

[278] General Order 112-F, State of California Rules Governing Design, Construction, Testing, Operation, and Maintenance of Gas Gathering, Transmission, and Distribution Piping Systems.

[279] SCG Ex-04-WP-R-2E.

[280] Sempra Opening Brief at 104.

[281] TURN Opening Brief, Table 11, at 106.

The Commission finds that a 5-year historical average is more appropriate to account for variability in this activity rather than using a Base Year of 2021. Accordingly, for SoCalGas main maintenance activity in 2024, the Commission adopts a forecast of $5.871 million.

8.2.1.1.4. Tools, Fittings, and Materials

This cost category includes the purchase of small tools, small pipe fittings, miscellaneous pipeline materials, and miscellaneous installation materials used during construction and maintenance activities and those held in inventory as vehicle truck stock.[282]

For this category, SoCalGas forecasts $24.709 million in 2024, which is a 20 percent increase over the amount adopted in 2021 of $20.547 million. SoCalGas bases this forecast on an assessment of historical expenses during the 2019-2021 period and a linear trend it used to estimate the increased 2024 forecast. SoCalGas states that its increased forecast for this cost is driven by the increase in construction and maintenance work reflected in other workgroups of this testimony, as well as the increase in workforce needed to complete this work.[283]

However, SoCalGas does not provide information sufficient to support how it derived the increased forecast beyond its use of a three-year linear trend and an unspecified increase in construction and maintenance work. It is not clear, as discussed in other construction and maintenance categories, why an increase in construction and maintenance is required or why over $4 million more in additional tools, fittings, and materials is needed to support an unspecified amount of construction. Nor is it clear what assumptions SoCalGas used to derive

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282 SCG Ex-04-R-E at 58.

283 SCG Ex-04-R-E at 59.

its 2024 estimate as required by the Rate Case Plan. For example, SoCalGas does not specify how much support in tools and materials is needed for a certain amount of construction. In addition, given that the Commission has not adopted all of SoCalGas's estimates for new construction, the Commission denies the increase above the amount adopted in 2021 for Tools, Fittings, and Materials for 2024. Instead, the Commission finds the three-year average for the 2019-2021 period of $19.330 million to be reasonable and adopts it.

8.2.1.1.5. Measurement and Regulation

The work in this cost category includes labor and non-labor expenses for activities focused on maintaining and operating approximately 1,951 regulator stations and approximately 102,010 medium and large customer meter set assemblies (MSAs) in the SoCalGas service territory. Regulator stations reduce the pressure of gas entering the distribution system from high-pressure pipelines to provide lower pressures to the distribution pipeline network.[284]

Due to the risk to public safety of failure of a regulator station from mechanical failure, corrosion, contamination, or other cause that could result in under- or over-pressurization of the gas distribution system, the inspection and maintenance of these devices is given an RSE value of 130. Medium and large customer MSAs require routine maintenance of the meters, regulators, and other components to meet customers' capacity requirements and to measure gas volume accurately.[285] In accordance with federal pipeline safety regulations,[286]

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284 SCG Ex-04-R-E at 33-34.

285 SCG Ex-04-R-E at 33.

286 49 C.F.R. Section 192.739(a) (Pressure Limiting and Regulating Stations: Inspection and Testing).

SoCalGas plans to inspect, maintain, or replace approximately ten percent of the total medium and large MSAs in its service territory.[287]

For this activity, SoCalGas forecasts $11.147 million in 2024, which is a 7.19 percent increase of $0.748 million over the amount adopted in 2021 of $10.399 million.[288] SoCalGas bases its 2024 forecast on expenses for the 2017-2021 period, choosing 2021 as best reflecting the cost of maintaining current assets, and adding the cost of additional forecasted work. SoCalGas forecasts additional work associated with increased monitoring capabilities provided by the CCM project. These enhanced capabilities will allow gas control personnel to more quickly identify abnormal operating pressures within the system.

Based on the additional activity quantified in SoCalGas's workpapers, the Commission finds the increased forecast for Measurement and Regulation Operations and Maintenance expenses for 2024 to increase safety to be reasonable. Accordingly, the Commission adopts SoCalGas's 2024 Measurement and Regulation forecast of $11.147 million.

8.2.1.1.6. Cathodic Protection

Left unprotected, buried steel gas pipelines corrode and leak. To protect these pipelines, SoCalGas coats them and uses a process called cathodic protection (CP) to mitigate external corrosion. This process reduces corrosion by using electricity to turn the pipeline into a negatively charged electrode or cathode. This work includes the cost of the materials, equipment, and labor used to impose the negative charge on the pipeline and to monitor it in compliance with federal regulations.[289] As a safety mitigation measure related to reducing

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[287] SCG Ex-04-R-E at 35.

[288] SCG Ex-04-WP-R-2E at 77.

[289] 49 C.F.R. Section 192.465; SCG Ex-04-R-E at 49-50.

low pressure incidents, SoCalGas assessed the risk of this CP activity and assigned it an RSE value of 29.[290]

For this cost, SoCalGas forecasts $18.335 million in 2024, which is a 6.64 percent increase of $1.142 million over the 2021 Base Year amount of $17.193 million.[291] SoCalGas bases this forecast on costs from the 2017-2021 period and adding $1.141 million to the 2021 adjusted recorded Base Year for more frequent and thorough evaluation and verification of CP using a new 100 mV polarization shift criteria resulting from feedback from the Commission's Safety and Policy Division during a 2018 safety audit.[292]

On the surface, SoCalGas's request to add $1.142 million in incremental work to the Base Year forecast appears to be reasonable. But SoCalGas does not explain why the CP cost of $17.193 million for 2021 was significantly higher than this cost for 2019 and 2020 of $13.573 million and $14.809 million.[293] Nor does SoCalGas adequately explain why the higher 2021 cost is more representative of this activity than the three-year average for 2019-2021, which is $15.192 million. Since the 2019-2021 average plus the incremental amount of $1.142 million is still less than SoCalGas's cathodic protection cost for 2021, the Commission does not find an amount for cathodic protection above the high Base Year to be reasonable. Accordingly, the Commission adopts $17.193 million as SoCalGas's forecast for cathodic protection work in 2024 reflecting SoCalGas's 2021 costs.

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[290] SCG Ex-04-R-E at 50-51.

[291] SCG Ex-04-R-E at 49.

[292] SCG Ex-04-R-E at 52.

[293] SCG Ex-04-WP-R-2E at 86.

8.2.2. Other SoCalGas Non-Shared O&M Costs

8.2.2.1. Asset Management

The Asset Management cost category includes activities and associated O&M expenses incurred in the evaluation of the condition of the distribution system, including maintaining asset records, identification of corrective maintenance solutions, and coordinating with field personnel on completion and recording of operations and maintenance activities.

For this activity in 2024, SoCalGas forecasts $15.691 million, which is a 19.6 percent increase of $2.572 million over the 2021 Base Year amount of $13.119 million.[294] SoCalGas bases this forecast on a three-year (2019 through 2021) linear trend,[295] and states that the Asset Management work is driven by the level of operations and maintenance activity in other workgroups covered in this testimony.[296]

However, the Commission has not found all of SoCalGas's increases in other dependent activities to be reasonable. Nor has SoCalGas explained why such costs will continue to increase. For these reasons, the Commission finds SoCalGas's 2024 forecast to be unsupported. Instead, the Commission adopts a 2024 forecast of $13.119 million reflecting the 2021 Base Year amount.

8.2.2.2. Remaining Uncontested SoCalGas Non-Shared O&M Expenses

No party, including Cal Advocates, disputed SoCalGas's remaining 2024 Non-Shared O&M expense forecasts for which SoCalGas requests reduced

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294 SCG Ex-04-R-E at 60.

295 SCG Ex-04-R-E at 62.

296 SCG Ex-04-R-E at 62.

forecasts.[297] After reviewing the testimony supporting the reduced 2024 forecasts below, the Commission finds these costs to be reasonable and adopts the remaining Field Operations and Maintenance categories as follows: Service Maintenance in the amount of $5.004 million; Leakage in the amount of $17.214 million; and Measurement & Regulation in the amount of $11.147 million. The Commission also finds amounts for the Operations and Management program in the amount of $11.613 million and the Regional Public Affairs program in the amount of $3.968 million to be reasonable and adopts them.

Table 8.12
Non-Shared O&M Summary of Costs[298]

Gas Distribution (In 2021 $)			
A. Field Operations and Maintenance	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
1. Field Support	18,402	22,200	3,798
2. Leak Survey	10,448	7,548	-2,900
3. R – Locate & Mark	19,092	21,302	2,210
4. Main Maintenance	15,360	8,955	-6,405
5. Service Maintenance	5,787	5,004	-783
6. Tools Fittings & Materials	20,547	24,709	4,162
7. Leakage	25,637	17,214	-8,423
8. Measurement & Regulation	10,399	11,147	748
9. Cathodic Protection	17,193	18,335	1,142
Total	**142,865**	**136,414**	**-6,451**

8.3. SoCalGas Gas Distribution Shared O&M

For Shared 2024 O&M expenses, Sempra Utilities requests $410,000 in 2024, which is the same as the adjusted recorded expenses for 2021. This cost includes

[297] CA Ex-23-C-E-R at 2; Cal Advocates recommends an 80 percent disallowance for the estimated total Test Year costs of $4.107 million associated with the Regional Public Affairs organization.

[298] SCG Ex-401 at A-3.

the salary and employee non-labor expenses for the Vice-President of the Gas Distribution Organization and one-time expenses that benefit the entire organization.[299] No party disputed this forecast. Based on a review of the testimony,[300] the Commission finds the amount of $410,000 in Shared 2024 O&M expenses to be reasonable and adopts them.

8.4. SoCalGas Gas Distribution Capital

To maintain system reliability and safety, SoCalGas makes a variety of capital improvements, including pressure betterment projects to improve areas of low pressure, pipeline renewals to replace deteriorated pipelines or obsolete equipment, anode and rectifier installations and replacements of cathodic protection systems, and electronic monitoring device purchases for pressure tracking and monitoring.[301] See SoCalGas's requests within these categories in the table below.

[299] SCG Ex-04-R-E.

[300] SCG Ex-04-R-E at 72-74.

[301] Sempra Opening Brief at 108.

Table 8.13
Gas Distribution (In 2021 $)[302]

Categories of Management	2021 Adjusted-Recorded	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)
A. New Business	53,273	54,308	60,300	62,164
B. Pressure Betterments	18,845	18,846	18,846	18,846
C. Main Replacements	24,767	19,839	17,626	17,626
D. Service Replacements	49,472	45,229	42,597	42,597
E. Main and Service Abandonments	11,898	14,135	14,135	14,135
F. Regulator Stations	8,292	10,014	10,014	10,014
G. Control Center Modernization (CCM) Distribution Projects	15,046	23,506	26,403	21,534
H. Cathodic Protection Capital	5,096	6,993	6,527	6,527
I. Pipeline Relocations – Freeway	3,376	1,904	1,904	1,904
J. Pipeline Relocations – Franchise	18,050	20,289	20,289	20,289
K. Meter Protection	7,045	8,250	9,900	11,550
L. Other Distribution Capital Projects	10,419	13,367	26,313	9,045
M. Measurement and Regulation Devices	27,479	42,224	42,891	46,426
N. Capital Tools	24,971	14,635	14,635	14,635
O. Field Capital Support	100,336	93,301	99,654	92,912
P. Remote Meter Reading	2,159	1,877	1,252	1,252
Total	**380,524**	**388,717**	**413,286**	**391,456**

302 Sempra Opening Brief at 107-108.

8.4.1. SoCalGas New Business Construction

This work category provides for changes and additions to the existing gas distribution system to connect new residential, commercial, and industrial customers. SoCalGas's forecasts for New Business Construction for years 2022, 2023, and 2024 are $54.308 million, $60.300 million and $62.164 million, respectively.[303] SoCalGas's forecast for 2024 represents a 16.7 percent increase over the forecasted amount of $53.273 million for 2021. SoCalGas bases its 2024 forecast on an estimation of the labor and non-labor cost of projected new meter sets multiplied by the historical cost per meter set. This estimation includes the cost to construct new main extensions and associated service laterals. These activities account for the use of contractor services, third-party services, municipal permit fees, and the proportionate use of plastic and steel materials.[304] SoCalGas bases its increased forecast on new construction increases as the economy improves.[305] Although SoCalGas acknowledges that gas demand may decline in line with state and local decarbonization efforts, SoCalGas contends that "the data of how much and how soon of an impact is not yet available."[306]

TURN contends that SoCalGas ignores how decarbonization goals have spawned increasing efforts to reduce or eliminate gas consumption and at least 10 cities within the service territory of SoCalGas and SDG&E, and Los Angeles and Ventura counties, have decided to ban new gas construction and to require all-electric ready infrastructure for new homes. TURN argued further that these bans have been in effect and will impact both the number of new gas customers and

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303 SCG Ex-04-R-E at 78.

304 SCG Ex-04-R-E at 79.

305 SCG Ex-04-R-E at 80-81.

306 SCG Ex-204 at 9; Sempra Reply Brief at 92.

gas demand in the Test Year, 2024, and the PTYs 2025-2027.[307] However, the Commission notes that some or all of these local bans may be impacted by the recent appellate court decision resulting in the repeal of the City of Berkeley's ban on new or replacement residential and business natural gas-fired appliances.[308] On the other hand, the Commission eliminated gas line extension allowances as of July 1, 2023,[309] which has already decreased other gas distribution new business capital costs.[310] In addition, the Commission eliminated electric line extension subsidies for all mixed-fuel new construction (building projects that use gas and/or propane in addition to electricity) effective July 1, 2024.[311]

TURN also argues that SoCalGas's New Business forecast should be reduced because SoCalGas has spent 29 percent less than its previously forecasted costs for 2022.[312] As a result, TURN recommends that the 2022 forecast be replaced with SoCalGas's actual 2022 expenditures. For 2024, TURN contends the Commission should adopt TURN's New Business forecasts, which for residential single family active gas customers is 32.5 percent lower than SoCalGas's forecast, because it more accurately represents current market conditions and the New Business construction costs SoCalGas will incur during this GRC cycle.

Considering the activity to reduce gas consumption in the SoCalGas service area discussed above, SoCalGas's recent spending, and recent forecasts for new customers, the Commission does not find SoCalGas's 2024 New Business forecast

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307 TURN Opening Brief at 97.

308 *See California Restaurant Ass'n v. City of Berkeley*, 89 F.4th 1094 (9th Cir. 2024).

309 D.22-09-026.

310 D.23-11-069 at 228-230.

311 D.23-12-037.

312 TURN Opening Brief at 99.

to be supported. The Commission finds TURN's estimated new customer forecast that is approximately one-third less to be reasonable based on the above,[313] the forecasted reduction in active gas customers, and the 2022 California Gas Report's projection that total gas demand will decline at an annual rate of 1.5 percent from 2022 to 2035.[314] For these reasons, the Commission reduces SoCalGas's 2024 capital forecast by approximately one-third to $42 million. The 2022 capital amount shall be $40.414 million[315] and for 2023 it shall be $40.300 million.

As discussed above, SoCalGas is authorized to recover in rate base $15.54 million for New Business non-collectible costs due to the impact of the elimination of gas line extension subsidies in D.22-09-026.

8.4.2. SoCalGas Pressure Betterments

Pressure betterment projects maintain reliable gas service to existing customers as new load or demand is placed on the gas distribution system by additional customers. SoCalGas performs these projects in areas where SoCalGas anticipates capacity will be insufficient to meet the load growth. Pressure betterment projects to improve areas of low gas pipeline pressure include replacing deteriorated pipelines or obsolete equipment, installing gas line anodes and rectifiers for protection, replacing cathodic protection systems, and installing electronic monitoring devices for pressure tracking and monitoring.[316] For 2024,

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313 TURN Opening Brief at 98.

314 2022 California Gas Report prepared by the California Gas and Electric Utilities in compliance with D.95-01-039 at 115, https:/www.socalgas.com/sites/default/files/Joint_Utility_Biennial_Comprehensive_California_Gas_Report_2022.pdf.

315 The 2022 recorded amount of $1.808 million for A01510.000-New Business Trench Reimbursement is included in the 2022 New Business recorded amount of $40.414 million.

316 Sempra Opening Brief at 23, 108.

SoCalGas forecasts maintaining spending on pressure betterments of $18.8 million.

CEJA recommends a 50 percent reduction in funding for pressure betterment projects in 2024 because SoCalGas's forecast fails to take into account a number of recent changes impacting gas demand that will decrease the need for pressure betterment projects. These changes include decarbonization policies adopted since Sempra's last GRC request that will reduce load growth and demand on the distribution system and thereby reduce the need for pressure betterment projects.[317] As a result, CEJA expresses concern over Sempra's reliance on historic data that does not reflect future changes in gas demand.[318] TURN also argues that SoCalGas's forecasting approach for this budget category is unreliable "due to SoCalGas's inability to project Pressure Betterment projects."[319]

The Commission agrees that SoCalGas's forecast for pressure betterment projects is unreliable and unsupported. In addition to the reasons given by intervenors above, SoCalGas includes in pressure betterment work routine maintenance such as replacing deteriorated pipelines, installing cathodic protection systems, and installing electronic monitoring devices for pressure tracking and monitoring. With gas demand projected to decrease, SoCalGas has not demonstrated how any pressure betterment work is needed in addition to what SoCalGas has already requested in other cost categories. Accordingly, the Commission does not find any forecast for any additional pressure betterment work to be reasonable and adopts a forecast of zero for this cost category.

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317 CEJA Opening Brief at 23-25.

318 CEJA Opening Brief at 23.

319 TURN Opening Brief at 101.

In the next GRC, any forecast for pressure betterment work in other cost categories should be based on planned work.[320]

8.4.3. Mains and Services Abandonments

SoCalGas considers mains and services abandoned when pipeline is no longer needed for current system operations, and is not expected to be needed in the future. This typically occurs when a city or the state vacates or demolishes public property. When service lines are deactivated upon cancellation of gas service due to building demolition, or when temporary service is terminated, SoCalGas evaluates them to determine if they will be left in place or abandoned. If service lines are not abandoned, SoCalGas reevaluates at least every five years to review their safety.[321] The work for this cost category includes company labor, contractor services, third-party services, paving services, and materials, such as pipe and fittings.

For Mains and Services Abandonments, SoCalGas forecasts $14.135 million, $14.135 million, and $14.135 million for 2022, 2023, and 2024, respectively, based on a five-year average of historical expenditures.[322] This forecast represents an 18.8 percent increase over the amount adopted in 2021 of $11.898 million.

The Commission finds SoCalGas's request for an increase in this cost category to be unsupported and unreasonable for several reasons. First, SoCalGas does not provide a narrative explanation for the reason for the increase in activity or quantify the work, including the cost of removing pipelines, leaving them in place or removing them, or the necessity for removing abandoned lines.

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320 TURN Opening Brief at 100-102. TURN recommends that Sempra's forecasting method utilize historic unit costs along with actual planned work and a small additional budget for unknown projects that may appear.

321 SCG Ex-04-R-E at 91-92.

322 SCG Ex-04-R-E at 92.

Accordingly, the Commission denies SoCalGas's requested increased forecast for Mains and Services Abandonments and adopts the amount for this cost category of $11.898 million each for 2022, 2023, and 2024. In SoCalGas's next GRC, it shall provide more information regarding the expenses and capital costs for leaving mains and services in place, removing them, and the number of requests for removal along with the other information required by the Rate Case Plan.

8.4.4. Regulator Stations

The work in this category includes the installation, relocation, replacement, and abandonment of regulator stations. Regulator stations are installed to reduce the pressure of gas entering the distribution system from high-pressure pipelines to provide the lower pressures used on the distribution pipeline network, which provides steady and reliable operating conditions to the customers. As such, regulator stations are key pieces of control equipment on the SoCalGas pipeline network that support the mitigation of risks associated with public safety, system reliability, and infrastructure integrity. Regulator stations not only control gas pressure but also serve as a line of defense against over-pressurization. Regulator stations consist of pipes, electronics, valves, and regulators, which are installed in either below-ground vaults or above-ground fenced facilities, and in some instances, inside specially built housing.[323]

Stations identified for replacements contain one or more of the following risk factors and are prioritized accordingly: design obsolescence, active corrosion, deteriorating vaults or equipment, exposure to flooding, hazardous traffic conditions, or ergonomically unsafe. SoCalGas proactively targets these stations

[323] SCG Ex-04-R-E at 93-94.

for replacement before operation and safety issues arise[324] using a risk assessment tool. Based on this prioritization model, SoCalGas plans to replace at least eight stations within the top one percent of the risk assessment scores. SoCalGas's 1,951 regulator stations system-wide have an average age of 29 years, fifteen percent of which have components that exceed 47 years. However, SoCalGas has not provided an RSE score for this risk assessment.[325]

For the regulator stations costs, SoCalGas forecasts $10.014 million, $10.014 million, and $10.014 million for 2022, 2023, and 2024, respectively. This forecast represents a 20.77 percent increase over the amount adopted in 2021 of $8.292 million.[326] SoCalGas bases this forecast on the 2021 expenditures because this data is the most recent. In addition to the base forecast, SoCalGas requests $1.722 million in each of the years 2022, 2023, and 2024 to replace at least eight stations prioritized for replacement as described above.[327]

SoCalGas claims that it is prudent to replace regulator stations at an increasing rate, but SoCalGas's explanation for its proposed rate of replacement is unclear and lacks sufficient information. First, SoCalGas states that it plans to increase its station replacement/addition rate from an average of 14 per year to 22 stations per year.[328] However, SoCalGas requests an increased forecast based on eight stations over an uncertain period of time. Second, although it describes significant variability in its historical data, SoCalGas does not describe how 2021 would be more accurate. Finally, SoCalGas does not incorporate an RSE value to

[324] SCG Ex-04-R-E at 94.

[325] SCG Ex-04-R-E at 95.

[326] SCG Ex-04-R-E at 93.

[327] SCG Ex-04-R-E at 96.

[328] SCG Ex-04-R-E at 96.

support its requested rate of replacement/addition. Accordingly, the Commission denies SoCalGas's requested increased forecast for Regulator Stations in 2024 and adopts the amount for this cost category of $8.292 million for each year in 2022, 2023, and 2024. In SoCalGas's next GRC, it shall provide more information regarding this forecast, including the proposed rate of regulator station replacement, the data supporting the rate, and their unit cost along with the other information required by the Rate Case Plan.

8.4.5. Control Center Modernization

As part of the CCM Project, SoCalGas plans to remotely monitor and control the gas distribution system through two key functions: (1) the installation and integration of data from field assets on the distribution pipeline system to remotely control distribution regulator stations, and (2) provide Gas Control expanded continuous monitoring of the system through enhanced control room operations technology. This is a continuation of the Distribution Operations Control Center (DOCC) and the Pipeline Infrastructure Monitoring System (PIMS) authorized in D.19-09-051. Sempra Utilities plan to continue activities for the CCM Project, and the project updated its deployment plan due to the team's identification of the need for further evaluation, testing, and analysis of assets and technology being used to accomplish the goal of enhancing the safety and reliability of the gas distribution system before a larger scale deployment was initiated.[329] For capital expenditures for the CCM, SoCalGas forecasts $23.506 million for 2022, $26.403 million for 2023, and $21.534 million for 2024.[330]

[329] Sempra Opening Brief at 110.

[330] SCG Ex-04-CWP-R at 92.

The 2024 figure represents a 43 percent increase above SoCalGas's 2021 Base Year capital amount for the CCM Project of $15.046 million.[331]

Cal Advocates recommends less funding: $17.0 million for 2022, $19.0 million for 2023, and $21.0 million for 2024. Cal Advocates recommends this reduction because it claims that SoCalGas has not supported its requested increases in 2022-2024. Cal Advocates states that SoCalGas provided two pages of narrative description with no actual cost data supporting the project's progress for 2022.[332]

In rebuttal, SoCalGas states that it provided Cal Advocates with a complete and detailed assessment of the status of the CCM Project in a separate attachment to the two-page narrative along with the following other explanations for its forecast. First, SoCalGas states that the CCM Project's 2022 actuals totaled $23.8 million, which is in line with the original forecasted amount of $23.506 million. Second, 2023 is the highest forecast year at $26.40 million, and SoCalGas attributes this to the peak period for the associated operations technology (OT) enhancements. Third, unlike the distribution field assets, the OT enhancements need to be completed prior to the CCM Building being operational. As a result, SoCalGas contends that Cal Advocates' proposed disallowance in 2023 creates unnecessary risk to the completion of OT enhancements, as well as SoCalGas's ability to safely and effectively enable CCM Building operations. Finally, the CCM (formerly the DOCC) Project has not fully spent the amount that was authorized in the 2019 GRC because the DOCC project underwent a full scope reevaluation and was subsumed into the more comprehensive CCM Project

331 SCG Ex-04-R-E at 97.

332 Cal Advocates Opening Brief at 59-61.

which caused the delayed schedule, changes to resourcing needs, and updated project cost estimates.[333]

SoCalGas has provided extensive information regarding the CCM Project, but because the information is scattered among SoCalGas's and SDG&E's O&M and capital forecasts without coordination, the Commission finds insufficient evidence of the benefits of the additional staff to support their costs. A comparison of SoCalGas's labor costs to those of SDG&E's also raises questions about their reasonableness. For example, Sempra's CCM distribution labor costs reveal that SoCalGas's 2022-2024 average hourly labor rate[334] is over 33 percent higher than SDG&E's 2022-2024 average hourly labor rate for the same CCM project.[335] Given this difference in cost for similar labor functions, the Commission does not find SoCalGas's higher CCM hourly labor costs to be reasonable and reduces SoCalGas's associated total forecast.

Using SDG&E's CCM lower hourly labor rate, the Commission reduces SoCalGas's total CCM Project cost by $1.575 million in 2022, $1.815 million in 2023, and $1.655 million in 2024,[336] adopting the total project amounts of

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333 SCG Ex-204 at 38-39.

334 SoCalGas's 2022-2024 non-weighted average hourly labor rate is $57.49 based on the following annual rates: in 2022, SoCalGas's hourly labor rate is $57.50/hour = $6.219 million ÷ 51.8 (full time equivalent (FTEs)) ÷ 2088 hours); in 2023, SoCalGas's hourly labor rate = $57.48/hour = $7.273 million ÷ 60.6 FTEs ÷ 2088 hours); and in 2024, SoCalGas's hourly labor rate is $57.50 = $6.639 million ÷ 55.3 FTEs ÷ 2088 hours). SCG Ex-04-R-E at 98.

335 SDG&E's 2022-2024 non-weighted average hourly labor rate is $43.07 based on the following annual rates: in 2022, $0.251 million ÷ 2.8 FTEs ÷ 2088 hours = $42.93/hour; in 2023, $1.423 million ÷ 15.8 FTEs ÷ 2088 hours = $43.13/hour; and in 2024, $1.649 million ÷ 18.3 FTEs ÷ 2088 hours = $43.16/hour. SDG&E Ex-04-CWP-R at 226.

336 SoCalGas's 2022 CCM forecasted labor cost is $6.219 million - ($42.93 labor rate x 51.8 FTEs x 2088 hours in 2022) = $1.575 million.

Footnote continued on next page.

$21.931 million in 2022, $24.588 million in 2023, and $19.879 million in 2024. As discussed below, SDG&E does not explain why its CCM non-labor rates are substantially higher than the same work for SoCalGas.

8.4.6. Cathodic Protection

The capital cathodic protection work category includes expenditures associated with the new installation and replacement of cathodic protection systems and equipment, described in more detail above with regard to O&M. For this category, SoCalGas forecasts $6.527 million in 2024, which is a 28 percent increase over the amount adopted in 2021 of $5.096 million.[337]

SoCalGas bases this forecast on a five-year average of historical costs. It chose the five-year average to account for variability in costs resulting from many factors that impact the effectiveness and productivity of a cathodic protection system, including infrastructure age, rate of anode depletion, soil moisture and type, electric current interference system damages, customer actions, and pipe coating effectiveness.[338] In addition, SoCalGas plans to perform additional work to add protection for areas with chronic maintenance issues.[339]

Along with the additional protection work, the Commission finds SoCalGas's use of a five-year average reasonably forecasts SoCalGas's 2024 cost for this category. Accordingly, the Commission adopts SoCalGas's 2023 and 2024 Cathodic Protection forecast of $6.527 million in each year.

SoCalGas's 2023 CCM forecasted labor cost is $7.273 million - ($43.13 labor rate x 60.6 FTEs x 2088 hours in 2023) = $1.815 million.

SoCalGas's 2024 CCM forecasted labor cost is $6.639 million - ($43.16 labor rate x 55.3 FTEs x 2088 hours in 2024) = $1.655 million.

337 SCG Ex-04-R-E at 100.

338 SCG Ex-04-R-E at 101.

339 SCG Ex-04-R-E at 102.

For 2022, SoCalGas requests authorization to recover $466,000 in additional costs for the purchase and installation of 1,553 remote monitoring units to monitor the level of cathodic protection provided by rectifier units for steel pipelines. These units allow employees to complete mandated bi-monthly inspections to verify that the level of current from the rectifiers is adequately protecting steel pipelines. Remote monitoring units also send out alarm notifications when current levels are below or above a pre-set tolerance. This allows SoCalGas to send personnel to determine what triggered the alarm and address the issue. These remote monitoring units relied on 3G cellular technology and had to be replaced with 4G technology. The Commission finds that the updating of these remote monitoring devices was reasonable to maintain this remote monitoring capability and approves the 2022 cost and forecast of $6.993 million for 2022.[340]

8.4.7. Pipeline Relocations – Franchise

The work in the Pipeline Relocations – Franchise category includes expenditures associated with relocating or altering SoCalGas facilities in response to external requests, as specified under the provisions of SoCalGas's franchise agreements with city and county agencies.[341] Examples of the need for such requests include street widening, resurfacing, or repairs; storm drain work; and municipality water and sewer work. When such work is undertaken the underlying costs include company labor, contractor services, third-party services, paving services, and materials such as pipe and fittings.[342]

340 SCG Ex-04-R-E at 103.

341 SCG Ex-04-R-E at 105.

342 SCG Ex-04-R-E at 107.

The forecast for Pipeline Relocations – Franchise is $20.289 million for each year in 2022, 2023, and 2024. The 2024 forecast represents a 12.4 percent increase over the amount adopted in 2021 of $18.050 million.[343] SoCalGas bases this forecast on a five-year average of costs for the 2017-2021 period, as most representative of future work and expected costs due to typical fluctuations in project costs from year to year.[344]

The Commission finds the use of a five-year average to be a reasonable method of forecasting this cost, except that SoCalGas does not explain why it included a $12.811 million transfer of funds from its gas transmission cost in its 2020 costs for Franchise Pipeline Relocations.[345] Nor does SoCalGas explain why the transfer of such funds would be representative of 2024 Franchise Pipeline Relocations costs. Removing the amount of $12.811 million from the five-year average results in an average of $17.727 million.[346] The Commission finds this amount to be reasonable and adopts it for SoCalGas's 2022, 2023, and 2024 Franchise Pipeline Relocations costs.

8.4.8. Meter Protection

This work includes the installation and replacement of meter protection devices and barriers to protect the meters at customer locations from vehicular traffic,[347] in accordance with federal regulations and Commission orders.[348] SoCalGas forecasts $8.250 million, $9.900 million, and $11.550 million for this cost

[343] SCG Ex-04-R-E at 107.

[344] SCG Ex-04-R-E at 107.

[345] SCG Ex-04-CWP-R at 139.

[346] SCG Ex-06-CWP-R at 44, 135, 139.

[347] SCG Ex-04-R-E at 108.

[348] 49 C.F.R. Section 192.353(a) and General Order 112-F.

for 2022, 2023, and 2024, respectively, based on planning to install meter protection at 10,000, 12,000, and 14,000 meter locations in 2022, 2023, and 2024, respectively, and an approximated cost per meter site. The 2024 forecast represents a 64 percent increase over the amount adopted in 2021 of $7.045 million.

SoCalGas uses this zero-based forecast instead of other methodologies, such as a linear growth forecast, because SoCalGas states that other methods are not aligned with SoCalGas's plans to continue mitigating more sites than in 2021.[349] However, SoCalGas does not document how many of its requested installations are for new installations versus replacements, the condition of meter protection sites needing replacement, their age or useful life, and why the previous rate of replacement is no longer adequate. As such, the Commission finds SoCalGas's request to be unsupported and denies SoCalGas's requested increased forecasts for Meter Protection work in 2022, 2023, and 2024. Instead, the Commission adopts an average of the five years for the 2017-2021 period of $3.143 million[350] for each of these years based on the moderate RSE score, the lack of justification for increasing this work, and the existing high gas rates. In SoCalGas's next GRC, it shall provide more information regarding this forecast, including the number of new installations, replacements, the condition of meter protection sites needing replacement, their age or useful life, and their unit cost along with the other information required by the Rate Case Plan.

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349 SCG Ex-04-R-E at 109-110.

350 SCG Ex-04-CWP-R at 147.

8.4.8.1. Measurement and Regulation Devices

The work in this cost category includes expenditures for the purchase of gas meters, regulators, electronic pressure monitors, and gas energy measurement systems.[351] The expenditures included in the meters work category are for materials, warehouse handling, technical evaluations, and quality assurance for the purchase of small meters, typical of residential and small business applications, and larger meters, typical of non-residential applications.[352]

Table 8.14
Capital Expenditures Summary of Costs

Gas Distribution (In 2021 $000s)				
M. Measurement and Regulation Devices	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
1. Meters	20,705	33,503	33,775	36,184
2. Regulators	5,834	6,923	7,314	8,218
3. Electronic Pressure Monitors (EPM)	272	678	678	678
4. Gas Energy Measurement Systems (GEMS)	668	1,120	1,124	1,346
Total	**27,479**	**42,224**	**42,891**	**46,426**

For Measurement and Regulation Devices – which consists of four categories: Meters, Regulators, Electronic Pressure Monitors, and Gas Energy Measurement Systems – SoCalGas forecasts $46.426 million in 2024, which is a 69 percent increase over the amount adopted in 2021 of $27.479 million. The Commission adopts reduced total amounts for Measurement and Regulation

351 SCG Ex-04-R-E at 114.

352 SCG Ex-04-R-E at 114.

Devices of $31.081 million in 2022, $28.456 million in 2023, and $30.613 million in 2024, consistent with the reductions explained below in the Sections of the decision.

Table 8.15
Measurement and Regulation Devices Reductions (In 2021 $)

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Difference between PD & Request
Meters	20,705	33,503	33,775	36,184	103,462	24,933	22,572	23,783	71,288	-32,174
Regulators	5,834	6,923	7,314	8,218	22,455	5,152	4,888	5,834	15,874	-6,581
EPM	272	678	678	678	2,034	272	272	272	816	-1,218
GEMS	668	1,120	1,124	1,346	3,590	724	724	724	2,172	-1,418
Total	**27,479**	**42,224**	**42,891**	**46,426**	**131,541**	**31,081**	**28,456**	**30,613**	**90,150**	**-41,391**

8.4.8.2. Meters

As shown above, the largest amount SoCalGas requests for this cost category is for meters. The methodology SoCalGas uses is a zero-based forecasting with funding for work SoCalGas says is incremental. For its forecast for meters in 2024, SoCalGas states that it used a historical average meter cost because SoCalGas expects the meter cost to increase in SoCalGas's next contract. In addition, SoCalGas projects customer growth and SoCalGas plans to deploy ultrasonic meters into the residential customer sites. The ultrasonic meter program intends to enhance customer safety, increase measurement accuracy, and reduce emission through the meters' solid-state technology.[353]

No intervening parties addressed this forecast, which the Commission finds lacking in support. SoCalGas states that it expects its meter costs to increase, but the utility does not state what its contract renewal process is or whether increased meter costs would be reasonable. SoCalGas does not describe its basis

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[353] SCG Ex-04-R-E at 117.

for customer growth or consider trends toward decreasing gas demand laws to curtail it. Finally, SoCalGas provides no assessment of the risk to be mitigated by ultrasonic meters or their degree of cost-effectiveness.[354] Accordingly, the Commission denies SoCalGas's requested increased forecast for gas meters. Instead, the Commission adopts the amount for this cost category for 2024 of $23.783 million. This amount is based on the five-year historical average, which is consistent with the 32.51 percent reduction in the new business forecast, as SoCalGas states that new business installations are an underlying cost driver for this regulator cost category.[355] Accordingly, the Commission reduces SoCalGas's Meter forecast by 25.58 percent (to $24.933 million) in 2022 and 33.17 percent (to $22.572 million) in 2023, consistent with the 2022 and 2023 reductions this decision adopts for SoCalGas's New Business programs.

8.4.8.3. Regulators

This work group includes the installation and replacement of regulators and related materials and technical evaluations pursuant to Commission and federal regulations. Gas pipeline regulators reduce the pressure of gas entering the distribution system and as it is used by customers. As such, regulators are important to safety and system reliability, and for accurately billing customers for their usage.[356] SoCalGas purchases new regulators for new residential, commercial, and industrial sites and replaces regulators that are defective, damaged, or obsolete.[357]

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354 SCG Ex-04-R-E at 114-117.

355 SCG Ex-04-R at 115, 118.

356 SCG Ex-04-R-E at 117.

357 SCG Ex-04-R-E at 117.

For such costs, SoCalGas forecasts $6.923 million, $7.314 million, and $8.218 million in the years 2022, 2023, and 2024, respectively. The forecast for 2024 of $8.218 million represents a 41%increase over the amount adopted in 2021 of $5.834 million. SoCalGas bases this forecast on a zero-based methodology using a weighted average of the regulator contract prices multiplied by the new business installation and replacement requirements. SoCalGas did not use a historical average cost because it anticipates an increase in cost from the vendors in the latest contract.[358]

To determine the number of regulators needed, SoCalGas used the historic five-year ratio between purchased meters to purchased regulators for the 2017-2021 period. SoCalGas then calculated the labor cost by multiplying the projected number of regulators by the average labor cost per regulator in 2021.[359]

SoCalGas describes the underlying cost drivers for this work category to be the purchase of sufficient regulators to meet projected new business installations and regulator replacements.[360] As with SoCalGas's gas meter forecast, the Commission finds the regulator forecast lacks support required by the Rate Case Plan. SoCalGas states that it expects its regulator costs to increase, but the utility does not state what its contract renewal process is or whether increased meter costs would be reasonable. Similarly, SoCalGas does not describe its basis for customer growth or consider trends toward decreasing gas demand laws to curtail it. In addition, SoCalGas's request does not specify the number of meters for which regulators are needed, which the Commission has not authorized, and it is unclear how much of the installation expenses SoCalGas states are covered

[358] SCG Ex-04-R-E at 118.

[359] SCG Ex-04-R-E at 118.

[360] SCG Ex-04-R-E at 118.

under new business work.[361] Accordingly, the Commission denies SoCalGas's requested increased forecast for gas regulators and adopts the amount for this cost category for 2024 of $5.834 million. Note that this amount is also close to SoCalGas's five-year average for this cost and consistent with the 33 percent reduction in the new business forecast, as SoCalGas states that new business installations are an underlying cost driver for this regulator cost category.[362] Accordingly, the Commission reduces SoCalGas's Regulators forecast by 25.58 percent (to $5.152 million) in 2022 and 33.17 percent (to $4.888 million) in 2023, consistent with the 2022 and 2023 funding reductions the decision adopts for SoCalGas's New Business programs.

8.4.8.4. Electronic Pressure Monitors

Costs included in the electronic pressure monitor (EPM) category are for the purchase of electronic pressure monitors and associated labor[363] to replace existing EPMs due to electronic component malfunctions and the installation of EPMs in areas without pressure monitors or that are currently under-monitored.[364] SoCalGas uses EPMs to remotely monitor distribution pipeline pressures in support of gas system capacity analysis, and for alarming of over or under pressure events[365] in accordance with federal regulation.[366]

For such costs, SoCalGas forecasts $0.678 million, $0.678 million, and $0.678 million in the years 2022, 2023, and 2024, respectively. The forecasts for

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361 SCG Ex-04-R-E at 117.

362 SCG Ex-04-CWP-R at 118.

363 SCG Ex-04-R-E at 119.

364 SCG Ex-04-R-E at 121.

365 SCG Ex-04-R-E at 119.

366 49 C.F.R. Section 192.741 (Pressure limiting and regulating stations: Telemetering or 20 recording gauges).

2022, 2023, and 2024 of $0.678 million each year represent an increase of 2.5 times the amount adopted in 2021 of $0.272 million. SoCalGas bases this forecast on a five-year average.[367]

SoCalGas claims that a five-year average of historical costs is most appropriate because the historical costs and the associated EPM units installed and replaced have been relatively fixed. But that does not explain why SoCalGas is requesting a 2024 forecast that is 2.5 times the 2021 adjusted recorded cost for this work. Again, SoCalGas's forecast is unclear and unsupported. It states that the number of new EPM installations includes the installation and replacement of approximately 200 units,[368] but SoCalGas does not specify the time period for the 200 replacements. SoCalGas also does not explain what work it anticipates performing for $0.678 million in 2024. Accordingly, the Commission denies SoCalGas's requested increased forecast for EPMs and adopts $0.272 million for this cost category for each of the years 2022, 2023, and 2024.

8.4.8.5. Gas Energy Measurement Systems

SoCalGas's Gas Energy Measurement Systems (GEMS) cost includes the purchase of GEMS devices, other associated material, warehouse handling, technical evaluations, quality assurance, and costs for the initial installation of the GEMS devices. For such capital costs, SoCalGas forecasts $1.120 million, $1.124 million, and $1.346 million in the years 2022, 2023, and 2024, respectively. SoCalGas's 2024 request for this category of $1.346 million is over twice the amount for 2021 of $0.668 million. SoCalGas bases this forecast on a zero-based methodology that accounts for the number of GEMS that SoCalGas plans to

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367 SCG Ex-04-R-E at 120.

368 SCG Ex-04-R-E at 119.

install or replace and its 2021 average cost per unit for each device type. Regarding the number of GEMS units, SoCalGas states that the number of units it plans to install and replace is based on new business forecast growth and replacement requirements from the 2021 recorded installations due to age, failed components, or damaged devices.[369]

The Commission finds this forecast to be unsupported in many respects. SoCalGas does not explain why it plans to install or replace twice as many GEMS devices in 2024. SoCalGas does not sufficiently describe the factors it used to determine the replacement rate for these devices, such as SoCalGas's basis for economic growth. Finally, the Commission notes the following discrepancies in SoCalGas's calculation of its 2021 average weighted non-labor unit costs: 1) SoCalGas's non-labor costs in 2019 were over three times higher than other years during the 2017-2021 period; 2) average non-labor unit costs were over five times higher than average labor unit costs; and 3) SoCalGas uses the same unit costs for new installations and for replacement installations.

In light of these questions, the Commission denies SoCalGas's requested increased forecast for GEMS devices in 2024. Instead, the Commission adopts the amount for this cost category for 2022, 2023, and 2024 of $0.724 million each year based on SoCalGas's average costs in 2017-2021, excluding 2019.[370] In the next GRC, the Commission requires SoCalGas to provide more information to support this request, including the basis of its new customer growth, the age of these components, and past and projected replacement rates.

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369 SCG Ex-04-R-E at 122-123.

370 SCG Ex-04-R-E at 122-123.

8.4.8.6. Field Capital Support

SoCalGas's Field Capital Support budget includes costs associated with project planning, local engineering, clerical support, field dispatch, field management and supervision, updating of mapping products, and off-production time for support personnel and field crews that install Gas Distribution capital assets. SoCalGas utilized a zero-based forecast to calculate labor costs and a five-year historical average forecast to calculate non-labor costs, resulting in a forecast for SoCalGas's Field Capital Support of $93.301 million for 2022, $99.654 million for 2023, and $92.912 million for 2024.

SoCalGas explained that Field Capital Support costs relate to the anticipated capital construction activities, and that the greater the volume of construction activity, the larger the support costs.[371] Similarly, as the amount of capital construction activities is reduced in this decision, the Commission finds it reasonable to reduce the associated forecasts.

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[371] SCG Ex-04-R-E at 131.

Table 8.16
SoCalGas Distribution – Capital Excluding Field Capital Support (In 2021 $)[372]

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Difference between PD & Request
A. New Business	53,273	54,308	60,300	62,164	176,772	40,414	40,300	42,000	122,714	-54,058
B. Pressure Betterments	18,845	18,846	18,846	18,846	56,538	0	0	0	0	-56,538
C. Main Replacements	24,767	19,839	17,626	17,626	55,091	19,839	17,626	17,626	55,091	0
D. Service Replacements	49,472	45,229	42,597	42,597	130,423	45,229	42,597	42,597	130,423	0
E. Main and Service Abandonments	11,898	14,135	14,135	14,135	42,405	11,898	11,898	11,898	35,694	-6,711
F. Regular Stations	8,292	10,014	10,014	10,014	30,042	8,292	8,292	8,292	24,876	-5,166
G. Control Center Modernization (CCM) Distribution Projects	15,046	23,506	26,403	21,534	71,443	21,931	24,588	19,879	66,398	-5,045
H. Cathodic Protection Capital	5,096	6,993	6,527	6,527	20,047	6,993	6,527	6,527	20,047	0
I. Pipeline Relocations – Freeway	3,376	1,904	1,904	1,904	5,712	1,904	1,904	1,904	5,712	0
J. Pipeline Relocations – Franchise	18,050	20,289	20,289	20,289	60,867	17,727	17,727	17,727	53,181	-7,686
K. Meter Protection	7,045	8,250	9,900	11,550	29,700	3,143	3,143	3,143	9,429	-20,271
L. Other Distribution Capital Projects	10,419	13,367	26,313	9,045	48,725	13,367	26,313	9,045	48,725	0
M. Measurement and Regulation Devices	27,479	42,224	42,891	46,426	131,541	31,081	28,456	30,613	90,150	-41,391
N. Capital Tools	24,971	14,635	14,635	14,635	43,905	14,635	14,635	14,635	43,905	0
O. Field Capital Support	[redacted]							[redacted]		
P. Remote Meter Reading	2,159	1,877	1,252	1,252	4,381	1,877	1,252	1,252	4,381	0
Total Capital	**280,188**	**295,416**	**313,632**	**298,544**	**907,592**	**238,330**	**245,258**	**227,138**	**710,726**	**-196,866**
						-19.32%	**-21.80%**	**-23.92%**		

372 SoCalGas Opening Brief at 107-108 reflects SoCalGas's 2022-2024 request.

Based on the relationship between Field Capital Support and Gas Distribution capital costs SoCalGas noted and the Commission's reduction for SoCalGas's total capital costs (excluding Field Capital Support costs, see the table above) by 19.32 percent in 2022, 21.80 percent in 2023, and 23.92 percent in 2024, the Commission reduces SoCalGas's Field Capital Support forecast by commensurate yearly amounts.[373] Accordingly, for Field Capital Support, the Commission finds the following amounts to be reasonable and adopts them: $75.272 million in 2022, $77.929 million in 2023, and $70.689 million in 2024.

8.5. Remaining SoCalGas Capital Requests

No party disputed SoCalGas's remaining 2024 capital forecasts for which SoCalGas requests reduced forecasts. After reviewing the evidence supporting the reduced 2024 forecasts below, the Commission finds these costs to be reasonable and adopts them in the amounts shown in the table below for the following categories: Main Replacements, Service Replacements, Pipeline Relocations – Freeway, Other Distribution Capital Projects, Capital Tools, and Remote Meter Reading.[374]

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[373] Excluding Field Capital Support funding, SoCalGas's total yearly capital funding requests were $295.416 million in 2022, $313.632 million in 2023, and $298.544 million in 2024, which were not adopted. Instead, the Commission adopts total yearly capital funding for SoCalGas of $234.164 million in 2022, $244.235 million in 2023, and $226.122 million in 2024.

[374] Sempra Opening Brief at 107-108.

Table 8.17
SoCalGas Distribution – Capital Including Field Capital Support (In 2021 $)[375]

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)	Total Request 2022-2024	PD Authorized 2022 (000s)	PD Authorized 2023 (000s)	PD Authorized 2024 (000s)	Total PD Authorized (000s)	Diff between PD and Request
A. New Business	53,273	54,308	60,300	62,164	176,772	40,414	40,300	39,917	120,631	-56,141
B. Pressure Betterments	18,845	18,846	18,846	18,846	56,538	0	0	0	0	-56,538
C. Main Replacements	24,767	19,839	17,626	17,626	55,091	19,839	17,626	17,626	55,091	0
D. Service Replacements	49,472	45,229	42,597	42,597	130,423	45,229	42,597	42,597	130,423	0
E. Main and Service Abandonments	11,898	14,135	14,135	14,135	42,405	11,898	11,898	11,898	35,694	-6,711
F. Regular Stations	8,292	10,014	10,014	10,014	30,042	8,292	8,292	8,292	24,876	-5,166
G. Control Center Modernization (CCM) Distribution Projects	15,046	23,506	26,403	21,534	71,443	21,931	24,588	19,879	66,398	-5,045
H. Cathodic Protection Capital	5,096	6,993	6,527	6,527	20,047	6,993	6,527	6,527	20,047	0
I. Pipeline Relocation – Freeway	3,376	1,904	1,904	1,904	5,712	1,904	1,904	1,904	5,712	0
J. Pipeline Relocations – Franchise	18,050	20,289	20,289	20,289	60,867	17,727	17,727	17,727	53,181	-7,686
K. Meter Protection	7,045	8,250	9,900	11,550	29,700	3,143	3,143	3,143	9,429	-20,271
L. Other Distribution Capital Projects	10,419	13,367	26,313	9,045	48,725	13,367	26,313	9,045	48,725	0
M. Measurement and Regulation Devices	27,479	42,224	42,891	46,426	131,541	31,081	28,456	30,613	90,150	-41,391
N. Capital Tools	24,971	14,635	14,635	14,635	43,905	14,635	14,635	14,635	43,905	0
O. Field Capital Support	100,336	93,301	99,654	92,912	285,867	75,272	77,929	70,689	223,890	-61,977
P. Remote Meter Reading	2,159	1,877	1,252	1,252	4,381	1,877	1,252	1,252	4,381	0
Total Capital	**380,524**	**388,717**	**413,286**	**391,456**	**1,193,459**	**313,602**	**323,187**	**295,744**	**932,533**	**-260,926**

375 SoCalGas Opening Brief at 107-108 reflects SoCalGas's 2022-2024 request.

8.6. SDG&E's Gas Distribution Operations and Maintenance

SDG&E's gas distribution system consists of a network of approximately 15,328 miles of interconnected gas mains, services, and associated pipeline facilities. These mains and services, constructed of both steel and plastic materials in varying diameters, are located in most streets within SDG&E's service territory. The primary function of this distribution pipeline network is to deliver natural gas from SDG&E's transmission system to approximately 900,000 customers in an area of over 4,100 square miles, stretching from Orange County in the north to the Mexico border in the south.[376]

8.6.1. SDG&E Non-Shared Operations and Maintenance Expense

SDG&E requests that the Commission adopt SDG&E's 2024 forecast of $41.843 million for Gas Distribution O&M expenses, representing a 14.5 percent increase of $5.298 million over 2021 adjusted-recorded costs of $36.545 million. Non-Shared operations and maintenance expenses are aggregated into the following eleven workgroups with similar functions cost drivers:[377]

[376] SDG&E Ex-04-R-E at 3.

[377] Sempra Opening Brief at 113.

Table 8.18
SDG&E Gas Distribution Non-Shared O&M Expense Request (In 2021 $)

GAS DISTRIBUTION (In 2021 $) – O&M Expense[378]			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Other Services	69	90	21
B. Leak Survey	2,068	2,068	0
C. R-Locate & Mark	7,115	10,096	2,981
D. Main Maintenance	5,009	5,823	814
E. Service Maintenance	3,294	4,116	822
F. Tools	1,708	1,667	-41
G. Electric Support	515	495	-20
H. Measurement & Regulation	4,638	5,153	515
I. Cathodic Protection	2,050	1,834	-216
J. Asset Management	1,077	1,374	297
K. Operations Management, Supervision & Training	9,003	9,128	125
Total Non-Shared Services	**36,546**	**41,844**	**5,298**

8.6.1.1. Other Services

The Other Services workgroup consists of miscellaneous expenses associated with gas distribution field operations not captured in other major workgroups. These activities include leak investigations of customers' house lines, leak surveys of transmission mains, landscaping repair, and support of the installation of cathodic test stations for high-pressure main evaluation.[379]

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[378] SDG&E Ex-401 at B-7.

[379] SDG&E Ex-04-R-E at 27-28.

For this cost, SDG&E forecasts $90,000 in 2024, which is a 30 percent increase over the $69,000 adopted in 2021. SDG&E bases this forecast on its average expenditures for this cost for the 2017-2021 period due to the fluctuations in this wide range of activities recorded in this workgroup.

The Commission finds this request to be unreasonable for several reasons. First, these categories are not unrelated to other workgroups, such as service maintenance, leak surveys, and cathodic protection. Second, the amounts in question if broken down further are de minimis. Third, even though SoCalGas is about six times larger in many respects, it has not requested miscellaneous gas distribution expenses. Finally, if tracking such relatively minor expenses were reasonable, SDG&E does not explain why it would be reasonable to expect miscellaneous expenses for gas distribution to increase 30%. Given the above, the Commission does not find it reasonable for the Commission to review such expenses in the future. Accordingly, the Commission eliminates this category from future consideration and adopts zero funding for it in this case.

8.6.1.2. Locate and Mark

Locate and Mark is the process mandated by 49 C.F.R. Section 192.614 and the California One-Call Statute, where the owner of underground facilities, when notified by the USA One-Call Center of a planned excavation, must respond within two working days and mark the location of those underground facilities that conflict with the planned excavations.[380]

For 2024 Locate and Mark expenses, SDG&E forecasts $10.096 million, which is 42 percent over its 2021 Base Year amount of $7.115 million.[381] SDG&E

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[380] SDG&E Ex-04-R-E at 31.

[381] SDG&E Ex-401 at B-7.

bases this forecast on a linear trend developed from costs for the 2017-2021 period due to an increase in USA ticket counts of 10.4%.[382]

SDG&E's request for Non-Shared O&M expenses is proportionally much higher than the request of SoCalGas for the same expense. For example, as discussed above under SoCalGas's 2024 Locate and Mark expenses, SoCalGas's request of $21.301 million is 12 percent over its 2021 Base Year amount of $19.092 million, of which $20.300 million was adopted.

Locate and Mark expenses are important for preventing accidents, which is corroborated by SDG&E's RSE values. But the Commission does not find that SDG&E has demonstrated the necessity of an increase in Locate and Mark activity to the degree that SDG&E requests, in line with the amount of risk mitigated or the cost-effectiveness of the activity. The Commission finds it reasonable to increase the Locate and Mark activity in 2024 by an amount similar to the amount requested by SoCalGas of about 9%. A 9 percent increase in ticket volume above SDG&E's 2021 ticket volume of 157,943[383] would be 172,158 tickets in 2024.[384] The Commission finds it also reasonable to use SoCalGas's far lower unit cost per USA ticket of $21.19 in 2021.[385] Multiplying SDG&E's 2024 forecasted ticket volume of 172,158 times SoCalGas's cost per USA ticket of $21.19[386] produces a 2024 Locate and Mark forecast of $3.648 million. Accordingly, the Commission

382 SDG&E Ex-04-R-E at 34.

383 SDG&E's Revised May 2023 Testimony page 34, Table LPK-11A.

384 157,943 x 1.09 = 172,158.

385 In 2021, SoCalGas spent $19.092 million on 900,960 tickets, which produces a unit cost of $21.19 per ticket. *See* SoCalGas's Revised May 2023 Testimony page 23, Table MA-14.

386 172,158 USA tickets x $21.19 = $3,648,025.

finds a forecast for 2024 SDG&E Locate and Mark activity of $3.648 million to be reasonable and adopts it.

8.6.1.3. Main Maintenance

This workgroup includes the labor and non-labor costs associated with investigating and repairing leaks in distribution mains and moving, lowering, and raising short sections of gas distribution mains, vaults, and related structures in accordance with federal and state regulations.[387] SDG&E states that primary factors influencing the annual cost of main maintenance are: 1) the number of leaks evaluated and repaired each year; 2) the level of repairs associated with damages to pipeline facilities by third parties; and 3) the level of work completed by municipalities.[388]

For this cost, SDG&E forecasts $5.822 million in 2024, which is a 16 percent increase of $0.813 million over the 2021 Base Year amount of $5.009 million.[389] SDG&E bases this forecast on a five-year linear trend for the 2017-2021 period and claims that this data matches a variety of general cost drivers, including increasing government regulations, aging infrastructure, meeting municipality requirements, and unplanned material failure. SDG&E includes as examples of such work an increase in the leak survey frequency and the introduction of an Aerial Methane Mapping (AMM) pilot.[390]

But SDG&E does not quantify an increase in activity level sufficient to support the forecasted increase. For the same work category, SoCalGas did not use a linear trend. Consistent with the methodology used for SoCalGas's main

[387] SDG&E Ex-04-R-E at 35.

[388] SDG&E Ex-04-R-E at 38.

[389] SDG&E Ex-04-R-E at 39.

[390] SDG&E Ex-04-R-E at 37.

maintenance work, the Commission finds a five-year average of historical costs to be a reasonable basis to forecast this cost and adopts a 2024 SDG&E Main Maintenance forecast of $4.693 million.[391]

8.6.1.4. Service Maintenance

This workgroup includes the labor and non-labor costs associated with service alterations and investigating and repairing leaks in distribution services. Such work is designed to meet federal and state pipeline safety regulations and to extend the life of service pipelines and related infrastructure.[392]

For this cost, SDG&E forecasts $4.116 million in 2024, which is a 25 percent increase of $0.823 million over the 2021 Base Year amount of $3.293 million.[393] SDG&E bases this forecast on a five-year linear trend for the 2017-2021 period and claims that this data represents a similar group of factors that influence the 2024 cost of SDG&E's main maintenance work.[394]

Consistent with the methodology used for SDG&E's main maintenance work, the Commission finds a five-year average of historical costs to be a reasonable basis to forecast this cost and adopts a 2024 SDG&E Service Maintenance forecast of $2.772 million.[395]

8.6.1.5. Measurement and Regulation

This workgroup includes the labor and non-labor expenses for inspection and maintenance of distribution regulator stations, gas system valves, large MSAs, electronic instrumentation, company Compressed Natural Gas (CNG)

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[391] SDG&E Ex-04-WP-R at 30.

[392] SDG&E Ex-04-R-E at 38.

[393] SDG&E Ex-04-R-E at 39.

[394] SDG&E Ex-04-R-E at 41-42.

[395] SDG&E Ex-04-WP-R at 42.

stations, and meter removals for accuracy checks to maintain compliance with General Order 58-A.[396]

For this cost, SDG&E forecasts $5.153 million in 2024, which is an 11.1 percent increase of $0.515 million over the 2021 Base Year amount of $4.638 million.[397] SDG&E bases this forecast on the five-year average cost for 2017-2021 plus an additional amount for the new distribution CCM Project.[398] The five-year average was chosen because the costs for this wide range of activities were relatively flat without major regulatory or compliance drivers.[399] The Commission finds this methodology and the resulting 2024 SDG&E forecast of $5.153 million to be reasonable and adopts it.

8.6.1.6. Asset Management

This work involves planning, engineering, and facility mapping activities. Their expenses vary as the level of maintenance work, general construction activity, municipality work, customer generated activity, and expense allocations change. Due to recent activities in these areas, SDG&E chose the 2021 Base Year to represent future business needs plus costs in two other activities: 1) Gas Geographic Information System (GGIS) work; and 2) Compliance/Quality Assurance (QA)/Engineering work. SDG&E estimated the funding required over the 2021 Base Year amount of $1.078 million to be $297,000 in 2024 or a total of $1.375 million.[400] The Commission finds this unopposed forecast to be reasonable and adopts $1.375 million for SDG&E's Asset Management forecast in 2024. In the

[396] SDG&E Ex-04-R-E at 46.

[397] SDG&E Ex-04-R-E at 47.

[398] SDG&E Ex-04-R-E at 49-50.

[399] SDG&E Ex-04-R-E at 49.

[400] SDG&E Ex-04-R-E at 56.

next GRC, SDG&E shall describe how the staff positions in this cost category are not duplicated in other cost categories.

8.6.1.7. Operations Management, Supervision, and Training

This activity involves the labor and non-labor expenses associated with developing and maintaining distribution construction standards; evaluating new field technologies; field training; training distribution welders; providing code required welder testing; providing welding inspection; managing the Operator Qualifications program; managing the Welding School; and supervision, management, administration, and miscellaneous expenses related to Gas Distribution O&M.[401]

In projecting the future expense requirements for these functions, SDG&E reviewed the 2017-2021 historical spending for this entire workgroup and found that operations leadership, field management, operations support, and personnel training increase as levels of work and workforce increase; as new programs, processes, and technologies are implemented; and as regulatory or compliance requirements change. An increase in training and Operator Qualifications program development and expansion began in 2017 and continued through 2021. This increased level of training and operator qualifications activity is expected to continue in the forecast years. Due to the recent work and associated expense level changes, SDG&E chose the 2021 Base Year of $9.003 million as the appropriate forecast methodology with increased estimated costs in four areas, totaling $0.125 million: 1) a night welding class; 2) two senior welding instructors; 3) Operator Qualification Compliance Advisor; and 4) virtual training

[401] SDG&E Ex-04-R-E at 59-60.

development.[402] The Commission finds this unopposed forecast to be reasonable and adopts $9.128 million for SDG&E's Operational Management forecast in 2024.[403] In the next GRC, SDG&E shall describe how the staff positions in this cost category are not duplicated in other cost categories.

8.6.2. Uncontested SDG&E Non-Shared O&M Expenses

No party disputed SDG&E's remaining 2024 Non-Shared O&M expense forecasts for which SDG&E requests reduced forecasts. After reviewing the evidence supporting the reduced 2024 forecasts below, the Commission finds these costs to be reasonable and adopts them in the following categories and amounts: Leak Survey in the amount of $2.068 million, Tools in the amount of $1.667 million, Electric Support in the amount of $0.495 million, and Cathodic Protection in the amount of $1.834 million.

8.6.3. UCAN's Recommendation Related to Declining Gas Demand

UCAN recommends reducing SDG&E's total 2024 forecast by 30 percent based on declining gas demand.[404]

SDG&E disagrees with UCAN's recommendation for a blanket 30 percent reduction to SDG&E's Gas Distribution O&M. SDG&E disagrees with UCAN's recommended reduction for several reasons, including: 1) UCAN's proposed reduction is based on gas demand data from the 2022 California Gas Report that does not apply to SDG&E Gas Distribution; and 2) O&M Gas Distribution forecasts are not directly related to gas throughput in the pipeline.[405]

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[402] SDG&E Ex-04-R-E at 63-64.

[403] SDG&E Ex-04-R-E at 60.

[404] UCAN Ex-01-E at 23.

[405] Sempra Opening Brief at 113-114.

The 2022 California Gas Report projects total gas demand to decline at an annual rate of 1.5 percent from 2022 to 2035.[406] Even if this amount was consistent with UCAN's proposed forecast reduction, the Commission finds that declining gas demand does not proportionally reduce the necessity of maintaining gas distribution infrastructure that is still needed to deliver gas service in a safe and reliable manner. As a result, we decline to adopt UCAN's recommendation for a blanket 30 percent reduction to SDG&E's Gas Distribution O&M.

8.6.4. SDG&E Gas Distribution Capital

SDG&E requests that the Commission adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 shown below. SDG&E discusses the overall purpose of each capital cost, discusses why disallowances recommended by intervenors should not be adopted, and generally claims that the capital cost categories are discussed extensively in testimony.[407] But for many categories, the Commission finds that not to be the case.

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[406] 2022 California Gas Report prepared by the California Gas and Electric Utilities in compliance with D.95-01-039 at 115, https:/www.socalgas.com/sites/default/files/Joint_Utility_Biennial_Comprehensive_California_Gas_Report_2022.pdf.

[407] Sempra Opening Brief at 115.

Table 8.19
Gas Distribution – Capital (In 2021 $)[408]

Categories of Management	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)
A. New Business	8,613	19,658	13,042	9,928
B. System Minor Additions, Relocations, and Retirement	5,412	5,221	5,221	5,221
C. Gas Meters & Regulators	8,374	8,598	9,348	9,348
D. Gas System Reinforcement	1,609	529	529	529
E. Street & Highway Relocation	6,733	14,596	15,008	5,776
F. Tools & Equipment	3,659	5,006	4,006	3,936
G. Code Compliance	3,101	2,712	3,087	3,087
H. Leak Repair	10,082	11,935	12,973	14,010
I. Cathodic Protection Program	4,409	4,493	4,493	4,493
J. Cathodic Protection System Enhancements	2,919	1,996	1,996	1,996
K. System Reliability & Safety	645	1,956	3,456	1,956
L. Underperforming Steel Replacement Program – Threaded Main (Pre-1934 Vintage)	13,682	7,000	7,000	7,000
M. Underperforming Steel Replacement Program (1934-1965 Vintage)	14,712	3,000	3,000	3,000
N. Underperforming Steel Replacement Program – Other (Post 1965 Vintage)	4,207	3,001	3,001	3,001
O. Early Vintage Program – Dresser Mechanical Coupling Removal	3,934	2,000	2,000	2,000
P. Early Vintage Program – Oil Drip Piping Removal	3,668	1,500	1,500	1,500
Q. Early Vintage Program – Removal of Closed Valves between High Medium Pressure Zones	893	1,500	1,500	1,500
R. Pipeline in Vaults Replacement Program	2,925	1,500	1,500	1,500
T. Control Center Modernization (CCM) Project	0	449	3,235	4,080
U. Curb Valve Replacement	0	1,000	1,750	1,750
V. CNG Station Upgrades	0	137	137	137
W. Local Engineering Pool	23,764	22,990	25,112	24,574
X. Gas Distribution Overhead Pool	8,097	5,342	5,695	5,893
Y. Gas Distribution Contract Administration Pool	8,717	6,466	6,803	6,584
Total Capital	**140,155**[409]	**132,585**	**135,392**	**122,799**

Except for SDG&E's 2022 capital forecast for New Business, which Cal Advocates contends is higher than historical project costs, Cal Advocates does not oppose SDG&E's capital expenditures forecasts for 2022, 2023, and 2024. Cal Advocates attributes lower 2024 forecasts for some cost categories to natural gas building policy, restricting natural gas use, that is slowly being implemented throughout California.[410]

UCAN proposes a 30 percent reduction to SDG&E's Gas Distribution total capital forecast based on declining gas demand.[411] Consistent with SDG&E's Non-Shared O&M expenses, the Commission declines to adopt UCAN's recommendation.

The Commission also does not adopt CUE's recommendations for higher funding to increase the rate of replacement of three vintages of steel gas pipe.[412] The Commission finds SDG&E's funding requests for the three RAMP pipe replacement programs to be reasonable based on SDG&E's replacement goals and other forecast rationales, including the mitigation of safety risks identified in the 2021 RAMP Report.[413]

8.6.4.1. SDG&E's New Business

SDG&E's new business budget provides for changes and additions to the existing gas distribution system to connect new residential, commercial, and industrial customers. This includes installations of gas mains and services, meter

408 Sempra Opening Brief at 115-116.

409 The 2021 Adjusted-Recorded value of $140.158 million in Sempra's Opening Brief at 115-116 includes a rounding error. The correct amount is $140.155 million.

410 CA Ex-04 at 15.

411 UCAN Ex-01-E at 23.

412 Sempra Opening Brief at 118.

413 SDG&E Ex-04-R-E at 20, 103, 105, 107.

sets, purging of customer house lines, Field and Public Safety, and the associated regulator stations.[414]

This budget code also captures two large collectible new business projects that SDG&E is installing at Camp Pendleton base for the Marine Corps. The first is a conversion of Marine Corps owned gas pipe to SDG&E owned, operated, and maintained state of the art pipe at the Stuart Mesa housing community. The second is the installation of new high-pressure and medium-pressure distribution equipment and approximately 16,000 feet of 6-inch plastic pipe along Cristianitos Road.[415]

For the New Business category, SDG&E forecasts $9.928 million in 2024, which is a 15 percent increase over the amount adopted in 2021 of $8.613 million. SDG&E also requests that $19.658 million and $13.042 million be added to rate base for 2022 and 2023, respectively.[416] For this cost category, SDG&E's proposed LPCMA would apply if associated costs are later deemed to be non-collectible.[417] Although the collectible costs can be recovered in this memorandum account, SDG&E provides no estimate of the cost of the Marine Corps projects that are likely to be collectible. This leaves insufficient quantitative support for the remainder of this cost category and insufficient explanation for the larger increases in 2022 and 2023. As a result, the Commission finds SDG&E's increases for 2022-2024 to be unsupported and adopts no increase for this cost category.

The recoverable New Business costs are reduced due to the elimination of line extension allowances. SDG&E is authorized to recover $2.333 million for non-

[414] SDG&E Ex-04-R-E at 71.

[415] SDG&E Ex-04-R-E at 71.

[416] Sempra Opening Brief at 115.

[417] SDG&E Ex-04-R-E at 71.

collectible New Business capital expenditures in 2024 Test Year rate base, accounting for the elimination of gas line extension subsidies and the rejection of line purging costs.

8.6.4.2. Gas Meters and Regulators

This cost category provides for the capital material expenses for purchasing new residential, commercial, and industrial gas meters and pressure regulators.[418] For this category, SDG&E forecasts $9.348 million in 2024, which is a 12 percent increase over the amount adopted in 2021 of $8.374 million. SDG&E also requests that $8.598 million and $9.348 million be added to rate base for 2022 and 2023, respectively.[419]

SDG&E states that its forecasted expenditures for meters and regulators are based on forecasted quantities for new business, the trending of usage for routine replacements, and planned meter replacements. Such quantities are multiplied by the current meter and regulator contract prices to estimate future expenditures.[420]

To support its forecast, SDG&E states that it incorporates a zero-based forecast methodology and describes its main cost drivers as its projections for the cost category above.[421] This fails to explain why SDG&E's requested increase above the 2021 adopted forecast is needed. In addition, SDG&E's forecast for this cost category is based on its forecast for new business above that the Commission found to be unsupported. As a result, the Commission finds SDG&E's requested increased 2024 forecast for gas meters and regulators to be unreasonable and

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[418] SDG&E Ex-04-R-E at 78.

[419] Sempra Opening Brief at 115.

[420] SDG&E Ex-04-R-E at 79.

[421] SDG&E Ex-04-R-E at 79.

adopts no increase for this cost category. The Commission adopts $8.374 million for each of the years 2022, 2023, and 2024.

8.6.4.3. SDG&E Tools and Equipment

This cost category includes the new tools and equipment required by field personnel to construct, operate, and maintain the gas distribution system. New tools and equipment are replaced due to failure, age, and advances in technology.

For this category, SDG&E forecasts $3.936 million in 2024, which is a 7.6 percent increase over the amount adopted in 2021 of $3.659 million. SDG&E also requests that $5.006 million and $4.006 million be added to rate base for 2022 and 2023 respectively.[422] SDG&E bases this forecast on the additional cost of developing virtual training and Kleiss Emergency Pipeline Plugging Equipment.[423]

SDG&E intends to develop virtual training to provide enhanced training for activities that involve higher risk and are difficult to replicate in real-life scenarios, but that can be safely simulated within Virtual Reality applications. This would improve training efficiency and allow trainees to practice crucial scenarios while preventing damage to equipment and avoiding bodily harm.

SDG&E intends to use Kleiss Emergency Pipeline Plugging Equipment (Balloon Stopper) to supplement the ability of emergency response crews to control 3-inch to 8-inch diameter medium pressure distribution gas main when valves are not readily available to use to reduce the medium pressure system control time from third-party dig-ins and leak repairs.[424]

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[422] Sempra Opening Brief at 115.

[423] SDG&E Ex-04-R-E at 84-85.

[424] SDG&E Ex-04-R-E at 84-85.

The above two activities are measures that mitigate the safety-related RAMP risks of Locating Equipment and Human Factor Mitigations Operator Qualification Training & Certification that have RSE values of 2 and 0.5, respectively.[425] According to SDG&E, it has already incurred the cost of the two mitigation measures, except for the additional cost of $70,000 for virtual training in 2024.[426] This leaves the amount of the increase in 2021 dollars unexplained. Without additional information, the Commission finds the increased cost for tools and equipment, not including the escalation rate approved in the last GRC, to be unsupported and denies the increase in 2021 dollars. As such, the Commission adopts $3.659 million for SDG&E tools and equipment in 2022, 2023, and 2024.

8.6.4.4. Leak Repair Request

For 2024 capital expenditures for leak repair, SDG&E requests $14.010 million, which is a 39 percent increase above the 2021 recorded adjusted amount of $10.082 million.[427] SDG&E attests that this forecast is based on a shorter timeframe for remediating leaks, an increased leak survey cycle frequency, and a resulting increase in miles of pipe surveyed per year.[428]

However, it is not clear how much of SDG&E's increased forecast for leak repair costs is related to compliance with federal regulations and how much is due to incremental costs necessary for compliance with the practices ordered in the Commission's decisions in response to SB 1371 and SB 1383, which instituted the Natural Gas Leak Abatement (NGLA) Program.[429] The new practices are

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[425] SDG&E Ex-04-R-E at 85-86.

[426] SDG&E Ex-04-R-E at 87.

[427] Sempra Opening Brief at 115.

[428] SDG&E Ex-04-R at 93-94.

[429] D.17-06-015 and D.19-08-020.

designed to achieve greater emissions reductions more quickly than required under federal regulations, in accordance with California's aggressive methane emission reduction goals. Some of the drivers of incremental cost increases that SDG&E notes to justify its increased forecast are the shorter leak survey interval and the AMM program, which increases the number of pipeline miles to be surveyed each year.[430] SDG&E's costs for these incremental practices are reviewed in a separate Tier 3 Advice Letter process with biennial Compliance Plans.[431] In 2023, the Commission approved $19.265 million in SDG&E's costs for such additional measures pursuant to the NGLA program for the years 2023 and 2024. In March 2024, SDG&E filed its AL 3285 and NGLA Compliance Plan for 2025 and 2026, which forecasts costs of $24,637,000. This Compliance Plan and Advice Letter have not yet been approved.

Since SDG&E's application in this GRC does not make clear the distinction between the costs for the NGLA program and its normal pipeline safety costs, the Commission finds SDG&E's 39 percent increase in its leak repair costs to be excessive and possibly duplicative of the costs forecast for the NGLA program. We therefore find it reasonable to cap SDG&E's spending for leak repair at the 2021 recorded-adjusted level and adopt $10.082 million for each year in 2022, 2023, and 2024.

In SDG&E's next GRC application, in which forecasts for costs of the NGLA program will be included with its pipeline repair costs and the separate Advice Letter process will cease, SDG&E shall distinguish costs attendant to the NGLA

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430 SDG&E Ex-04-R at 93-94.

431 Advice Letter 3071-G-B at 5.

program from the historical pipeline repair program governed by longstanding federal and state regulations.

8.6.4.5. Cathodic Protection Program

This cost category includes expenditures associated with the installation of new and replacement CP systems and equipment in accordance with state and federal pipeline corrosion control standards.[432] Examples include the installation of impressed current stations, deep well anode beds, magnesium anode systems, and the purchase of CP instrumentation and monitoring equipment.[433]

SDG&E requests separate funding for projects for high-pressure and medium-pressure distribution pipeline CP system enhancements and the installation of real-time monitoring units for CP rectifiers. SDG&E CP stations cover areas that often include a mixture of high-pressure and medium-pressure pipelines. SDG&E has found that CP systems protecting medium-pressure pipelines are more susceptible to shorts that compromise CP protection levels. To protect high-pressure pipelines with a higher risk, SDG&E has embarked on creating dedicated CP systems for high-pressure pipelines where any adverse conditions due to corrosion pose a higher risk.[434]

For the CP program, SDG&E forecasts $4.493 million in 2024, which is a 1.9 percent increase over the 2021 Base Year amount of $4.409 million.[435] SDG&E

[432] 49 C.F.R. Section 192, Subpart I – Requirements for Corrosion Control and GO 112-F.

[433] SDG&E Ex-04-R at 94-95.

[434] SDG&E Ex-04-R at 97-98.

[435] Sempra Opening Brief at 115.

also requests $4.493 million in funding in 2022 and 2023, respectively.[436] SDG&E bases this forecast on a five-year (2017-2021) average.[437]

For its standard CP program, SDG&E uses a five-year average to support a slight increase in funding for this program of $0.084 million between 2021 and 2024. But SDG&E does not explain how it anticipates a corresponding increase in this activity, especially when it forecasts a decrease in funding for the cathodic system enhancements program. Accordingly, the Commission finds the increased cost for the Cathodic Protection program in 2021 dollars to be unsupported and maintains the amount of $4.409 million in 2021 dollars for the Cathodic Protection program for each year in 2022, 2023, and 2024.

For CP System Enhancements, SDG&E forecasts $1.996 million for each of the years 2022, 2023, and 2024, which is $0.932 million less than the 2021 Base Year amount of $2.919 million.[438] The Commission notes that the 2024 amount for both of SDG&E's CP programs ($4.409 million and $1.996 million) totaling $6.405 million is close to the 2024 amount of $6.527 million that SoCalGas requested for its CP program for a territory that is approximately six times the size of SDG&E's territory. The Commission finds that SDG&E has not demonstrated the reasonableness of spending more than $4.409 million for Cathodic Protection, which represents 68 percent of the amount authorized for SoCalGas with 16.7 percent of SoCalGas's territory. Given the relative size of SDG&E's gas service territory, SDG&E's already high transportation rates, and the Cathodic Protection System Enhancements program's low GRC and RAMP

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436 Sempra Opening Brief at 115.

437 SDG&E Ex-04-R at 96.

438 Sempra Opening Brief at 115.

RSE scores,[439] the Commission finds it reasonable to adopt $0 for this program in 2022, 2023, and 2024. Accordingly, in its next GRC, SDG&E and SoCalGas shall provide a holistic forecast for each of their CP programs, quantify their level of CP activity, and explain the difference in spending between SDG&E and SoCalGas.

8.6.4.6. System Reliability and Safety

The System Reliability and Safety work group or cost category provides funding for capital projects (not captured in other categories) that improve safety, provide required code compliance, and improve gas system performance or reliability through the replacement of aging gas pipeline system operating equipment. Projects completed under this budget code typically involve upgrades to distribution fittings, valves, regulator stations, relocating regulator stations out of traffic due to growth, and other safety improvements to gas distribution facilities.[440]

For system reliability and safety projects, SDG&E forecasts $1.956 million in 2024, which is an increase of over three times the amount adopted in 2021 of $0.645 million in 2021 dollars. For the same category, SDG&E requests $1.956 million for 2022 and an even higher amount in 2023 of $3.456 million.[441]

SDG&E bases its support for this increase on a five-year average of recorded expenditures for years 2017-2021 it claims accounts for the variation and complexity of projects and associated costs and the continuing need for system equipment renewals. SDG&E generally describes the need for System Reliability

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[439] SDG&E Ex-04-CWP-R at 125. Tranche 1: 0.4 (GRC) & 4.0 (RAMP); Tranche 2: 0.02 (GRC) & 4.0 (RAMP).

[440] SDG&E Ex-04-R-E at 100-101.

[441] Sempra Opening Brief at 115.

and Safety work to be based on unspecified regulatory requirements and general safety considerations.[442]

In addition, SDG&E requests estimated funds for the cost of the San Diego (Coronado) Bay Crossing Remediation Project. This project consists of adding additional rock mats over two high pressure pipelines that cross the San Diego Bay. For this project, SDG&E forecasts $1.5 million in 2023.[443]

The Commission does not doubt the need for this work at some point in time, but the Commission finds the information SDG&E offers in support to be inadequate and devoid of numerical explanation. For example, SDG&E states that one activity within this work group is a RAMP risk mitigation measure (the Regulator Station Replacement Program). Yet, SDG&E only states that, for tranche level RSEs and other details on this RAMP activity, the Commission should refer to its workpaper.[444] Whether SDG&E's workpapers provide support for its forecast is unclear. For the San Diego Bay pipeline crossing remediation project SDG&E only provides the estimate of $1.5 million, which it may already have spent without prior approval from the Commission. Furthermore, it is unclear whether the boundaries of this cost category overlap with others.

Accordingly, SDG&E's request for a 2024 forecast higher than its 2021 forecast in 2021 dollars is unreasonable and is denied. The Commission adopts $0.645 million each for 2022, 2023, and 2024. In SDG&E's next GRC, SDG&E must provide sufficient detail regarding System Reliability and Safety work to enable the Commission to evaluate its reasonableness. Such information should include, at the very least, explanations for the specific amounts requested, comparisons

442 SDG&E Ex-04-R-E at 101-102.

443 SDG&E Ex-04-R-E at 101-102.

444 SDG&E Ex-04-R-E at 101.

with previous requests by percentage, its timeliness and cost-effectiveness, and cost drivers and methodologies specific to the amounts of the changes in the forecasts, in addition to other requirements of the Rate Case Plan.[445]

8.6.4.7. Early Vintage Component Program to Remove Dresser Mechanical Couplings

The Early Vintage Component Program consists of evaluating locations where Dresser mechanical couplings exist, and then excavating, removing, and replacing them. Dresser mechanical couplings join two sections of pipe together without the need for welding. SDG&E plans to remove them because these couplings cannot resist lateral movement, and over time the rubber in the seals degrades. These seals would be replaced with modern welded joints.[446]

Due to the potential for land movement, pipe separation, and/or rupture, replacement of Dresser couplings is evaluated as a risk mitigation activity for which the RSE value is 1.[447]

To remove Dresser mechanical couplings, SDG&E forecasts costs of $2.0 million in each of the years 2022, 2023, and 2024.[448] SDG&E states that this is a zero-based forecast due to the limited historical data and the estimated 85 known Dresser mechanical couplings that need to be removed or encapsulated in the San Diego service territory.

SDG&E bases its 2024 forecast for this coupling removal program on an unspecified annual removal target and unit cost. SDG&E also does not describe how its rate of removal is aligned with this program's low relative risk

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445 D.07-07-004, Appendix A at A-30-A-31.

446 SDG&E Ex-04-R-E at 109.

447 SDG&E Ex-04-R-E at 109-110.

448 SDG&E Ex-04-R-E at 110; SDG&E Ex-04-CWP.

represented by an RSE value of 1, or other important information such as the life of these couplings, their age, and failure rates. The Commission would also like to receive similar information that may support the alternative of encapsulating couplings. Given such a lack of information, and the programs with much higher relative risks and RSE values,[449] the Commission finds SDG&E's removal rate and forecast to be unsupported. To maintain this program at a lower level, the Commission adopts a forecast of $500,000 for each of the years 2022, 2023, and 2024. In the next GRC, if more Dresser couplings need replacement, the Commission will consider a faster rate of replacement commensurate with data SDG&E shall file to support it, including the information missing in this request.

8.6.4.8. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones

The project for this cost category verifies the locations of obsolete valves in the field that have been permanently closed and locked, so that they can be excavated and removed and no longer present a safety hazard. SDG&E has identified approximately 35 valves which separate high-pressure from medium-pressure systems.[450] SDG&E indicates that this program mitigates safety risks with a relative risk represented by an RSE value of 1.[451]

To remove permanently closed valves, SDG&E forecasts costs of $1.5 million in each of the years 2022, 2023, and 2024,[452] which is an increase of 68 percent over the amount adopted in 2021 of $0.893 million in 2021 dollars.[453]

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449 TURN Opening Brief, Appendix A.

450 SDG&E Ex-04-R-E at 113.

451 SDG&E Ex-04-R-E at 113-114.

452 SDG&E Ex-04-R-E at 110; SDG&E Ex-04-CWP.

453 Sempra Opening Brief at 116.

SDG&E states that this is a zero-based forecast due to the limited historical data and the estimated 35 known valves in the closed position between high-pressure and medium-pressure systems that need to be removed.

SDG&E bases its 2024 forecast for the closed valve removal program on an unspecified annual removal target and unit cost. SDG&E also does not describe how its rate of removal is aligned with this program's low relative risk represented by an RSE value of 1, failure rates, or other important information. In addition, SDG&E does not explain why it increases its forecast for the closed valve removal program, which has an RSE of 1, while SDG&E decreases its forecast for the Oil Drip Piping Removal program by approximately 60%,[454] which has an RSE value of 10[455] or ten times higher than that of the closed valve removal program. Given such a lack of information, and the programs with much higher relative risks and RSE values, the Commission finds SDG&E's removal rate and forecast for this program to be unsupported. To maintain this program at a lower level, the Commission adopts a forecast of $0.893 million for each of the years 2022, 2023, and 2024. In the next GRC, if more closed valves need replacement, the Commission will consider a faster rate of replacement commensurate with data SDG&E shall file to support it, including the information missing in this request.

8.6.4.9. Control Center Modernization Project

SoCalGas and SDG&E intend to modernize their gas control center[456] to enhance distribution field assets by installing control and real-time pressure monitoring capabilities. Sempra Utilities states that increased operational

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[454] Sempra Opening Brief at 116.

[455] SDG&E Ex-04-R-E at 110.

[456] D.19-09-051 at 127-128.

awareness through the implementation of a centralized data management system and real time monitoring capabilities will help Gas Control personnel to quickly identify abnormal operating pressures within the system and will provide them with remote control functionality to help prevent an overpressure. With the introduction of these new field assets and capabilities, the CCM Project will introduce new processes and training for an increased workforce. Additionally, these field assets will be supported by the implementation of a new control room, OT system, and network technologies. The new control room technology features will focus on employee safety, security, ergonomics, training, and decision-making while the CCM OT functionality will integrate both new and existing OT platforms to provide system-wide viewing of daily health and alarm information from new field pipeline technologies. Operators and region personnel will be able to leverage these new systems and data analytics to troubleshoot issues and/or perform proactive mitigations to prevent abnormal operating conditions. The installation and deployment of these CCM field assets and technology will be ongoing through 2028.

For SDG&E's share of the CCM Project, SDG&E forecasts capital expenditures in years 2022, 2023, and 2024 of $449,000, $3,235,000, and $4,080,000, respectively.[457] SDG&E states that this is a zero-based forecast due to the limited historical data. Annual costs were developed using the forecasted number of units to be installed, replaced, or enhanced each year multiplied by the cost per unit values. This was done for each of three major components of the project, each of which had a slightly different goal.[458]

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[457] Sempra Opening Brief at 115.

[458] SCG Ex-06-CWP.

The CCM is a continuation of the DOCC and the PIMS funding addressed in D.19-09-051.[459] The costs of the CCM include plans to enhance a total of 75 regulator stations with Supervisory Control and Data Acquisition (SCADA) devices through 2024. In addition to enhancements at regulator stations, the CCM Project will also integrate data from 2,123 EPMs and 4,282 meters. The meters will require replacement and/or reconfiguration of their communication modules. To meet the purpose of strengthening Gas Control's ability to view its system and increase the intake of data points from field assets, the CCM OT team will develop enhancements that will include the expansion of the OT network, adding hardware to store and process new field asset data, and the implementation of tools to govern and analyze field asset data through new visualization platforms.[460]

The Commission finds SoCalGas's and SDG&E's plans to enhance the ability of the CCM to improve system safety and reliability to be reasonable. However, it is unclear whether the costs are reasonable due to the degree to which SDG&E's non-labor costs appear to be high compared to those of SoCalGas's costs. For example, for the installation of 25 SCADA devices, 2,123 EPMs, and 4,282 meters in 2024, SoCalGas forecasts non-labor costs of $14.895 million; however, SDG&E forecasts $2.431 million for 3 SCADA devices, 300 EPMs, and 639 meters.[461] From this data, SDG&E's non-labor costs are high compared to those of SoCalGas. For the design, development, and deployment of the CCM Project, SDG&E forecasts costs for labor, contractor services, third-party services, paving services, and materials such as controls, electronics, valves, pipe,

[459] D.19-09-051 at 127-128.

[460] SCG Ex-04-CWP-R.

[461] SCG Ex-04-CWP-R; SDG&E Ex-04-CWP-SWP-215740-Control Center Modernization.

and fittings. In 2024, SoCalGas will enhance a total of 25 regulator stations with SCADA technology, and SDG&E will enhance a total of 3 regulator stations with SCADA technology. SoCalGas will also integrate data for 7.07 times more EPMs and 6.7 times more meters than SDG&E – an integration of 6.88 more EPMs/meter devices while requesting $14.9 million in 2024 non-labor costs. If SDG&E's 2024 non-labor cost request of $2.431 million is scaled by a factor of 6.88, SDG&E would spend $16.745 million for EPM/Meter data integration, 12.4 percent more than SoCalGas. Accordingly, the Commission finds it reasonable to reduce SDG&E's non-labor CCM capital expenditures by 12.4%. For the CCM Project, the Commission reduces SDG&E's non-labor capital expenditures by 12.4%[462] and adopts the amounts in years 2022, 2023, and 2024 of $0.424 million, $3.010 million, and $3.778 million, respectively.

If SDG&E requests an increase in its capital CCM costs, SDG&E may file a Tier 2 Advice Letter requesting such an increase, subject to a third-party audit initiated and scoped by the Commission and paid for by Sempra. Sempra Utilities may seek cost recovery for the audit in the advice letter, if appropriate. Any request for such cost recovery must incorporate the findings of the audit. More specifically, the audit shall document any differences in capital CCM yearly costs that fund similar SDG&E and SoCalGas costs categories and how they were determined.[463] In Sempra's next GRC, Sempra Utilities shall compare SDG&E's

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[462] In 2022, 2023, and 2024, non-labor capital costs are reduced by $0.025 million, $0.225 million, and $0.301 million, respectively.

[463] The documentation and explanation for the Control Center Modernization work category shall compare SDG&E's and SoCalGas's yearly labor (per FTE) and non-labor costs, total number of regulator station enhancements, meters, and EPMs. Additionally, Sempra must explain costs differentials in categories and sub-categories not explicitly mentioned in Sempra's 2024 GRC workpapers. For instance, SDG&E's workpapers did not provide a yearly number of CCM

Footnote continued on next page.

Non-Shared CCM gas expenditures to those of SoCalGas, in similar categories, and document how different costs for similar categories were determined by SDG&E and SoCalGas.

8.6.4.10. Curb Valve Replacement

To allow gas flow to be shut-off in case of emergencies, federal regulation[464] requires all newly installed or replaced service lines with installed meter capacity exceeding 1,000 standard cubic feet per hour, to have installed either a manual service line shut-off valve (a "curb" valve or other manually operated valve) or an excess flow valve (EFV).[465]

For a variety of reasons, this risk mitigation project surveys the gas system for installed curb valves, prioritizes their replacement based on inaccessibility issues and schedules the replacement of these valves with EFVs. Regulations also require that such shut-off valves be regularly maintained. Because EFVs are automated, their installation will significantly mitigate risk to the public and affected customers by decreasing the response time to shut down a customer service, when required, due to damage of the service line from outside forces.[466] SDG&E indicates that this program mitigates safety risks with a relative risk represented by an RSE value of 11.[467]

meters forecasted in 2022, 2023, and 2024, or "Project management & Commissioning" fees associated with CCM meter work, labor, and non-labor differential costs for types of meters.

[464] 49 C.F.R. Section 192.385 – Manual service line shut-off valve installation.

[465] SDG&E Ex-04-R-E at 119-120.

[466] SDG&E Ex-04-R-E at 119-120.

[467] SDG&E Ex-04-R-E at 121.

SDG&E forecasts costs of $1 million for 2022, $1.75 million for 2023, and $1.75 million for 2024.[468] This is a zero-based forecast due to the limited historical data available.

SDG&E bases its forecast on a list of unquantified cost drivers and an unspecified annual removal target, and it does not provide the estimated number of valves to replace, the number required by regulations within a certain time frame, the unit cost for valve replacement, or how its rate of removal is aligned with this program's relative risk represented by an RSE value of 11, among possible pertinent information. Without such information, the Commission does not find SDG&E's 2024 forecast to be reasonable. Instead, the Commission finds SDG&E's lower annual amount for 2022 of $1 million to be reasonable for 2023 and 2024 and adopts it.

In the next GRC, if more curb valves need replacement, the Commission will consider a faster rate of replacement if it is supported by the additional information, including the data missing in this request.

8.6.4.11. Compressed Natural Gas Stations Upgrades

This category includes the cost of maintaining, upgrading, or installing company-owned public CNG stations. Company-owned public access CNG stations serve the existing customer base of CNG vehicles throughout Southern California in the private, business, and industrial sectors. These stations are used by private vehicle owners, the City of San Diego refuse trucks, military base vehicles, University of California San Diego buses, and companies such as Red Bull, Republic Services, and several taxi companies.[469] Maintenance costs include

[468] SDG&E Ex-04-R-E at 121; SDG&E Ex-04-CWP.

[469] SDG&E Ex-04-R-E at 122.

SDG&E labor, contractor services, third-party services, and materials such as compressor components, valves, pressure vessels, pipe, and fittings.

For this cost category, SDG&E forecasts capital expenditures of $137,000 each year from 2022 to 2024. SDG&E does not plan to install any new CNG stations but plans to continue the maintenance of existing public access CNG fill stations by performing small facility upgrades. SDG&E bases its 2024 forecast on the five-year average cost for the 2017-2021 period, which includes zero spending in 2021.

For years 2022-2024, SDG&E does not explain how many facility upgrades it plans to complete each year, the unit cost of a facility upgrade, why an upgrade would be necessary, or whether new installations were included in the years 2017-2021. Without that information, the Commission finds SDG&E's 2022-2024 forecast to be unsupported and adopts zero dollars for SDG&E's 2022-2024 CNG station upgrade forecast. In future years, the Commission questions whether ratepayers, who are transitioning to zero-emission vehicles, should subsidize the cost of CNG station upgrades as CNG stations appear to be used primarily by businesses and government entities. To disincentivize use of natural gas by requiring users to pay a greater cost of maintaining CNG supply, the Commission denies further funding of this cost.

8.6.4.12. Local Engineering Pool

SDG&E's Local Engineering Pool provides the labor and non-labor funding for a broad range of services to support Gas Distribution field capital asset construction, including technical planning, project management, and engineering activities.[470] The distribution of these costs is based on a number of factors such as

[470] SDG&E Ex-04-R-E at 123.

labor, contracted services, applicant installations, and the relationships between indirect costs, project direct costs, and total project costs.[471]

SDG&E's forecasted capital expenditures for Local Engineering Pool work in the years 2022, 2023, and 2024 are $23.764 million, $25.112 million, and $24.574 million, respectively.[472] SDG&E bases this forecast on the level of capital construction activity supported and by determining the relationship between the Local Engineering Pool's historic capital expenditures to the total direct expenditures across all Gas Distribution capital budget codes except for the Gas Meter and Regulators (502) and the Tools and Equipment (506) costs during the period of 2017-2021. This determined the annual relationship between the percentage of Local Engineering to total direct capital expenditures. Using this ratio, SDG&E determined the forecasted total capital expenditures (less those costs codes discussed above) to determine the 2022, 2023, and 2024 Test Year forecast for Local Engineering.[473]

In addition, SDG&E included the following additional activity in this forecast:[474]

1) A night welding class, 70 percent of which is charged to capital, with the balance charged to O&M. The additional funding over the base forecast for this cost is $53,000 for 2024 Test Year.
2) Capital Project Management – three project managers will be added because of capital project growth starting in 2022.

[471] SDG&E Ex-34.

[472] SDG&E Ex-04-R-E at 122.

[473] SDG&E Ex-04-R-E at 126. For more information on the mechanics of the distribution of indirect costs to project direct costs, resulting in total project costs, *see* SDG&E Ex-34 at 6-8.

[474] SDG&E Ex-04-R-E at 127-129.

The additional funding over the base forecast for this cost is $375,000 for 2024.

3) Capital Construction Growth – two field utility specialists will be added because of capital growth starting in 2022 along with an additional vehicle that is added to fleet services. The incremental funding attributed to this subcategory over the Base Year forecast is $180,000 for 2024.

4) Construction Management Specialist & Advisor – Two construction advisors will be added as a result of capital growth, one Construction Management Specialist starting in 2022 and one Document Control Advisor starting in 2024. The Construction Management Specialist will specialize in construction management. The Document Control Advisor will specialize in advising on document control. Both positions are needed to assist with the documentation of compliance activities of new construction both in the field and the office. The incremental funding needed over the base forecast for this subcategory is $198,000 for 2024.

5) Engineering Additions – Three Engineers will be added starting in 2022 because of capital growth and in support of SDG&E's gas distribution system sustainability goals. These positions will provide leadership for major or complex engineering and construction projects and studies. They will also provide technical advice, training, and guidance to clerical, technical, and operating personnel. Additionally, they will drive innovative and creative solutions for business and technical challenges by improving processes, streamlining documentation, and increasing client satisfaction. Two Engineers will support the implementation of 3D M&R facility designs and support CCM monitoring, and control retrofit projects at regulator stations and pressure monitoring sites. One Engineer will support projects on hydrogen blending in natural gas pipeline systems. These positions will charge 90 percent to capital, the balance to O&M. The incremental funding needed over the base forecast for this subcategory is $344,000 for 2024.

6) GGIS Growth. These positions will be charged 77 percent to capital, the balance to O&M. The incremental funding needed over the base forecast for this subcategory is $194,000 for 2024.
7) Quality Assurance (QA)/Compliance Field Operations and CP QA – One Field Operations QA Inspector will be added starting in 2022 to review the work done by the company Gas Field Operations personnel, determining the effectiveness and adequacy of the processes and procedures used in normal operation and maintenance. One CP QA Technical Specialist will be added starting in 2022 to review the work done by the company System Protection personnel, determining the effectiveness and adequacy of the processes and procedures used in normal operation and maintenance and verifying training effectiveness. The incremental funding needed over the base forecast for this subcategory is $117,000 for 2024.
8) Certified Crane Operator Training – Certified Crane Operator classes will provide the necessary certification for operations personnel to safely operate company-owned equipment. There is no incremental funding needed over the base forecast for this subcategory in 2024.

The total forecasted expenditures for these additions in the years 2022, 2023, and 2024 are $1,134,000, $1,125,000, and $1,461,000, respectively.[475] The Commission finds that the above costs reasonably describe the local engineering support needed for the amount of capital projects SDG&E requested. However, the Commission has not fully adopted the capital expenditures SDG&E requested in the other capital forecasts discussed above that employ the Local Engineering Pool. Consequently, the Commission finds SDG&E's Local Engineering Pool forecast to be in need of adjustment. SDG&E will need to adjust this forecast based on the ratio between Local Engineering to total direct capital expenditures

[475] SDG&E Ex-04-R-E at 128.

that has changed as a result of this decision. Accordingly, the Commission denies SDG&E's requested increase in Local Engineering Pool costs for 2024 and adopts a 2024 forecast of $23.764 million using the amount for the 2021 Base Year.[476] The Commission adopts SDG&E's forecast for 2022 of $22.990 million and adjusts 2023 to the same amount of $23.764 million for 2024. To adjust this forecast based on the amount of total and direct capital expenditures adopted in other capital categories using the Local Engineering Pool, SDG&E may submit a Tier 2 Advice Letter providing the cost ratios discussed above along with adjusted Local Engineering Pool costs and other supporting information. Given the Commission's denial of costs associated with the use of hydrogen in this decision, any adjustment for Local Engineering Pools shall not include engineering support for projects on hydrogen blending in natural gas pipeline systems.

8.6.4.13. Gas System Reinforcement and Pressure Betterment Projects

As with SoCalGas's gas distribution, SDG&E performs pressure betterment projects[477] on an ongoing basis in areas where there is insufficient capacity or pressure to meet load growth and in areas where a strategic pipeline "backtie" would be beneficial for system reliability.[478] Instead of proposing to maintain pressure betterment work at the same level as the 2021-2023 period, SDG&E proposed reducing pressure betterment work by 67% based on the four year average for years 2018-2021 of $529,000 per year.

CEJA recommends eliminating pressure betterment costs for SDG&E as being unsupported for the same reasons discussed above for SoCalGas's pressure

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476 SDG&E Ex-04-R-E at 122.

477 *See* the SoCalGas Gas Reinforcement Section for more background information.

478 SDG&E Ex-04-R-E at 80.

betterment projects.[479] Consistent with these reasons, the Commission finds that SDG&E has not demonstrated how any pressure betterment work is needed in addition to what SDG&E has already requested in other cost categories. Accordingly, the Commission does not find any forecast for any SDG&E additional pressure betterment work to be reasonable and adopts a forecast of zero for this cost category.

8.6.5. Remaining Uncontested SDG&E Capital Requests

The remaining forecasts strike an appropriate balance between gas distribution pipeline safety, risk reduction effectiveness, and the impact on ratepayer costs by decreasing the forecast for the following cost categories: System Minor Additions, Relocations, and Retirement; ; Street and Highway Relocation; Code Compliance; each of the three Underperforming Steel Replacement Programs; Early Vintage Program – Oil Drip Piping Removal; Pipeline in Vaults Replacement Program; Gas Distribution Overhead Pool; and Gas Distribution Contract Administration Pool. The Commission finds the 2024 SDG&E forecasts for these cost categories in the SDG&E table titled "GAS DISTRIBUTION (In 2021 $)" of Section 10.4.2 of its Opening Brief to be reasonable and adopts them,[480] except for the amount for Gas System Reinforcement, which the Commission adopts in the amount of zero dollars.[481]

9. Gas System Staff and Technology

The SoCalGas natural gas system encompasses transmission lines, underground storage fields, compressor stations, and distribution lines. The

[479] CEJA Opening Brief at 3–4; CEJA Opening Comments at 11.

[480] Sempra Opening Brief at 115-116.

[481] Sempra Opening Brief at 115-116.

system is designed to receive natural gas from interstate pipelines and various California production sources from both offshore and onshore. The gas quantity is measured, odorized, analyzed for quality, and then allowed to flow through the pipeline network. This pipeline-quality gas is delivered to SoCalGas's distribution system, storage fields, and noncore customers. Collectively, these components enable SoCalGas to deliver natural gas from receipt points to over 21.8 million customers throughout more than 24,000 square miles, stretching from Visalia in the north to the Mexican border in the south, and as far east as the Nevada border.[482]

This Section addresses Non-Shared and Shared expenses in support of O&M functions for Gas Operations Training & Development, Enterprise Asset Management, Damage Prevention, High Pressure Project Record Closeout program, the Geographic Information System (GIS), Data Asset Integrity, Damage Prevention Program Management, Gas Systems Staff, Operator Qualification, and Pipeline Policy organizations. This testimony also includes a request for recovery of incurred administrative costs through 2021 in the Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA).[483]

9.1. SoCalGas

9.1.1. Non-Shared Operations and Maintenance

SoCalGas's forecast for Non-Shared O&M expenses includes the following cost categories: (1) Gas Operations Training & Development, (2) Enterprise Asset Management, (3) Damage Prevention, (4) High Pressure Project Record Closeout, and (5) GIS Data Asset Integrity.[484]

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482 SCG Ex-05 at 1-2.

483 SCG Ex-05 at 2.

484 SCG Ex-05 at 11.

For 2024, SoCalGas forecasts $13.758 million for Non-Shared O&M, an increase of $3.701 million over the 2021 Base Year. SoCalGas states that most of the forecasts for subcategories of O&M expenses rely upon a 2021 Base Year methodology because of the expected recent growth of activities in this area. In addition, where appropriate, SoCalGas made certain incremental upward or downward adjustments to the Base Year. For example, Damage Prevention will be affected by fluctuations in Locate and Mark USA tickets, an increase in public awareness activities and outreach, and the unpredictability of potential damage to pipelines and infrastructure. Another example includes cost drivers for the Enterprise Asset Management organization involving the creation of a data lake to capture asset data, which will compile source data to enhance SoCalGas's risk-based decision making.[485]

The following table provides a summary and description of SoCalGas's Gas System Staff and Technology costs recorded in the 2021 Base Year and estimated for 2024, which are undisputed.

Table 9.1
SoCalGas 2024 Summary of Gas System Staff and Technology[486]

Non-Shared O&M Summary of Costs			
Gas System Staff & Technology (In 2021 $)			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**2024 Test Year Estimated (000s)**	**Change (000s)**
A. Gas Operations Training & Development	5,509	6,479	970
B. Enterprise Asset Management	1,777	4,909	3,132
C. Damage Prevention	1,612	675	-937
D. High Pressure Project Record	669	1,088	419
E. GIS Data Asset Integrity	490	607	117
Total Non-Shared Services	**10,057**	**13,758**	**3,701**

485 Sempra Opening Brief at 120-123.

486 SCG Ex-05 at 11.

Based on SoCalGas's forecasting methodology and supporting documents applying it,[487] the Commission finds SoCalGas's forecasts for the above Non-Shared Gas System Staff and Technology to be reasonable and adopts them.

9.1.2. Shared Operations and Maintenance

SoCalGas's forecast for Shared O&M expenses includes the following cost categories: (1) Damage Prevention, (2) Pipeline Policy, (3) Operator Qualification, and (4) Gas System Staff.[488]

SoCalGas's 2024 forecast for Shared O&M is $9.827 million, an increase of $4.227 million over the 2021 Base Year. As with Non-Shared O&M expenses, SoCalGas states that most of the forecasts for subcategories of O&M expenses rely upon a 2021 Base Year methodology because of the expected recent growth of activities in this area. In addition, where appropriate, SoCalGas made certain incremental upward or downward adjustments to the Base Year.[489]

TURN recommended that SoCalGas remove costs associated with short-term vehicle rental costs. After reviewing TURN's request and related discovery, SoCalGas agreed and adjusted its forecast in its Update Testimony. Aside from that change, neither TURN nor any other party disputes SoCalGas's forecast for Shared O&M costs.[490]

The following table provides a summary and description of SoCalGas's Gas System Staff and Technology Shared costs recorded in the 2021 Base Year and estimated for 2024,[491] which are undisputed.

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[487] SCG Ex-05; SCG Ex-205.

[488] Sempra Opening Brief at 123.

[489] Sempra Opening Brief at 124.

[490] Sempra Opening Brief at 123-124.

[491] Sempra Opening Brief at 124.

Table 9.2
SoCalGas 2024 Summary of Gas System Staff and Technology

SoCalGas					
Gas System Staff & Technology – Shared Services O&M (in Thousands of 2021 Dollars)					
Categories of Management	**2021 Adjusted-Recorded (000s) A**	**2024 Test Year Estimated (000s) B**	**Change (000s) B – A**	**PD Authorized C**	**Diff. C – B**
A. Damage Prevention	1,570	4,305	2,735	4,305	0
B. Pipeline Policy	1,950	2,342	392	2,342	0
C. Operator Qualification	1,912	3,011	1,099	3,011	0
D. Gas Systems Staff	168	168	0	168	0
Total Shared Services Incurred	5,600	9,826	4,226	9,826	0

Based on SoCalGas's forecasting methodology and supporting documents applying it, the Commission finds SoCalGas's 2024 Shared O&M forecasts for the above Gas System Staff and Technology to be reasonable and adopts them.

9.2. SDG&E

SoCalGas and SDG&E share services to many natural gas pipeline operator responsibilities, especially in Gas System Staff & Technology. The shared-service approach benefits both utilities and their ratepayers by enabling the utilities to pool their collective knowledge, experience, engineering expertise, and intellectual property.[492] The Shared costs are addressed above under SoCalGas's costs.

SDG&E's Non-Shared O&M Gas System Staff & Technology cost primarily includes Damage Prevention work. This work includes Federal Public Awareness

492 SDG&E Ex-05 at ii.

regulations[493] directed at pipeline operators to continually assess and improve the effectiveness of their Public Awareness Programs. Damage Prevention work also includes the work of locating and marking below surface pipelines before general construction and development activity in the public and private sectors begins.[494]

SDG&E requests approval of a 2024 forecast of $901,000 for Gas System Staff and Technology O&M, which represents an increase of $806,000 over the 2021 Base Year amount of $95,000. SDG&E bases this forecast on the 2021 Base Year with adjustments for additional staff and other resources to meet anticipated increased outreach and activities that will be necessary to address the need for excavation damage reductions. To quantify those expectations SDG&E states that over the 2017-2021 period, such work increased by 14 percent and SDG&E expects this trend to continue over the next five years based on forecasted economic growth and planned infrastructure investment.[495]

No party disputed SDG&E's O&M forecast. While the Commission finds an increase in this work to be reasonable, SDG&E has not sufficiently supported a forecast that is nine times greater than its 2021 forecast. The Commission does not find this increase to be reasonable; instead, the Commission finds the increase to the actual amount in 2022 of $423,000[496] to be reasonable and adopts it for SDG&E's 2024 O&M forecast for Gas System Staff and Technology.

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[493] 49 C.F.R. Section 192.616.

[494] Sempra Opening Brief at 124-125.

[495] SDG&E Ex-05 at 8-20 and SDG&E Ex-05-WP at 2-5.

[496] SDG&E Ex-05-WP at 3.

9.2.1. Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA) Recovery

SoCalGas and SDG&E seek recovery for costs in the amounts of $4.168 million and $698,000, respectively, incurred for program administration activities from July 17, 2017, through December 31, 2021, that have been posted to the NGLAPMA.[497]

Table 9.3
SoCalGas NGLAPMA Expenses

Natural Gas Leak Abatement Program Memo Account	
Year	**Expenses ($)**
2018	631,970
2019	2,136,696
2020	638,137
2021	761,643

Table 9.4
SDG&E NGLAPMA Expenses

Natural Gas Leak Abatement Program Memo Account	
Year	**Expenses ($)**
2018	696
2019	2,249
2020	510,409
2021	184,343

D.17-06-015 established the NGLA program as required by SB 1371 (Stats. 2014, ch. 525),[498] through which SoCalGas and SDG&E implement best practices to minimize natural gas emissions from their transmission and distribution gas system.[499] Pursuant to D.17-06-015, forecasted incremental costs related to the NGLA program are reviewed by the Commission through a Tier 3 Advice

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497 SCG Ex-05 at 68-70; SDG&E Ex-05 at 20-21.

498 Pub. Util. Code Section 975 *et seq*.

499 D.17-06-015 at 2.

Letter.[500] D.17-06-015 directs SoCalGas and SDG&E to record incremental costs related to best practices in a two-way balancing account, and costs related to Pilot Projects and Research and Development in a one-way balancing account.[501] In contrast, D.17-06-015 directs SoCalGas and SDG&E to record incremental administrative costs associated with compliance with the NGLA program in a memorandum account,[502] referred to as the NGLAPMA.

SoCalGas and SDG&E submitted Tier 3 Advice Letters to establish 2018 and 2019 revenue requirement forecasts and caps for the NGLA Program, including for administrative costs to be recorded in the NGLAPMA.[503]

Specifically, on October 31, 2017, SoCalGas submitted its Tier 3 AL 5211 and then updated the cost estimates contained therein in AL 5211-A and AL 5211-B. On October 11, 2018, Resolution G-3538 approved NGLA Program cost forecasts for 2018, 2019 and 2020, which included costs for the NGLAPMA in 2018 of $1.191 million, in 2019 of $1.373 million, and in 2020 of $1.088 million, in 2018 dollars.[504] The SoCalGas revenue requirements associated with G-3538 were implemented into rates on January 1, 2020 via AL 5562. On March 12, 2020, SoCalGas and SDG&E submitted AL 5603 and AL 2852, respectively, to provide forecasted costs for their 2020 NGLA Compliance Plans, including forecasts of costs and emissions reductions for the years 2021 and 2022 and revenue requirements for the life of the capital projects. SoCalGas subsequently submitted supplemental advice letters, AL 5603-A, AL 5603-B, and AL 5603-C, and SDG&E

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[500] D.17-06-016 OP 10; *see also* Sempra Opening Brief at 125.

[501] D.17-06-015, OP 11.

[502] D.17-06-015, OP 8.

[503] ALs 5166 and 2593-G, respectively.

[504] SoCalGas Advice Letter 5211-B, Table 4.

submitted ALs 2852-A, 2852-B and 2852-C, to update costs and emission reduction forecasts.

On December 17, 2020, the Commission adopted Resolution G-3576, approving the revenue requirements associated with SoCalGas's and SDG&E's 2020 Compliance Plans requested in ALs 5603-C and 2852-C. SoCalGas's AL 5603-C and SDG&E's AL 2852-C, approved by Resolutions G-3576 and G-3577, respectively, included forecasted administrative costs in the amount of $4,900,206 for the years 2021 and 2022, in 2019 dollars for SoCalGas and $482,214 for SDG&E.

In SoCalGas AL 5603-C and SDG&E AL 2852-C, the cost estimates for the program administration, which included a 10 percent contingency, were based on historical costs and estimated labor to complete the Annual Emissions report and 2020 Compliance Plans.[505] The revenue requirements for SoCalGas AL 5603 and SDG&E AL 2852, approved in Resolutions G-3576 and G-3577, were implemented into rates on January 1, 2021 via SoCalGas AL 5745 and SDG&E AL 2938.[506]

No party has objected to SoCalGas's and SDG&E's requests for cost recovery for administrative costs in the NGLAPMA from 2017 to 2022. However, neither SoCalGas nor SDG&E has provided workpapers detailing the labor and non-labor costs to demonstrate that these costs are for incremental work for which rates have not yet been implemented or are otherwise reasonable. For SoCalGas, Resolution G-3538 approved NGLA program costs, which included amounts for NGLAPMA for 2018, 2019, and 2020. The rates implementation for these costs was included in SoCalGas's AL 5562-G, January 1, 2020 Consolidated Rate Update. Additionally, Resolutions G-3576 and G-3577 approved NGLA Program

505 AL 5603-C at 5-7.

506 AL 5603-C at 7-8.

costs, which included costs for NGLAPMA for 2021 and 2022. The rates associated with these Resolutions were implemented in SoCalGas's AL 5745 and SDG&E's AL 2938, effective January 1, 2021. Sempra Utilities has not demonstrated how costs in the NGLAPMA in the amounts of $4.168 million for SoCalGas and $0.698 million for SDG&E, incurred for program administration activities from July 17, 2017, through December 31, 2021, are not already included in other administrative costs requested. Accordingly, the Commission does not find these requests to be reasonable, and they are therefore denied.

10. Gas Transmission Operations

SoCalGas's and SDG&E's O&M expenses fund the day-to-day costs associated with operating and maintaining Sempra's natural gas transmission system. These proposed gas transmission costs are associated with key safety risks, including: SCG-Risk-1 Incident Related to the High-Pressure System (Excluding Dig-in), SCG-Risk-2 Excavation Damage (Dig-in) on the Gas System, SCG-Risk-5 Incident Involving an Employee, SCG-CFF-1 Asset and Records Management, SCG-CFF-1 Physical Security, and SDG&E-Risk-3 Incident Related to the High-Pressure System.[507]

10.1. Transmission- Operations and Maintenance

SoCalGas requests approval of $51.954 million in O&M costs for 2024. The O&M forecast is composed of $38.651 million for Non-Shared service activities and $13.303 million for Shared services activities.

For gas transmission Non-Shared O&M expenditures in 2024, SDG&E forecasts $5.501 million.

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507 Sempra Opening Brief at 126.

10.1.1. SoCalGas Non-Shared O&M Services

No party disputed SoCalGas's Non-Shared O&M funding requests. For 2024, the Commission finds the uncontested amounts of O&M funding of $1.338 million for Cathodic Protection, $5.362 million for Technical Services, $0.164 million for the Storage Products Manager, and $1.149 million for the CCM cost category to be reasonable and adopts them.[508]

Table 10.1

Gas Transmission Construction & Operations in 2021 $ (000s)[509]			
Description	**2021 Adjusted-Recorded (2021$)**	**2024 Estimated (2021$)**	**Change**
Pipeline and Instrumentation Operations	17,771	18,657	886
Compressor Station Operations	10,650	11,981	1,331
Cathodic Protection Operations	1,338	1,338	0
Technical Services	7,519	5,362	-2,157
Storage Products Manager	158	164	6
Control Center Modernization	690	1,149	459
Total	**38,126**	**38,651**	**525**

10.1.1.1. Pipeline & Instrumentation Operations

Pipeline & Instrumentation Operations within Gas Transmission Operations consists of the following activities: 1) Instrument Leak Survey, 2) Pipeline Patrol, 3) Locate & Mark and Standby, 4) Measurement and Regulation Inspections, and 5) Odorization Activities. These activities address the physical condition of the gas transmission pipeline system and its appurtenances. Similar activities are completed at 10 operating bases located throughout the 20,000

[508] Sempra Opening Brief at 129-130.

[509] SCG Ex-401 Table RH-4 at A-4.

square mile service territory, which are responsible for the safe day-to-day operation and maintenance of gas transmission pipeline facilities and the related infrastructure.[510]

Pipeline & Instrumentation Operations is responsible for providing emergency services in response to earthquakes, wildfires, dig-ins, or other events as needed to minimize the potential for danger to the public and any impact to system reliability. These operations are also responsible for addressing issues related to gas quality standards, as well as maintaining compliance with applicable environmental and regulatory agency safety requirements, which include but are not limited to air quality, asbestos, lead, polychlorinated biphenyls, natural resources, ground water, storm water, hazardous waste, and materials handling for both above- and below-ground pipeline appurtenances.[511]

For this activity, SoCalGas forecasts $18.657 million in 2024, which is a 4.99 percent increase of $0.886 million over the 2021 baseline amount of $17.771 million.[512] SoCalGas bases its 2024 forecast for this cost on the 2021 Base Year plus the costs of adding nine new employees in 2022.

SoCalGas attributes increased 2024 costs primarily to the hiring of nine new employees in 2022 who will perform the following additional activities:[513]

1. Locating and marking electrical lines for newly automated equipment;
2. Increased instrument leak surveys and pipeline patrols are required due to the new Pipeline and Hazardous Materials

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510 SCG Ex-06-2R-E at 17-18; SCG Ex-401 at A-4.

511 SCG Ex-06-2R-E at 17-18.

512 Sempra Opening Brief at 129; SCG Ex-401 at A-4.

513 SCG Ex-06-2R-E at 23.

Safety Administration (PHMSA) interpretation of Class 4 locations;[514]

3. Activity to operate and maintain equipment at the Hydrogen Home; and
4. Supporting and maintaining automated equipment at Distribution Regulator Stations until Gas Distribution staff has sufficient personnel trained to maintain their system.

SoCalGas's description of its cost drivers summarized above provides a general list of new activities, but SoCalGas does not describe why SoCalGas added approximately seven employees in 2021 to the number of 104 adopted in 2019 in the last GRC, or why the seven additional employees cannot perform the additional work needed. In this decision, the Commission does not authorize work to operate and maintain equipment at Hydrogen Home. The Commission finds it reasonable to add employees to increase surveying to comply with increased regulations and to install and maintain new automated equipment. Given the unexplained addition of seven employees in 2021 and the denial of support for maintaining equipment using hydrogen, the Commission finds it reasonable to adopt a 2024 forecast for Pipeline and Instrumentation Operations of $17.771 million based on the 2021 recorded adjusted amount supporting the employees hired in 2021.[515]

10.1.1.2. Compressor Station Operations

The Gas Compressor Operations function is responsible for the safe and reliable day-to-day operation and maintenance of SoCalGas's nine compressor station facilities and related infrastructure. This responsibility includes operating and maintaining compressor engines and ancillary equipment, all associated

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[514] 49 C.F.R. Section 192.5 implemented by PI-07-0102.

[515] SCG Ex-06-2R-E at 23; SCG Ex-401 at A-4.

monitoring, metering, and control facilities, odorization equipment, filtration vessels, cooling equipment, and real-time operating data telemetry communications between compression facilities and Gas Control.

For this activity, SoCalGas forecasts $11.981 million in 2024, which is a 12.5 percent increase of $1.331 million over the amount adopted in 2021 of $10.650 million.[516] SoCalGas bases its 2024 forecast for this cost on the 2021 Base Year plus the costs of adding eight new employees in 2022 for compressor upgrade projects.[517]

SoCalGas states the additional funding requested is needed to maintain and operate new and modernized equipment in accordance with federal, state, and local regulations, as described in its testimony, including the increased activity and maintenance at the modernized Blythe compressor station.[518]

The Commission finds SoCalGas's request for sufficient staff to maintain compressor stations in a safe and reliable manner to be in compliance with applicable regulations. However, the Commission also finds this request lacks transparency and accountability regarding the labor and non-labor costs due to the variability in SoCalGas's staffing for compressor operations of 46 employees in 2017, 41 in 2021, 49 in 2022 in response to the Blythe Compressor Station being modernized, and 54 requested in 2024. SoCalGas also fails to provide any time study to explain the necessity of the total number of employees for a modern, automated facility that conceivably may need less staffing. In light of this uncertainty, the Commission finds it reasonable to adopt a forecast for 2024 based on the amount of staffing in 2022 in response to the Blythe compressor station

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[516] Sempra Opening Brief at 129; SCG Ex-401 at A-4.

[517] SCG Ex-06-2R-E at 23-24.

[518] SCG Ex-06-2R-E at 25.

being modernized. The Commission finds the 2024 forecast for Compressor Station Operations of $11.981 million to be reasonable and adopts it. In the next GRC, SoCalGas shall provide a time study documenting the time needed to perform employee tasks to support a reasonable level of staffing for Compressor Operations.

10.1.1.3. Uncontested Non-Shared SoCalGas O&M

No party disputed SoCalGas's 2024 funding forecasts of $1.338 million for Cathodic Protection for which no adjustment is requested; $5.362 million for Technical Services, which is a reduction based on a decrease in technical services staffing;[519] $0.164 million for a $6,000 increase in the Storage Products Manager forecast based on a five-year average of costs for the 2017-2021 period;[520] and $1.149 million for CCM Operations. The Commission finds these costs to be reasonable and adopts them.

10.1.2. Shared Services O&M costs

SoCalGas personnel manage, in part, SDG&E's Gas Transmission Operations and these Shared Services are billed to SoCalGas. The table below shows SoCalGas's overall and forecasts broken out into cost centers within the Gas Transmission Operations and Gas Control & System Planning Operations.[521] Expenses are allocated 90.23 percent to SoCalGas and 9.77 percent to SDG&E based on annual gas throughput. [522]

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[519] SCG Ex-06-2R-E at 25.

[520] SCG Ex-06-2R-E at 33.

[521] Sempra Opening Brief at 130.

[522] SCG Ex-06-2R-E at 43-44.

Table 10.2
Southern California Gas Company Shared Services
Total O&M Summary of Costs (In 2021 $000s)

Gas Control System Planning	BY 2021 Adjusted-Recorded	TY 2024 Forecast	Change
A. Director of Gas Transmission	183	238	55
B. FOM East Transmission	376	376	0
C. FOM Compressor Station operations	566	566	0
D. Governance & Compliance	465	900	435
E. Transmission & Storage Strategy Manager	906	906	0
F. Capacity Products Support	686	686	0
G. Gas Scheduling	796	796	0
H. Gas Transmission Planning	861	861	0
I. Gas Control	2,983	6,683	3,700
J. SCADA Operations	1,186	1,291	105
Total Shared O&M	**9,008**	**13,301**	**4,295**

10.1.2.1. Director of Gas Transmission

The Director of the Gas Transmission Operations organization is responsible for Gas Transmission Operations' overall operational and directional leadership, operation and maintenance performance, regulatory compliance, financial performance, and work measurement reporting. These tasks are administered by the Director with the support of an administrative associate.[523]

[523] SCG Ex-06-2R-E at 43-44.

For this activity, SoCalGas forecasts $238,000 in 2024. SoCalGas bases this forecast on the average labor and non-labor costs for the 2017-2021 period even though SDG&E was not fully staffed for this work in 2021.[524] However, SoCalGas does not explain the spike in costs in 2020 and how including 2020 costs in the average best represents 2024 costs or provides support for an increase in this cost. Accordingly, the Commission finds that an average of costs excluding 2020 and 2021 in the amount of $230,000 best represents this 2024 cost and adopts this amount for SoCalGas's 2024 Director of the Gas Transmission Operations forecast.

10.1.2.2. Governance and Compliance

The Governance and Compliance Manager's organization is responsible for system business governance and compliance across the Gas Transmission organization. Governance and Compliance provides monitoring and tracking of compliance performance for both SoCalGas and SDG&E, including tracking and reporting pipeline leaks and repairs, developing and monitoring compliance work orders within the computerized asset maintenance system, and ensuring compliance with all state and federal regulatory requirements.

SoCalGas created this organization in 2020 to improve oversight and support for compliance-related activities by adding four new positions. Two of the new positions are for additional records management and to establish an enterprise asset management model that provides policy direction and program management, including leadership and direction for the planning, development, and implementation of major, large-scale strategic business and technology projects. An additional project manager supports equipment inspections, and a

[524] SCG Ex-06-WP-R-E at 72.

project specialist supports repairs at compressor stations and pressure limiting stations.[525]

For this activity, SoCalGas forecasts $900,000 in 2024. SoCalGas bases this forecast on the additional labor and non-labor costs for four additional employees in addition to the 2021 Base Year cost of $465,000.

SoCalGas states that it did not evaluate its historical costs because it created this new department in late 2020.[526] However, SoCalGas's workpapers show that it recorded costs associated with two employees for this activity during the 2017-2019 period. In addition, it is not clear that the activities of the two new employees, the project manager supporting inspections and the project specialist supporting repairs, could not be attributed to workgroups involving inspections and repairs. As a result, the Commission does not find that SoCalGas provided sufficient evidence to demonstrate the necessity of two of the four new employees and that their work is in addition to work expected to be performed by other work groups. The Commission only finds half the additional cost to be reasonably supported and therefore adopts a 2024 forecast of $682,000 for this cost category.

10.1.2.3. Gas Control Room Monitoring and Operation (Cost Center 2200-2289)

SoCalGas's Gas Control Room Monitoring and Operation activities consist of continuous operation of the transmission pipeline system in a real-time control room environment, which is necessary to provide a centralized and holistic view of system health. The Control Room serves as the communication center between the various departments operating and conducting maintenance on the transmission pipeline system, upholding public safety, maintaining system

[525] SCG Ex-06-2R-E at 47-48.

[526] SCG Ex-06-2R-E at 48.

reliability, developing a daily operating plan that includes demand forecasts and facility utilization, and also allowing for preparation of contingencies for changes in system conditions.[527] SoCalGas will begin gas control operations at its new control center facility in 2024, and SoCalGas will continue to deploy and integrate transmission assets into the Gas Control Center through 2028.[528]

SoCalGas forecasts an increase of $3.7 million for shared O&M expenses in 2024 for Gas Control operations arising from the CCM Project, based on increasing the number of FTEs from 25.2 to 59.2. SoCalGas claims that the increase of 34 FTEs is necessary to support Gas Control's expanded safety, reliability, sustainability, and operational roles under the CCM Project.[529] SoCalGas's funding request of $6.7 million for 2024 would support the continuation of the CCM Project the Commission previously approved in the 2019 GRC (previously referred to as the "Distribution Operations Control Center").[530]

SoCalGas forecast the operations side of the CCM Project in its 2019 GRC Application as the Distribution Operations Control Center Project.[531] SoCalGas spent an average of $2.6 million on Gas Control from 2017 to 2021 and reported an adjusted forecast of $4.1 million in 2022.[532] Cal Advocates says that SoCalGas added incremental costs to their 2021 recorded costs of about $3 million to forecast $6.7 million for 2024.[533] Cal Advocates recommends a 2024 Test Year Gas

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[527] Sempra Opening Brief at 131.

[528] Cal Advocates Opening Brief at 65.

[529] Sempra Opening Brief at 131.

[530] Sempra Opening Brief at 131-132.

[531] Cal Advocates Opening Brief at 65.

[532] SCG Ex-06-WP-R-E at 131.

[533] Cal Advocates Opening Brief at 65.

Control forecast of $4.1 million, which is a $2.5 million, or 38 percent, reduction because SoCalGas's estimate was unsupported and the forecast covers activities continuing into 2028.[534] Cal Advocates sent SoCalGas data requests for 2022 actuals and supporting documentation of the incremental costs but found SoCalGas's responses unsatisfactory because SoCalGas failed to provide enough information and did not explain the incremental costs.[535] Instead, SoCalGas simply stated that the CCM Project was proposed in 2019 as the DOCC with activities running beyond 2019.[536] Cal Advocates also asserts SoCalGas's data request responses indicated that the CCM Project would continue through 2028.[537]

TURN argues that SoCalGas did not demonstrate that staffing the new control center would require adding 34 new employees, and recommends disallowing the addition of Gas Control FTEs beyond 120%.[538] Instead, TURN recommends only a 20 percent increase in 2024 funding to the Base Year amount of $2.983 million.[539] This would amount to funding of only $3.5 million for Test Year 2024, a $3.2 million or 47 percent reduction.[540] In reply, SoCalGas contends that regulations and the need for management improvements[541] require increasing the scope of its gas control center's role through the use of additional new technology and 34 employees. SoCalGas states that the CCM would be

534 Cal Advocates Opening Brief at 65.

535 CA Ex-2 at 14.

536 CA Ex-2 at 14.

537 Cal Advocates Opening Brief at 65.

538 TURN Reply Brief at 9-10; TURN Ex-05-R-E1 at 62.

539 TURN Opening Brief at 112-116; *see* Sempra Opening Brief at 132.

540 TURN Ex-05-R-E1 at 57-62; TURN Opening Brief at 112-115.

541 Sempra Reply Brief at 104; *see also* Sempra Opening Brief at 133.

designed to integrate data from an additional 7,514 field assets; require additional regulator station monitoring and control functionality on the distribution system, Optical Pipeline Monitoring (OPM) stations, and High Consequence Area (HCA) methane sensors; allow routing and monitoring of distribution system electronic pressure monitors and customer meter data; monitor alarm response, incident response, and maintenance activities related to field assets; facilitate coordination with distribution, dispatch, transmission, and emergency management organizations; and perform data analysis through new platforms introduced through the CCM technologies.[542]

Considering all of the above, questions remain regarding the reasonableness of the number of employees at the gas control center that SoCalGas requests to fund in its forecast. The evidence indicates that some number of employees will be necessary to achieve the operational efficiencies SoCalGas seeks. However, given SoCalGas's installation of various new software systems designed to collect and process the additional distribution system information, and automating the presentation of alarms and data,[543] the Commission does not find that SoCalGas has supported its forecast based on the number of additional employees requested. Instead, the Commission agrees with TURN and finds the testimony supporting a 20 percent increase in CCM staff to be reasonable and adopts a 2024 forecast for the CCM Project of $3.489 million for 2024.[544]

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[542] Sempra Reply Brief at 104; s*ee also* Sempra Opening Brief at 133.

[543] TURN Ex-05-R-E at 57-58.

[544] TURN Opening Brief at 115.

10.1.3. Uncontested Shared O&M Services

No party disputed SoCalGas's 2024 funding forecasts of $376,000 for Field Operations Manager (FOM) East Transmission, $0.566 million for FOM Compressor Station Operations, $906,000 for Transmission & Storage Strategy Manager, $686,000 for Capacity Products Support, $0.796 million for Gas Scheduling, and $861,000 for Gas Transmission Planning. The Commission finds these decreased costs to be reasonable and adopts them and $1.291 million for SCADA operations.[545] While most of the forecast Test Year 2024 costs are higher than actual costs for 2017 to 2019, they have been trending downward. The Commission therefore finds them to be reasonable and adopts them. For the one uncontested program forecast to rise, SCADA Operations,[546] the Commission finds that SoCalGas's testimony and workpapers support its request.

10.1.4. SDG&E Uncontested Non-Shared O&M

For gas transmission Non-Shared O&M expenditures in 2024, SDG&E forecasts $5.501 million. This amount includes a decrease of $60,000 for Pipeline & Instrumentation Operations based on a five-year average of historical costs, no change in the forecast for Compressor Station Operations compared to Base Year 2021 using 2021 costs as reflecting activity anticipated in 2024 for Compressor Station Operations, and no change in the forecast for Technical Services compared to 2021 using 2021 costs as reflecting activity anticipated in 2024. No party contested this request. The Commission finds the total amount of SDG&E Non-Shared gas transmission O&M based on the methodologies and their applications to the subcategories in SDG&E's testimony and workpapers summarized above to

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545 Sempra Opening Brief at 134-135.

546 SCG Ex-06-2R-E at 59.

be reasonable.[547] Accordingly, the Commission adopts the amount of $5.501 million for SDG&E gas transmission Non-Shared O&M expenditures in 2024.

10.2. Transmission Capital Expenditures

10.2.1. SoCalGas Gas Transmission Capital Expenditures

The capital gas transmission expenditures include the replacement of pipelines and appurtenances, projects associated with compressor stations that help transport gas to support the larger gas transmission operations, improvements to compressor stations, cathodic protection improvements, measurement and regulation replacement and/or improvements, upgrading and/or replacing security and auxiliary equipment, OPM stations, HCA methane sensors related to the CCM, and equipment to support the integration of alternative fuels such as hydrogen and renewable natural gas. Pipelines are replaced due to class location changes, freeway and franchise pipeline relocations, and construction of new pipeline.[548] SoCalGas's gas transmission capital expenditures for the 2021 Base Year and its 2022-2024 forecasts are summarized below.[549]

[547] Sempra Opening Brief at 135.

[548] Sempra Opening Brief at 126.

[549] Sempra Opening Brief at 136.

Table 10.3
Southern California Gas Company Summary of Capital Costs
Gas Transmission Operations & Constructions in 2021 ($000s)

	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
A. New Construction Pipeline	657	13,864	18,890	173
B. Pipeline Replacements	54,926	39,917	39,917	34,917
C. Pipeline Relocation – Freeway	25	1,701	201	201
D. Pipeline Relocation – Franchise/Private/ROW	11,006	10,950	10,007	10,007
E. Compressor Stations	25,741	13,000	13,000	10,000
F. Cathodic Protection	12,496	8,000	8,000	7,000
G. Measurement & Regulation Stations	73,504	47,631	52,774	35,632
H. Security & Auxiliary Equipment	10,802	4,000	3,000	3,000
I. Buildings & Improvements	2,487	1,000	1,000	1,000
J. Capital Tools	1,205	892	892	892
K. Blythe Compressor Station Modernization	57,810	39,004	370	0
L. Control Center Modernization	253	2,038	2,608	3,746
Total	**250,912**	**181,997**	**150,659**	**106,568**

10.2.1.1. SoCalGas New Pipeline Construction Capital Forecast

In testimony, SoCalGas asserts New Pipeline Construction Capital annually funds new pipeline to supply the system or provide new supply where needed. As noted in Line A of the above table, SoCalGas forecasts capital expenditures for new pipeline construction at $13.864 million for 2022, $18.890 million for 2023, and $0.173 million for 2024.[550] While SoCalGas did review historical costs and data on future projects, it used a zero-based forecast because the only activity identified for the 3.6 miles of new pipe identified in the program's scope of work is called the Lakewood Project, which is being done at the request of one customer and is therefore a collectible project.[551]

TURN argues that SoCalGas's 2022 and 2023 forecasts should be reduced by 25 percent and its 2024 forecast should be reduced to zero to disallow a total of $8.362 million because SoCalGas failed to provide transparency into its cost estimating assumptions sufficient to establish a definitive reasonableness finding. TURN casts doubt on whether any of the projects used in SoCalGas's estimate were necessarily representative given that the period discussed (2017-2021) had so much year-to-year variability.[552] TURN asserts that, lacking a discrete project estimate or summary data about the pool of projects used to generate the estimate, SoCalGas did not provide enough information to justify its forecast.[553]

In its rebuttal, SoCalGas addresses an error in testimony, stating that the New Pipeline forecast actually extends to 2024. SoCalGas also attests to a pool of projects related to its estimate. However, SoCalGas acknowledges that the forecast for New Pipeline did consist of only one project being executed at a customer's request and that the costs for that project were not included in the revenue requirement.

Given that SoCalGas contends both that this program is generally for supply and that it did use other projects in its forecast, SoCalGas's request may

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550 SCG Ex-06-2R at 65.

551 SCG Ex-06-2R at 65 and SCG Ex-06-CWP-R-E at 2.

552 TURN Ex-05-R-E1 at 47.

553 TURN Ex-05-R-E1 at 47-50.

represent actual or potential planned new pipeline activity.[554] However, TURN is justified in its concern over a lack of representative projects in the scope for the spending. SoCalGas's forecast does not contain enough information, and subsequent filings did not provide any additional representative costs. TURN also notes that this program has had wide variability in costs per year with a maximum cost of $24.041 million in 2017 and a minimum of only $540,000 in 2018.[555]

Because this program lacks a discrete estimate or list of planned projects, TURN's recommendation, which is about $1 million less than the five-year average for 2017-2021, provides a reasonable alternative. The Commission therefore adopts a 25 percent (or $8.189 million) reduction to SoCalGas's 2022 and 2023 forecast.[556] However, the Commission also adopts SoCalGas's forecast of $173,000 for 2024 costs since SoCalGas acknowledged TURN's analysis of its testimony and corrected the record.[557]

10.2.1.2. SoCalGas Pipeline Replacements

SoCalGas Pipeline Replacements capital forecasts support the ongoing safe and reliable operation of SoCalGas's vast transmission system, ranging from the Colorado River in the East to the Pacific Ocean in the West, and from Tulare County in the North to San Diego in the South. SoCalGas monitors the transmission pipelines for any necessary repairs or replacements through continuous pipeline patrols, leak surveys, in-line inspections, and external assessments. When SoCalGas discovers deteriorated conditions, it will make an

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[554] SCG Ex-06.

[555] SCG Ex-06-CWP-R-E at 4.

[556] TURN Ex-05-R at 49.

[557] SCG Ex-206-2R at CHG-8.

engineering determination as to whether the pipeline needs replacement or repair to reduce risk. Pipeline conditions that may necessitate repair or replacement include corrosion, damage, and leakage. In addition, external and environmental factors, such as changes in class location due to expanding development, insufficient soil cover due to erosion, and other hazards, like subsidence and landslides, can lead to necessary pipeline replacements.[558]

For this activity, SoCalGas forecasts a total of $114.751 million for Pipeline Replacements, which is $40 million in 2022 and 2023, and $35 million in 2024.[559] The 2024 Test Year forecast would be a 36 percent reduction from the 2021 Base Year amount of $54.926 million.[560] The Company bases the reduced forecast on a five-year average of historical costs and adjustments for anticipated projects.

TURN does not contest this forecast but argues that the Commission should ignore overspending on this work, including "the 2022 Adjusted-Recorded expenditures when considering the reasonableness of the Transmission Pipeline Replacement forecast" because SoCalGas "did not provide any details as to the reason" that the adjusted-recorded expenditures exceeded the 2022 forecast.[561]

The Commission agrees with TURN[562] and finds insufficient evidence to adjust SoCalGas's forecasts from 2022-2024 due to adjusted-recorded expenditures that exceeded its 2022 forecast. Therefore, the Commission finds reasonable and adopts only the Pipeline Replacements amounts forecast for 2022,

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558 Sempra Opening Brief at 137-138.

559 Note that this total differs from the total of $169.926 million for Pipeline Replacements provided by SoCalGas in its Opening Brief at 140.

560 SCG Ex-06-2R at 66.

561 TURN Ex-05 at 52.

562 TURN Reply Brief at 10-11.

2023, and 2024 of $39.917 million, $39.917 million, and $34.917 million, respectively.

10.2.1.3. Pipeline Relocation – Freeway

The forecasted capital costs in the Pipeline Relocation - Freeway category include expenditures associated with relocating or altering SoCalGas pipelines and related facilities in response to requests from the California Department of Transportation (Caltrans) due to a pipeline's proximity to planned construction projects on freeways.[563]

For this activity, SoCalGas forecasts $1.701 million in 2022 and $0.201 million in 2023 and 2024. SoCalGas bases this forecast on the five-year average historical cost plus the additional labor and non-labor costs for two Caltrans projects for which the average was adjusted up in 2022. The Commission finds this forecast to be reasonable and adopts it**.**

10.2.1.4. Pipeline Relocations – Franchise or Private

The Pipeline Relocations – Franchise or Private category includes expenditures associated with relocating or altering SoCalGas facilities in response to private property owners or city and county agencies according to franchise agreements. Such requests are made to relocate pipelines that, if left in their current location, would interfere with the construction of roads or railway systems, and include street widening, resurfacing, storm drainage, water, and sewage projects.[564]

The 2024 forecast of $10.007 million was established using the 2021 Base Year with a downward adjustment of $1 million due to there being no known

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[563] SCG Ex-06-2R-E at 69.

[564] SCG Ex-06-2R-E at 71.

projects in 2023 and 2024.[565] The 2024 forecasted amount is below the average for the 2017-2021 period.[566] Even though the 2024 forecast is lower than the 2021 Base Year and the 2017-2021 five-year average, SoCalGas did not provide sufficient information to support its forecasted requests. The Commission does not find this to be reasonable. Instead, the Commission finds it reasonable to use the 2022 actual amount of $7.022 million for each year for the 2022-2024 period.[567]

10.2.1.5. Control Center Modernization

The CCM Project is made up of multiple O&M and capital activities that impact gas transmission costs.[568] This Section details the capital costs and activities specifically related to the OPM stations and HCA methane sensors. Adding real-time pipeline right-of-way HCA methane detection sensors near buildings that are high occupancy, pose evacuation challenges, or are near large transmission pipelines allows fast identification of, response to, and remediation of potential leaks on the transmission system, 24 hours a day and seven days a week.[569]

For this activity, SoCalGas forecasts $3.746 million in 2024. SoCalGas uses a zero-based budget for this forecast because this work started in mid-2020 and carried into 2021.[570]

Cal Advocates recommends reducing this forecast using the 2022 forecast of $2.038 million in 2023 and 2024, which would result in a total reduction of

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565 SCG Ex-06-2R-E at 71-72.

566 SCG Ex-06-CWP-R-E at 41.

567 SCG Ex-302.

568 SCG Ex-06-2R-E at 83.

569 Sempra Opening Brief at 138.

570 SCG Ex-06-2R-E at 84.

$2.278 million of SoCalGas's capital forecast for the CCM Project. Cal Advocates bases its recommendation on the following: (1) the installation and integration of transmission field assets ahead of completion of the new Gas Control Center is unnecessary; (2) the methane sensors' installation schedule has been extended to 2028, so some costs are outside of this rate cycle; and (3) SoCalGas did not spend all of the CCM Project funds authorized in the 2019 GRC.[571] In addition, Cal Advocates argues that SoCalGas has already received ratepayer funding for this project and has not justified its requested increases for 2022-2024.[572]

TURN does not recommend any reduction but proposes certain recommendations and caps with respect to the CCM building costs as a whole. Specifically, TURN recommends that the Commission "cap cost recovery at the comparable facility costs on a per square foot basis (i.e., the PG&E control center)." TURN cites what it describes as cost inconsistencies and the expansion of the CCM Project to argue that the Commission "mandate… a holistic accounting" and cap cost recovery at a similar per-square-foot basis as comparable facilities.[573]

In response, SoCalGas states that it did not spend the entirety of the CCM Project money authorized from the 2019 GRC because the CCM Project (referred to as the Distribution Operations Control Center project in the 2019 GRC) underwent a full scope reevaluation which impacted the schedule, resourcing needs, and costs. Due to these reevaluations, SoCalGas states that the CCM Project schedule has been refined, the final CCM Project deployment completion

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571 CA Ex-02-E at 15.

572 Cal Advocates Opening Brief at 61.

573 TURN Opening Brief at 114.

date has been moved from 2024 to 2028, and system benefits will gradually accrue during this timeframe.[574]

The Commission previously approved the CCM Project in the 2019 GRC, including SoCalGas's capital requests related to the project. Now SoCalGas states that the Commission should adopt SoCalGas's capital forecasts for the CCM Project consistent with its approval in 2019. However, SoCalGas is making the same request at a higher total cost for a delayed schedule. The Commission declines this request because SoCalGas has not provided sufficient justification for the reevaluation, change in scope, reasons for the delay, or the increased total cost. Accordingly, for SoCalGas's gas transmission CCM capital costs for 2023 and 2024, the Commission adopts $2.038 million in 2023 and 2024. The Commission also adopts SoCalGas's forecast of $2.038 million for 2022.

10.2.1.6. Uncontested SoCalGas Capital Gas Transmission Expenditures

The following SoCalGas capital expenditures forecasts are uncontested for 2022, 2023, and 2024, respectively: $13.0 million, $13.0 million, and $10.0 million for Compressor Stations; $8.0 million, $8.0 million, and $7.0 million for Cathodic Protection; $47.631 million, $52.774 million, and $35.632 million for Measurement and Regulation Stations; $4.0 million, $3.0 million, and $3.0 million for Security & Auxiliary Equipment; $1.0 million, $1.0 million, and $1.0 million for Buildings & Improvements; $0.892 million, $0.892 million, and $0.892 million for Capital Tools; and $39.004 million, $0.370 million, and $0 for the Blythe Compressor Station Modernization.[575]

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[574] Sempra Opening Brief at 140.

[575] Sempra Opening Brief at 140.

The Commission finds these reduced costs based on the methodologies and their applications to the subcategories in SoCalGas's testimony and workpapers to be reasonable and adopts them. The capital cost forecasts for 2022, 2023, and 2024 for two ENVOY information technology systems that support Gas System Control operations are addressed in the Information Technology Section.

10.2.1.7. Core Balancing Project Reasonableness Review

SoCalGas seeks a reasonableness review of $6.914 million incurred in the successful implementation of the Core Balancing Project which comprises the Advanced Metering Infrastructure Data Aggregation System (AMI DAS) and Scheduled Quantity Trading Automation (SQTA). SoCalGas recorded these expenses in the Core Gas Balancing Memorandum Account and is requesting to recover these expenses in this GRC pursuant to Ordering Paragraph 8 of D.19-08-002.[576]

In D.19-08-002, the Commission established a cost estimate of $8.7 million for the AMI DAS including costs for the scheduled quantity imbalance trading automation buildout for ENVOY,[577] the SoCalGas online platform that shows the condition of its natural gas transmission system. To reconcile the estimate with the actual cost, the Commission required SoCalGas to establish the memorandum account to record costs for the AMI DAS, automation of SQTA for ENVOY, and other costs associated with requiring gas acquisition to balance to estimated actual consumption, for review in this GRC.[578]

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[576] Sempra Opening Brief at 140.

[577] *See* https://www.socalgasenvoy.com.

[578] D.19-08-002, OPs 7 and 8.

SoCalGas successfully implemented the Core Balancing Project, including AMI DAS and SQTA, at a cost of $6.914 million ($6.065 million in capital expenses and $0.849 million in O&M expenses, including ongoing O&M), which was under budget by $1.786 million.[579] This request is unopposed and is reasonable.

10.2.2. SDG&E Capital Expenditures Gas Transmission

Table 10.4: SDG&E Capital Expenditures Summary of Costs Gas Transmission Operations & Construction (In 2021 $000s)[580]

Categories of Management	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Pipeline Replacements	4,036	19,288	1,994	1,994
Compressor Stations	10,308	6,564	6,564	6,564
Cathodic Protection	959	959	959	959
Measurement & Regulator Stations	1,636	1,636	1,637	1,637
Security & Auxiliary Equipment	230	230	317	404
Capital Tools	369	148	148	148
Moreno Compressor Modernization	N/A	N/A	N/A	N/A
Total	**17,538**	**28,826**	**11,619**	**11,706**

10.2.2.1. Moreno Compressor Modernization Project

The Moreno Compressor Modernization (MCM) Project consists of two components. The first component consists of installing new compression equipment at the Moreno Compressor Station to comply with South Coast Air

[579] Sempra Opening Brief at 141.

[580] SDG&E Ex-06-E at 24.

Quality Management District's (SCAQMD) Regional Clean Air Incentives Market (RECLAIM) sunset requirements. In the last GRC, the Commission approved this project and encouraged Sempra Utilities to place a high priority on this project due to the age of the compressor making it important for reliability, safety, and mitigating risks.[581] Since 2019, the project has changed in scope, partly due to the new SCAQMD requirements, and SDG&E completed some construction/planning activity for this project in 2022 and 2023.

The second component consists of the Advanced Renewable Energy (ARE) component of the MCM Project, including the use of electrolyzers powered by SCE's Green Tariff program to produce green hydrogen onsite at the MCM Project for use in the compressor, to refuel vehicles, and to power a microgrid for administrative and auxiliary electrical needs.[582] The ARE component includes new lean-burn compressors that are intended to be run on a mix of 90 percent natural gas and 10 percent hydrogen (created through a facility in the ARE components) but may be run on 100 percent natural gas.[583]

Air Products and other intervenors oppose the ARE component and the ratepayer funded investments in the production and use of hydrogen based on various policy reasons, including its cost-effectiveness.[584]

In its opening brief, Cal Advocates opposed the MCM Project as initially proposed by Sempra on the grounds that Sempra's forecast was not sufficiently supported.[585] Cal Advocates argued that Sempra Utilities should remove the

[581] D.19-09-151 at 116-117.

[582] Sempra Opening Brief at 142.

[583] SCG Ex-10-R at 7-8.

[584] Air Products Opening Brief at 7.

[585] Cal Advocates Opening Brief at 356-357.

MCM Project from the PTY Ratemaking and place the project in the next GRC or a separate application because "limited delays would push the completion date into the next GRC."[586]

Subsequently, in its October 24, 2023 motion for approval of a settlement, Cal Advocates and Sempra Utilities recommended adoption of the MCM Project in the reduced amount of $10.086 million in 2022, $73.667 million in 2023, $163.446 million in 2024, $140.378 million in 2025, $18.921 million in 2026, and $3.237 million in 2027[587] or $409.735 million total (in 2021 Base Year constant dollars) for the compressor installation only when the component goes into service in 2026. In addition, Sempra Utilities requests an additional amount of $19.960 million for additional costs incurred since 2015 without further explanation.[588]

TURN argues against the use of balancing accounts to authorize spending on the MCM Project. If, however, balancing accounts are authorized in this GRC, TURN recommends requiring an application for reasonableness review rather than reviewing costs through advice letters.[589]

The Commission finds that the MCM Project is important for safety and reliability and for mitigating the risk of impacting future customer costs and non-compliance with SCAQMD regulations for various reasons.[590] SDG&E's gas system in San Diego County is not directly connected to gas storage.[591] The

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586 CA Ex-20 at 22.

587 SDG&E Ex-06-E, Appendix B at 5.

588 SDG&E Ex-06-E, Appendix B at 5.

589 TURN Opening Brief at 436.

590 SDG&E Ex-06-R at 38.

591 SCG Ex-10-R at i, 2.

Moreno compressor has reached the end of its useful life, and its replacement is expected to decrease NOx emissions. Continuing to run the existing compressor risks failure, resulting in a loss of system reliability and high maintenance and commodity costs that would likely impact ratepayers. Given the opposition to the ARE component's production and use of hydrogen and the lack of opposition to MCM for the benefits described above, the Commission finds approving the MCM Project without the ARE component to be reasonable.

Because the project's forecasted costs have significantly risen, the Commission also adopts the following cost controls:

1. The amount authorized for this forecast is capped at $409.735 million.
2. The amount of the authorized cap includes the respective project costs already incurred during plant construction, called construction work in progress recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant is moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in other sections of this decision may be put into rates until these projects are in-service.
3. Sempra Utilities may seek recovery of the actual cost of this project, only up to the amount of the cap, once it is completed and placed in service, via a Tier 2 Advice Letter.

10.2.2.2. Litigated Project Cost Memorandum Account

The Commission finds that Sempra Utilities has not demonstrated sufficient uncertainty to warrant the authorization of an LPCMA. Sempra Utilities is not at significant risk of experiencing systematic major unfunded capital costs due to court-ordered reversals of the classification of capital projects that were originally deemed to be collectible. In addition, utility regulation, especially when based on a future Test Year, is not designed to be 100 percent risk-free. It is designed to allow utilities to retain the difference between what was authorized in the future Test Year and what was spent, if utilities can devise more cost-effective ways to do business. In addition, with Test Year rate making, utilities assume the risk of spending more than what they were authorized if unexpected expenses or capital additions are necessary.

10.2.2.3. Security and Auxiliary Equipment

The Auxiliary Equipment & Infrastructure capital category captures the cost of equipment used to support the natural gas transmission system operations that cannot appropriately be assigned to a specific project. This category includes, among other items, physical security upgrades to energy infrastructure and equipment to assist SDG&E with real-time monitoring of land movement. Security and auxiliary equipment consist of the planning, installation, construction, and closeout of security cameras, lighting, gates, locks, and equipment upgrades such as pipe supports and analyzers at gas transmission facilities to increase security, personnel safety, and reduce system damage.[592]

For this activity, SDG&E forecasts $0.404 million in 2024, which is an increase of $0.174 million over the 2021 baseline amount of $0.230 million.[593] The 2024 forecast is based on the 2021 Base Year plus the costs for 10 methane sensors in 2023 and 20 additional sensors in 2024.[594] The Commission finds SDG&E's methodology and the resulting forecast to be reasonable and adopts it. The Commission also adopts 2022 and 2023 forecasts of $0.230 million and $0.317 million, respectively.

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592 SDG&E Ex-06-E at 34-35.

593 SDG&E Ex-06-E at 34.

594 SDG&E Ex-06-E at 34.

10.2.2.4. Uncontested SDG&E Capital Gas Transmission Expenditures

The following SDG&E capital costs are uncontested: Pipeline Replacements of $1.994 million for 2024, $1.994 million for 2023, and $19.288 million for 2022; Compressor Stations of $6.564 million for each of the years 2024, 2023, and 2022; Cathodic Protection of $0.959 million for each of the years 2024, 2023, and 2022; Measurement and Regulation Stations of $1.637 million for each of the years 2024, 2023, and 2022; and Capital Tools of $0.148 million for each of the years 2024, 2023, and 2022.[595]

Based on SDG&E's methodology and supporting documents, the Commission finds these costs to be reasonable and adopts them.

11. Gas Engineering

The purpose of Gas Engineering is (1) to establish and oversee the engineering aspects of the gas infrastructure for satisfying federal and state environmental and safety requirements; (2) to implement industry best practices; and (3) to optimize infrastructure and end-use equipment performance for SoCalGas and SDG&E. Gas Engineering supports all groups within SoCalGas and SDG&E that need engineering support or guidance related to the gas infrastructure or end-use equipment, including but not limited to the key operating groups such as Transmission, Distribution, Storage, and Customer Services. This support includes engineering programs, training, guidance, policies, designs, testing,[596] and data analytics focused on providing safe,

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595 SDG&E Ex-6E at 24.

596 -SCG Ex-07 at v.

compliant, reliable, resilient, and cost-effective energy infrastructure for both SoCalGas and SDG&E.[597]

11.1. SoCalGas

11.1.1. SoCalGas Non-Shared and Shared O&M

For Gas Engineering Non-Shared and Shared 2024 O&M, SoCalGas requests a total of $32.910 million,[598] which represents a 9 percent increase of $2.745 million over the 2021 Base Year cost of $30.166 million. SoCalGas bases this increase on adjustments needed to support changes in state and federal regulation, increased safety activities, and development of new processes and procedures to improve safety, as well as reflecting changes in growth of certain teams in recent years.[599]

11.1.1.1. Hydrogen-Related Programs

Gas Engineering's costs related to the use of hydrogen are primarily for hydrogen blending programs, which are primarily focused on efforts to prepare SoCalGas for the potential introduction of hydrogen into SoCalGas's existing gas system infrastructure.[600]

PCF, CEJA, and Air Products all recommend disallowing $1.8 million in gas engineering for hydrogen-related projects. The intervenors generally argue against funding for hydrogen-related projects because this technology is in an early-stage development phase, it has not been comprehensively analyzed, and SoCalGas has not demonstrated that it is cost-effective.[601]

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597 Sempra Opening Brief at 144.

598 Sempra Opening Brief at 145.

599 Sempra Opening Brief at 144.

600 Sempra Opening Brief at 149.

601 CEJA Reply Brief at 9.

SoCalGas claims that the intervenors' opposition is not consistent with Gas Engineering's activities that align with state policy supporting the use of hydrogen to combat regional air pollution and climate change.[602]

However, state policy to combat climate is more complex than SoCalGas claims: there are other competing considerations, such as cost-effectiveness and affordability, which SoCalGas has not sufficiently considered in developing this forecast. For example, this funding could also be duplicative of costs requested in the hydrogen blending pilot application, and this work would be relevant to that application as opposed to this GRC. Considering all relevant state policy, the Commission agrees that it is reasonable to remove $1.8 million in gas engineering for hydrogen-related projects from SoCalGas's Gas Engineering O&M cost as follows: the Analysis, Testing, and Materials request will be decreased by $0.063 million to $2.599 million; and the Director of Gas Engineering, VP of Gas Engineering/System Integrity and Hydrogen cost centers request will be decreased by $1.737 million to $1.907 million.

SoCalGas's Gas Engineering Fleet Services request is addressed in the Fleet Services Section.

11.1.1.2. Morongo Rights-of-Way Memorandum Account

SoCalGas operates three gas transmission pipelines (Lines 2000, 2001, and 5000) across federal land held in trust for the Morongo Band of Mission Indians (Morongo Tribe) near Cabazon, California. SoCalGas also operates a gas distribution system located on the Morongo reservation serving the residential and commercial needs of the Morongo community. The three gas transmission pipelines transport gas received from interstate pipelines, representing over

602 Sempra Opening Brief at 149-150.

20 percent of the total system receipt point capacity that serves SoCalGas's customers, including Morongo Tribe and the SDG&E gas delivery system.[603]

SoCalGas maintains the three pipelines and gas distribution system subject to four existing rights-of-way granted by the Department of Interior (DOI) through the federal Bureau of Indian Affairs (BIA), which were scheduled to expire during the last GRC cycle.[604]

SoCalGas established the Morongo Rights-of-Way Memorandum Account (MROWMA) to record costs associated with the renewal of expiring rights-of-way within the Morongo Reservation consistent with D.19-09-051, which authorized recovery of such costs in this GRC subject to reasonableness review.

After several years of negotiations, SoCalGas reached an agreement with Morongo Tribe to renew the right-of-way agreements for two of the gas transmission pipelines (Lines 2001 and 5000) and allow the third agreement (Line 2000) to expire in 2020.[605]

SoCalGas seeks recovery of costs incurred through 2020 related to renegotiating the right-of-way (ROW) agreements between SoCalGas and Morongo Tribe. SoCalGas requests that approximately $105.8 million be added to plant-in-service recorded in the MROWMA.[606]

TURN-SCGC recommends that the Commission deny SoCalGas's request to recover $4.6 million in pre-2019 direct O&M expenses incurred for associated Allowance for Funds Used During Construction (AFUDC) while pursuing renewal of the right-of-way agreements with Morongo Tribe because these

603 SCG Ex-07-R at 14.

604 SCG Ex-07-R at 14.

605 SCG Ex-07-R at 15.

606 TURN-SCGC Opening Brief at 2-3; TURN-SCGC Ex-02 at 2.

activities took place prior to the creation of the MROWMA.[607] TURN-SCGC does not oppose permitting SoCalGas to add to 2024 rate base the net plant-in-service balance of $101.2 million after accumulated depreciation, for the direct costs and overhead incurred during the 2019 GRC period.

In reply, SoCalGas contends that TURN-SCGC mischaracterizes SoCalGas's MROWMA request because D.19-09-051 authorized the MROWMA to record costs related to renewing rights-of-way, and SoCalGas incurred pre-2019 renewal costs for this purpose.[608] SoCalGas states that "the $4.6 million of pre-2019 expenses in dispute relate to obtaining rights-of-way and were not previously recovered in prior GRC cycles."[609] However, D.19-09-051 does not support this statement, stating that "the findings and conclusions made in D.18-04-012 are applicable here with respect to pre-construction costs prior to periods covered in this GRC as these costs are deemed included in SoCalGas's 2016 GRC."[610]

Moreover, D.19-09-051 denied the establishment of the Morongo Rights-of-Way Balancing Account (MROWBA), ordering that these costs be tracked in the MROWMA instead. The MROWBA would have recorded costs associated with the renewal of the expiring ROWs as well as pre-construction costs associated with potential relocations that were incurred effective January 1, 2019.[611]

Based on the above, the Commission adopts $101.2 million consistent with the net plant-in-service balance recorded in the MROWMA since Morongo Rights-of-Way costs incurred prior to January 1, 2019, have been collected in

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607 TURN-SCGC Opening Brief at 2-4.

608 Sempra Reply Brief at 113.

609 Sempra Reply Brief at 113.

610 D.19-09-051 at 138-139.

611 D.19-09-051 at 135, 147.

previous GRC cycles. In addition, the Commission finds that SoCalGas's request to recover $4.6 million in pre-2019 O&M expenses is not supported because such costs were not authorized by either the MROWBA or MROWMA.

11.1.1.3. Remaining SoCalGas Gas Engineering O&M

The following SoCalGas Non-Shared O&M forecasted expenditures are uncontested:

- Analysis, Testing, and Materials: $6.949 million in 2024.
- Measurement and Regulations: $4.711 million in 2024.
- Land and Right-of-Way: $3.931 million in 2024.
- Research, Plastic Material, and Aviation: $0.721 million in 2024.

The following SoCalGas Shared O&M expenditures are uncontested:

- Analysis, Testing, and Materials: $2.599 million in 2024.[612]
- Measurement and Regulations: $3.997 million in 2024.
- Research, Plastics, and Aviation: $0.078 million in 2024.
- Engineering Design and Management: $6.218 million in 2024.

Based on the methodologies and their applications to the subcategories in SoCalGas's testimony and workpapers, the Commission finds these costs to be reasonable and adopts them.

[612] SCG Ex-07-WP-R at 43. Analysis, Testing, and Materials includes one Associate Engineer to support Hydrogen (H2) and Renewable Natural Gas (RNG) for $0.063 million. Hydrogen funding was protested. The $2.599 million reflected here includes a reduction of $0.063 million attributed to the Associate Engineer supporting H2 and RNG.

11.1.2. SoCalGas Capital

SoCalGas's Gas Engineering operations include costs related to land rights, capital tools, laboratory equipment, and the overheads for the local Supervision and Engineering capital pool for gas transmission projects.[613]

11.1.2.1. Engineering Tools and Equipment

This capital cost includes funds needed to maintain, purchase, or upgrade laboratory equipment used in the Engineering Analysis Center (EAC) and its various laboratory activities related to testing of pipe samples, processing of environmental samples, emissions, odorization, and gas quality, among other activities. Various SoCalGas workgroups, including Air Quality and Compressor Services, Materials Quality Management, Non-Destructive Examination (NDE) Program, and the Applied Technologies Lab, use this laboratory for the above services.[614] Tools used by laboratory personnel include sensitive instruments for measuring a variety of materials, substances and gases; and ovens, burners, microscopes, scales, handling equipment, and tools for computed radiography.[615]

For these tools and equipment, SoCalGas forecasts $1.693 million annually for years 2022-2024.[616] SoCalGas bases this forecast on the five-year (2017-2021) average of recorded labor and non-labor costs because laboratory equipment costs are prone to fluctuations driven by supply and demand and changes in work activities that drive equipment needs. The Commission finds this methodology and resulting forecast to be reasonable and adopts them.[617]

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[613] Sempra Opening Brief at 151.

[614] SCG Ex-07-R at 36.

[615] SCG Ex-07-CWP-R at 39.

[616] SCG Ex-07-R at 36.

[617] Sempra Opening Brief at 151.

11.1.2.2. Aviation Services

SoCalGas requests new capital funding for the Aviation Services team to purchase Unmanned Aerial Vehicles (drones) and ancillary equipment needed to support Gas Operations to conduct historically challenging inspections at areas that are remote, difficult to access, or hazardous to patrol and perform leak surveys or emergency response.

For 2022, 2023, and 2024 Aviation Services, SoCalGas's forecasts are $0, $0.08 million, and $0.5 million, respectively. This forecast is based on the cost of purchasing drones and ancillary equipment.

The Commission finds the additional cost for the purchase of this advanced aerial-based technology and the related support costs to be an efficient use of resources that will enhance safety, responsiveness, and regulatory compliance. Accordingly, the amounts of $0, $0.08 million, and $0.5 million for 2022, 2023, and 2024, respectively, for SoCalGas Aviation Services are adopted.

11.1.2.3. Land Rights

This category provides funding to acquire land or land rights necessary to allow for the access, construction, operation, and maintenance of pipeline infrastructure on public and private properties. SoCalGas pays compensation for such property interests according to contract terms that allow access for the operation and maintenance of SoCalGas's pipeline infrastructure traversing public and private properties including Angeles National Forest, Los Padres National Forest, and San Bernardino National Forest.[618]

For 2022, 2023, and 2024 Land Rights, SoCalGas's forecasts are $1.4 million, $0.4 million, and $3.1 million, respectively. The 2024 increase represents an

[618] SCG Ex-07-R at 38.

increase of over 15 times the 2021 Base Year cost of $0.199 million.[619] SoCalGas bases this forecast on the five-year (2017-2021) average of recorded labor and non-labor costs plus one-time adjustments.

The 2017-2021 average cost for acquiring legal access to lands pipelines traverse is only $361,000. SoCalGas should have legal access to its pipelines, which may be obtained pursuant to federal law.[620] However, SoCalGas provides no baseline metrics for the rate at which SoCalGas acquired easements during this five-year period, such as the cost per mile of access. SoCalGas also does not demonstrate the necessity of increasing the pace of acquiring such access or what adjustments from the average support an increase in 2024 of over 8 times the historical average. SoCalGas states that Forest Service Master Special Use Permits will result in a more efficient process and alleviate the long lead delays arising from the receipt of authorizations and permits.[621] However, this does not support the increase in this forecast. Accordingly, the Commission does not find this forecast to be reasonable. Instead, the Commission finds the five-year average of $361,000 to be reasonable for each year in the 2022-2024 timeframe and adopts it. In the next GRC, SoCalGas shall support this forecast with historical and forecasted metrics for this work, such as the cost per mile of access, and indicate the status of SoCalGas's access to lands through which its pipelines traverse.

[619] SCG Ex-07-R at 38.

[620] 30 U.S.C. Section 185 *et seq*.

[621] SCG Ex-07-R at 39.

11.1.2.4. Supervision and Engineering Overhead Pool

This work category provides a pool for supervision and engineering overhead charges stemming from labor spent on capital projects and reassigned to costs specific to gas transmission projects.[622]

For 2022, 2023, and 2024, SoCalGas's forecasts for this category are $15.9 million, $15.9 million, and $18.9 million, respectively. SoCalGas states that it bases this forecast on a three-year average plus an adjustment of $3 million in 2024 to account for the settling of a cost related to construction activity that began in 2020.[623]

Cal Advocates recommends a reduction of $3 million for 2024 because: 1) the $3 million addition for 2024 is not supported; and 2) Cal Advocates specifically requested details and supporting documentation, such as contracts and invoices associated with the $3 million increase for 2024, and SoCalGas failed to provide supporting documentation. TURN recommends a reduction for the same reasons, except that it proposes a total reduction of $6.825 million based on using a five-year average instead of a three-year average with no adjustment for 2024 due to significant variability in historical costs.[624] TURN's recommendation decreases the 2022 request by $3.462 million, the 2023 request by $2.225 million, and the 2024 request by $1.137 million.

In reply, SoCalGas describes the parties' exchanges of documents and provides more detail regarding the 2024 $3 million adjustment.[625] However, the

[622] SCG Ex-07-R at 39; SCG Ex-07-CWP-R at 39.

[623] SCG Ex-07-R at 40.

[624] TURN Opening Brief at 116-117.

[625] Sempra Reply Brief at 110-112.

Commission finds that SoCalGas has failed to provide sufficient evidence to support the adjustment partly because the $3 million adjustment described in its workpapers is only for non-labor, which is inconsistent with how it is attributed to both labor and non-labor components under the Forecast Methodology of the same workpapers.[626] As a result, the Commission finds the more recent three-year average captures recent increases in construction activity for which engineering support is needed. Based on the above, the Commission adopts $15.9 million annually for 2022 to 2024.

11.1.2.5. Remaining SoCalGas Gas Capital

SoCalGas forecasts capital expenditures for Engineering Tools and Equipment in the amount of $1.693 million in 2022, $1.773 million in 2023, and $2.193 million in 2024. This forecast is uncontested. Based on SoCalGas's testimony and workpapers, the Commission finds these costs to be reasonable and adopts them.

11.1.2.6. SDG&E Capital Gas Engineering

SDG&E requests approval of a capital Gas Engineering forecast in the amount of $295,000 annually for 2022-2024. The annual amount is less than the 2021 Base Year cost of $336,000, and the 2022-2024 forecast is uncontested. This forecast is based on a five-year historical average.[627] Based on this methodology and its application in SDG&E's testimony and workpapers, the Commission finds this forecast to be reasonable and adopts it.

12. Pipeline Safety Enhancement Plan Programs

Following the rupture and ignition of a 30-inch diameter natural gas transmission pipeline in San Bruno, California in 2010, the Commission opened a

[626] SCG Ex-07-CWP-R at 32-33.

[627] Sempra Opening Brief at 156-158; SDG&E Ex-07-R at MTM-5.

proceeding[628] and mandated Pipeline Safety Enhancement Plans (PSEPs)[629] to pressure test or replace all natural gas transmission pipelines in California that had not been tested or for which reliable records were not available, as soon as practicable.[630] The Commission also required that the plans "address retrofitting pipelines to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves" and include "increased patrols and leak surveys, pressure reductions, prioritization of pressure testing for critical pipelines that must run at or near Maximum Allowable Operating Pressure (MAOP) values."[631] These programs involve the enhancement of valve infrastructure[632] (automated or remote controlled shut-off valves, which augment existing valve infrastructure to accelerate each utility's ability to identify, isolate, and contain escaping gas in the event of a pipeline rupture).[633] The broad objectives of PSEP are to enhance public safety, comply with Commission directives, minimize customer impacts, and maximize the cost effectiveness of safety investments. [634]

In 2014, SoCalGas and SDG&E filed an implementation plan, which the Commission approved. The PSEP included a decision tree to guide decision-making on which segments should be hydrotested, replaced, or abandoned, and also included a proposed valve enhancement plan, technology plan, and

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[628] R.11-02-019.

[629] D.14-06-007.

[630] D.11-06-017 at 18-19.

[631] Sempra Opening Brief at 161.

[632] SCG Ex-08 at 1; SDGE Ex-08 at 11.

[633] SCG Ex-08 at 14-15. In this GRC, SoCalGas is presenting a forecast associated with a small number of valve enhancement projects which are anticipated to be completed in 2025.

[634] SCG Ex-08 at BGK-1.

preliminary cost forecasts. In approving the plan, the Commission "adopt[ed] the concepts embodied in the Decision Tree" to guide whether specific segments should be pressure tested, replaced, or abandoned; "adopt[ed] the intended scope of work as summarized by the Decision Tree;" and "adopt[ed] the Phase 1 analytical approach for Safety Enhancement… as embodied in the Decision Tree… and related descriptive testimony."[635]

To enable review of the implementation plan, the Commission ordered SoCalGas and SDG&E to create certain balancing accounts to record capital and O&M costs and to "file an application with testimony and work papers to demonstrate the reasonableness of the costs incurred which would justify rate recovery." However, subsequently the Commission ordered PSEP to be brought within the GRC regulatory process. Accordingly, SoCalGas and SDG&E filed the first reasonableness review application in 2014, in which the Commission approved the application, finding that SoCalGas's and SDG&E's actions and expenses were reasonable and consistent with the reasonable manager standard, with one exception related to insurance coverage.[636]

As part of these programs, each utility prioritizes pipelines located in more populated areas and those that operate at higher stress levels.[637] To implement this prioritization process, the PSEP is divided into two initial Phases, Phase 1 and Phase 2,[638] which are sub-divided into two parts, Phases 1A and 1B, and Phases 2A and 2B. Phase 1A encompasses pipelines located in Class 3 and 4 locations and Class 1 and 2 locations in high consequence areas (HCAs) that do not have

[635] Sempra Opening Brief at 161-162.

[636] Sempra Opening Brief at 162.

[637] SCG Ex-08 at BGK-1.

[638] SCG Ex-08 at BGK-1.

sufficient documentation of a hydrotest to at least 1.25 times the MAOP;[639] Phase 1B replaces non-piggable pipelines[640] installed prior to 1946 with new pipe constructed using state-of-the-art methods and up to modern standards, including current hydrotest standards; Phase 2A addresses the remaining transmission pipelines that do not have sufficient documentation of a hydrotest to at least 1.25 MAOP and are in Class 1 and 2 non-HCAs;[641] and Phase 2B addresses pipelines that have documentation of a hydrotest that predates the adoption of federal hydrotesting regulations.[642] The scope of PSEP also includes valve enhancement projects, which did not include contingency factors in their forecasts.

In 2016, SoCalGas integrated PSEP into a GRC with the filing of its 2019 GRC application.[643] It included SoCalGas Phase 2A and Phase 1B PSEP pipeline projects and 284 valve projects, as well as miscellaneous costs associated with the continuing implementation of PSEP.[644] Since then, SoCalGas and SDG&E filed several other applications, which have been reviewed and approved by the Commission.[645]

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639 SCG Ex-08 at BGK-12.

640 SCG Ex-08 at 13 (Non-piggable pipelines cannot accommodate in-line inspection tools or “pigs” that assess pipeline integrity).

641 SCG Ex-08 at BGK-13.

642 SCG Ex-08 at 13; 49 C.F.R. Part 192, Subpart J (November 12, 1970). SoCalGas does not include a Phase 2B-related forecast in this GRC because SoCalGas is proposing to merge it into an overarching Integrated Safety Enhancement Plan (ISEP) to address the directives of the Phase 2B implementation plan ordered in D.19-09-051. SCG Ex-08 at 14.

643 D.16-08-003.

644 Sempra Opening Brief at 163.

645 Sempra Opening Brief at 162-163.

12.1. SoCalGas

For a portfolio of 33 PSEP projects, included in the two tables below, that are candidates for execution within this GRC period, SoCalGas forecasts $54.214 million in O&M for pressure test projects and $141.509 million, $101.920 million, and $73.810 million, respectively, for 2022-2024 capital pipeline replacement projects and the capital components of hydrotests and valve projects (a total of $317.239 million).[646] The tables below illustrate capital costs attributed to PSEP Phase 1B/2A Replacement projects (which total $414.479 million, Table in Table 12.1) and Hydrotest 2A projects ($146.751 million, Table 12.2) that are candidates for execution in this GRC, amounting to $561.23 million.

Table 12.1
GRC Capital Pipeline Projects (Direct Cost in $000s)

Project	Category	Phase	Capital
38-100	Replacement	2A	1,525
38-539	Replacement	2A	61,131
44-707	Replacement	2A	1,754
44-729	Replacement	2A	2,249
85 North Lake Station to Grapevine Road	Replacement	1B	176,265
159	Replacement	2A	1,116
225 North Coles Levee	Replacement	2A	6,838
235 East Kelso	Replacement	2A	3,905
1004 Section 2	Replacement	1B	25,751
Station Piping	Replacement	2A	3,677
44-306/44-307	Retrofit	1B	98,326
41-6000-1	Abandonment	2A	9,528
38-101 Section 3	Derate	1B	9,059

[646] SCG Ex-208 at 1, 25, 37; SCG Opening Brief at 159.

Project	Category	Phase	Capital
38-2101	Derate	2A	2,835
133	Derate	2A	4,646
38-143	Derate/Replace	1B	5,871
Total Capital Pipeline Costs			**414,479**

Table 12.2
GRC PSEP Hydrotest Projects
(Direct Costs – in 2021 $000s)

Project	Phase	Location	Mileage	O&M Cost	Capital Cost	Total Cost
38-362	2A	Kern County	7.31	6,323	3,521	9,844
38-504	2A	Kern County	1.34	446	149	595
225 South	2A	Angeles National Forest	10.60	10,453	3,916	14,369
235 East Section 1	2A	San Bernardino County	58.08	42,485	14,635	57,120
235 East Section 2	2A	San Bernardino County	56.33	34,911	13,088	47,999
Line 257	2A	Santa Barbara County	0.02	2,083	588	2,617
404 Section 12	2A	Ventura County	6.07	3,804	1,771	5,579
406	2A	Ventura County	14.32	24,126	9,973	34,099
1004	2A	Ventura County	0.43	2,511	1,163	3,674
1005	2A	Ventura County	15.20	13,794	5,321	19,115
3000 East	2A	San Bernardino County	115.15	75,751	39,350	115,100
4000	2A	San Bernardino County	45.85	72,506	33,930	106,435
36-9-09 North	2A	San Luis Obispo County	0.52	553	1,658	2,211
38-952	2A	Kern County	9.22	4,960	17,688	22,648
Total Hydrotest Project Costs			**340.4**	**294,706**	**146,751**	**441,457**

The pressure test projects are Phase 2A projects, while the replacement projects are a mix of Phase 2A and Phase 1B projects.[647] SoCalGas indicates that its forecasts are based on a project-by-project basis, including preliminary engineering and project planning analyses[648] for 17 percent of the total O&M portfolio forecast for 2024 and 56 percent of the total capital portfolio forecast for 2022-2024, rather than for specific projects within the portfolio.[649] SoCalGas requests the flexibility to determine which specific projects in the portfolio it will undertake during this time based on pipeline system operational requirements and project execution schedule changes.

SoCalGas's project estimates include contingency elements recognized by the Association for the Advancement of Cost Engineering (ACEE). SoCalGas states that contingencies are the individual risk assessments SoCalGas performed for each project, and that they do not protect against all risk. According to industry guidance, SoCalGas states that an appropriate contingency is set at an amount "to achieve a 50 percent probability of project cost overrun versus underrun…," and that removing contingencies would result in a greater risk of cost overruns than of underruns.[650] For these PSEP projects, SoCalGas's individual analysis for each project resulted in an average contingency of 16 percent for hydrotest projects and 15 percent for capital pipeline projects.[651]

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647 TURN-SCGC Opening Brief at 13.

648 SCG Ex-08 at 19.

649 SCG Ex-08 at 19, fn. 38.

650 Sempra Reply Brief at 119.

651 Sempra Reply Brief at 120.

12.1.1. SoCalGas PSEP Phase 2A Hydrotest Projects

The Phase 2A hydrotest projects test sections of pipe that do not have sufficient documentation of a hydrotest to at least 1.25 times the MAOP and are located in Class 1 and 2 non-HCAs.[652] Table 12.2 includes the O&M and capital costs associated with hydrotest projects that are candidates for execution in this GRC.

12.1.1.1. SoCalGas's PSEP Phase 2A Hydrotest Projects O&M Request

SoCalGas seeks O&M forecast cost recovery of 17%[653] of the $294.706 million included in the table above because not all of the projects included in this table will be completed in this GRC cycle[654] – this fact is reflected in the approximate amount of $50.682 million in O&M requested for Hydrotest Projects in the table below. SoCalGas requests an additional $3.532 million in miscellaneous costs, for a total O&M request of $54.214 million.

Table 12.3
Summary of PSEP Forecast O&M Costs (in 2021 $000s)

	2021 Adjusted-Recorded	TY2024 Estimated	Change
Hydrotest Projects	61,260	50,682	(10,578)
Misc. Costs	2,822	3,532	710
Total Capital	**64,082**	**54,214**	**(9,868)**

12.1.1.2. SoCalGas's PSEP Capital Request

The capital costs of $146.751 million associated with the 14 hydrotest projects shown in the table above represent a subset of the $570 million capital

[652] SCG Ex-08 at 37.

[653] SCG Ex-08 at 19, fn. 38.

[654] Sempra Opening Brief at 168.

portfolio of which SoCalGas is requesting 56%[655] recovery for the 2022-2024 period. For replacement of the capital components of PSEP hydrotests, SoCalGas requests the 2022–2024 total capital recovery amounts included in the table below.[656]

Table 12.4
PSEP Replacement of Hydrotests

PSEP Replacement of Hydrotests - SoCalGas			
Categories	**2022 ($000s)**	**2023 ($000s)**	**2024 ($000s)**
A. Labor	5880	720	1,234
B. Non-Labor	16,197	12,991	20,989
Total	**17,077**	**13,711**	**22,223**

12.1.1.3. SoCalGas PSEP Pipeline Replacement Projects

SoCalGas seeks capital cost recovery of 19 Phase 1B and Phase 2A capital pipeline replacement projects.[657] The capital costs of $414.479 million associated with these 19 replacement projects represent a subset of the $570 million capital portfolio for which SoCalGas is requesting 56%[658] recovery in the 2022-2024 period.

12.1.1.4. SoCalGas PSEP Pipeline Replacement 1B Projects

The Phase 1B replacement projects will replace non-piggable pipelines installed prior to 1946 with new pipe meeting current hydrotest standards.[659] For

[655] SCG Ex-08 at 19, fn. 38.

[656] SCG Ex-08-CWP at 4.

[657] The Station Piping project consists of four small projects that are combined into one workpaper due to similar scopes of work.

[658] SCG Ex-08 at 19, fn. 38.

[659] SCG Ex-08-CWP at 25.

PSEP Replacement 1B projects, SoCalGas requests the 2022–2024 total capital recovery amounts included in the table below.[660]

Table 12.5
PSEP 1B Replacements

PSEP 1B Replacements – SoCalGas			
Categories	**2022 ($000s)**	**2023 ($000s)**	**2024 ($000s)**
A. Labor	1,942	2,684	1,055
B. Non-Labor	35,872	49,693	18,888
Total	**37,814**	**52,377**	**19,943**

12.1.1.5. SoCalGas PSEP Pipeline Replacement 2A Projects

D.16-08-003 authorized the creation of the Phase 2 Memorandum Account, "PSEP-P2MA," to record costs associated with Phase 2A projects included in the 2019 GRC (A.17-10-008) that had yet to be approved by the Commission.[661] Costs recorded in the PSEP-P2MA were not included in the PSEP revenue requirement request in A.17-10-008. Instead, they are included in costs for recovery in this filing, after which the PSEP-P2MA account will be closed.[662] For PSEP Replacement 2A projects, SoCalGas requests the 2022–2024 total capital funding amounts included in the table below.[663]

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660 SCG Ex-08-CWP at 22.

661 SCG Ex-08 at 54.

662 SCG Ex-08 at 54-55.

663 SCG Ex-08-CWP at 35.

Table 12.6
PSEP 2A Replacements

PSEP 2A Replacements – SoCalGas			
Categories	**2022 ($000s)**	**2023 ($000s)**	**2024 ($000s)**
A. Labor	732	300	2,507
B. Non-Labor	13,526	1,968	20,473
Total	**14,258**	**2,268**	**22,980**

12.1.1.6. SoCalGas PSEP Valve Enhancement Projects

For PSEP Valve Enhancement projects, SoCalGas requests the following 2022–2024 capital recovery amounts included in the table below.[664]

Table 12.7
PSEP Values

PSEP Valves – SoCalGas			
Categories	**2022 ($000s)**	**2023 ($000s)**	**2024 ($000s)**
A. Labor	5,412	2,508	648
B. Non-Labor	66,948	31,056	8,016
Total	**72,360**	**33,564**	**8,664**

In D.11-06-017, the Commission directed pipeline operators to address the installation of "automated or remote controlled shut off valves" in their proposed implementation plans.[665] In response to this directive, SoCalGas has submitted Valve Enhancement Plans as part of reasonableness review in the last GRC. The Valve Enhancement Plan works in concert with PSEP's pipeline testing and replacement plan to enhance system safety by augmenting existing valve infrastructure to accelerate SoCalGas's ability to identify, isolate, and contain escaping gas in the event of a pipeline rupture. As of the submittal of its

[664] SCG Ex-08-CWP at 50.

[665] SCG Ex-08 at 14.

Application, SoCalGas has initiated construction on approximately 55 percent of the installations presented in the 2019 GRC.[666]

In this GRC, SoCalGas forecasts PSEP valve enhancement for 2022, 2023, and 2024 of $72.360 million, 33.564 million, and 8.664 million, respectively.[667] Many of the valve projects presented in the 2019 GRC have been deferred for reasons such as permitting, easement, redesign, and other issues, or to optimize SoCalGas's resources and schedules by bundling smaller scope installations for later execution. In this GRC, SoCalGas is presenting a forecast associated with a small number of valve enhancement projects which are anticipated to be completed in 2025.

SoCalGas's testimony did not include the portfolio of valve capital projects that are candidates for execution in this GRC or explain how its 2022-2024 valve enhancement capital request was derived considering its statement that "approximately 56 percent of the $570 million capital portfolio… represents capital pipeline projects, capital components of hydrotests, and valves."[668]

12.1.2. Intervenor Positions and Recommendations

12.1.2.1. Cal Advocates' PSEP Recommendation

Cal Advocates does not oppose SoCalGas's PSEP request except that Cal Advocates recommends that the Commission normalize SoCalGas's

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666 SCG Ex-08 at 15.

667 SCG Ex-08-CWP-E at 50. SoCalGas did not assign contingency factors for PSEP Valve costs.

668 SCG Ex-08 at 19, fn. 38. The capital costs attributed to PSEP Phase 1B/2A Replacement and Hydrotest 2A projects that are candidates for execution are $414.479 million (Table BK-12) and $146.751 million (Table 14.7), respectively, and amount to $561.23 million. Given the $570 million capital portfolio SoCalGas states includes PSEP capital projects that are candidates for execution in this GRC, only $8.77 million ($570.0 million- $561.23 million) could be attributable to the executable valve capital projects in 2022-2024, yet SoCalGas forecasts $114.588 million in capital costs for 2022-2024 valve enhancement projects.

Miscellaneous O&M costs associated with "Capital Delivery Technology Costs," which total $1.140 million, over the four-year GRC cycle to reflect the O&M costs more accurately in rates. The normalization of SoCalGas's request results in an O&M amount of $285,000 associated with Capital Delivery Technology Costs for 2024 and for each of the years in this GRC cycle. The normalization of the Capital Delivery Technology Costs leads to a reduction in SoCalGas's Miscellaneous Cost from $3.532 million to $2.677 million, which is an overall decrease of $855,000 from SoCalGas's 2024 request. As a result, for 2024, Cal Advocates recommends $53.359 million for PSEP O&M compared to SoCalGas's request of $54.214 million, which SoCalGas does not oppose.[669]

Cal Advocates does not oppose SoCalGas's PSEP capital expenditure requests for 2022-2024, which include pipeline replacement, abandonment, derate, and valve enhancement projects.[670]

12.1.2.2. TURN-SCGC's PSEP Recommendation

TURN-SCGC recommends a reduction to SoCalGas's forecasts for pressure test and pipeline replacement projects to remove all contingency factors, or at least to remove contingency factors in excess of 10 percent, for several reasons.

First, TURN argues that, in prior decisions,[671] the Commission has not established that budgeting for contingencies is necessarily appropriate in a general rate case, where the utility must demonstrate the reasonableness of every dollar in its forecasted revenue requirement. Second, TURN argues that prior authorizations of contingencies are distinguished by factors different in this case, including that SoCalGas is well-positioned to accurately forecast PSEP costs in

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669 Sempra Reply Brief at 118.

670 Cal Advocates Opening Brief at 73-74.

671 D.21-08-036 and D.19-05-020.

this GRC and that D.19-09-051 established a PSEP Memorandum Account, in contrast to D.19-03-025 which adopted a one-way balancing account to protect ratepayers from overestimates. Third, SoCalGas has managed PSEP costs effectively. Finally, SoCalGas asks the Commission to authorize revenue requirements covering an "executable" level of work from the 33-project portfolio, including 17 percent of the portfolio O&M budget and 56 percent of the capital budget, rather than authorize revenue requirements for specific projects.[672]

12.1.3. Discussion

12.1.3.1. PSEP O&M & Capital: Contingencies

In reply, SoCalGas argues that its proposed contingencies in this GRC should be approved due to the imperative to complete PSEP "as soon as practicable," and its commitment to perform an executable level of PSEP work during this GRC cycle. In addition, SoCalGas argues that its proposed PSEP contingencies are consistent with industry standards and at levels consistent with Commission precedent.[673]

Based on all of the above, the Commission finds that the imperative for PSEP project contingencies is eliminated by the use of balancing accounts for such costs. The costs that arise from PSEP project contingencies will be reviewed after they are recorded in balancing accounts and presented for review.[674] As a result, the Commission adopts TURN's and TURN-SCGC's[675] recommendations to remove the 2023 and 2024 PSEP project contingencies from this GRC along with

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[672] TURN-SCGC Opening Brief at 23-28.

[673] Sempra Reply Brief at 118-126.

[674] After this GRC, the following balancing accounts will track PSEP costs: SECCBA-P2, SEEBA-P2, SECCBA, and SEEBA (both have 1A &1B subaccounts). These accounts are discussed further in the Regulatory Accounts Section.

[675] TURN-SCGC Opening Brief at 26-27.

Cal Advocates' unopposed recommendation to normalize Capital Delivery Technology O&M Costs.

To implement the latter recommendation, the Commission subtracts $0.855 million from SoCalGas's Miscellaneous O&M cost below.[48] Accordingly, the Commission adopts the reduced forecast of $43.526 million[676] for 2024 PSEP O&M (not including miscellaneous costs which are addressed below) and $108.969 million, $91.613 million, and $64.761 million, respectively, for 2022-2024 capital components of hydrotests, pipeline replacement projects, and PSEP valves.[677]

Table 12.8 Summary of PSEP Requests and Adopted Costs ($000s)

SoCalGas's 2023-2024 PSEP Capital Request – Excluding Valves ($000s)		
	2023	**2024**
Hydrotest (2A)	13,711	22,223
Replacements (2A)	2,268	22,980
Replacements (1B)	52,377	19,943
Totals	**68,356**	**65,146**
SoCalGas's 2023-2024 PSEP Capital Request – Excluding Valves *(Removing Contingencies*[678]*)*		
	2023	**2024**
Hydrotest (2A) – removing 16.44% contingencies	11,775	19,085
Replacements (2A) – *removing 14.94% contingencies*	1,973	19,993

676 $43.526 million is the PSEP O&M base amount that the contingency factor of 16.44% was applied to ($43.526M x 1.1644 = $50.682M); the base amount without the 16.44% contingency factor is adopted.

677 *See* TURN-SCGC Opening Brief at 28 for the adjustment factors applied to PSEP contingencies. The adopted amount in this decision relies on, but is not identical to, figures in TURN-SCGC's Opening Brief. An error in the calculation of the removal of contingency was found, which has been corrected here.

678 The table corrects the removal of the contingency factors calculated by TURN-SCGC. The 2023 and 2024 base amounts (to which the contingency factors had been applied) for Hydrotest 2A, Replacement 2A, and Replacement 1B projects are now reflected.

SoCalGas's 2023-2024 PSEP Capital Request – Excluding Valves ($000s)		
	2023	**2024**
Replacements (1B) - *removing 14.94% contingencies*	45,569	17,351
Total	**59,317**	**56,429**

Summary of Adopted 2022-2024 PSEP Capital Costs ($000s)				
Categories	**2022 (Recorded)**	**2023**	**2024**	**Total**
Hydrotest (2A)	19,477	11,775	19,085	50,337
Replacements (2A)	15,946	1,973	19,993	37,912
Replacements (1B)	17,298	45,569	17,351	80,218
PSEP Valves	56,248	32,296	8,332	96,876
Total	**108,969**	**91,613**	**64,761**	**265,343**

12.1.3.2. SoCalGas PSEP Miscellaneous O&M Costs

No party disputes SoCalGas's Miscellaneous PSEP programs. After incorporating Cal Advocates' recommendation and subtracting $0.855 million from SoCalGas's Miscellaneous cost of $3.532 million to normalize Capital Delivery Technology Costs, the Commission finds a reasonable amount for SoCalGas's Miscellaneous PSEP O&M cost to be $2.677 million. Based on SoCalGas's methodology and cost drivers in its supporting documents,[679] the Commission adopts the amount of $2.677 million in Miscellaneous PSEP O&M costs.

[679] Sempra Opening Brief at 166-174.

12.1.3.3. SoCalGas PSEP Capital Forecast[680]

To develop its 2022-2024 PSEP capital forecast, SoCalGas provides tables of projects that are candidates for execution of hydrotests[681] and pipeline[682] replacement projects. These tables detail $146.751 million in capital costs associated with candidates for execution of hydrotest projects and $414.479 million in capital costs associated with pipeline replacement projects, amounting to $561.23 million. SoCalGas's 2022-2024 capital request of $317 million in the table below is approximately 56 percent of the $570 million capital portfolio, which represents capital pipeline projects, capital components of hydrotests, and valves."[683]

Table 12.9[684]
Test Year 2024 Summary of Capital Forecast Costs in 2021 (in $000s)

Testimony Area	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Hydrotest Projects	16,391	17,077	13,711	22,223
Replacement Projects685	124,306	52,072	54,645	42,923
Valves	50,515	72,360	33,564	8,664
Total Capital	**191,212**	**141,509**	**101,920**	**73,810**

However, unlike for 1B/2A Replacement and 2A Hydrotest projects, SoCalGas does not provide a list of valve projects that are candidates for

680 Sempra Opening Brief at 175.

681 Sempra Opening Brief at 167-168 Table 14.7.

682 Sempra Opening Brief at 175-176 Table 14.10.

683 SCG Ex-08 at 19, fn. 38.

684 SCG Ex-08 at 2 Table BK-2.

685 Also includes derate and abandonment projects.

execution in this GRC nor does SoCalGas explain how the valve project costs of $72.360 million in 2022, $33.564 million in 2023, and $8.664 million in 2024 relate to SoCalGas's "~56 percent of the $570M capital portfolio"[686] resulting in a 2022-2024 total capital request of $317 million. Due to the lack of information in SoCalGas's 2022-2024 capital request, the Commission finds it reasonable to adopt SoCalGas's 2022 recorded costs of $19.477 million for Hydrotest 2A projects, $17.298 million for PSEP 1B projects, $15.946 million for PSEP 2A projects, and $56.248 million for PSEP Valve projects. Due to the insufficient information provided by SoCalGas and the anticipation of completing valve enhancement projects in 2025 with the requested funding, the Commission also adopts zero dollars for SoCalGas's PSEP Valve Enhancement Projects for years 2025, 2026, and 2027. After the contingency reductions noted above, the Commission adopts the following PSEP Capital costs.

Table 12.10
Summary of the Adopted 2022-2024 PSEP Capital Costs ($000s)

Testimony Area	2022	2023	2024	Total
Hydrotests (2A)	19,477	11,775	19,085	50,337
Replacements (2A)	15,946	1,973	19,993	37,912
Replacements (1B)	17,298	45,569	17,351	80,218
PSEP Valves	56,248	32,296	8,332	96,876
Total Capital	**108,969**	**91,613**	**64,761**	**265,343**

In the next GRC, SoCalGas shall describe how its PSEP hydrotest implementation plan complies with Pub. Util. Code Section 958 and pertinent federal regulations[687] and report the dates when each of the hydrotest and capital

[686] SCG Ex-08 at 19, fn. 38.

[687] 49 C.F.R. Part 192, Sections 192.607, 192.624, 192.634, and 192.636.

pipeline replacement projects in this forecast were completed along with the projects remaining to be completed.

12.1.3.4. SoCalGas PSEP Reasonableness Review

SoCalGas presents for reasonableness review activities and costs associated with PSEP projects completed between December 2015 and December 2020, representing 21 pipeline and bundled valve projects encompassing approximately 80 miles of transmission pipeline and 116 valves.[688] The cost components comprising SoCalGas's reasonableness review are individual hydrotest, replacement, derate, or abandonment projects, as well as miscellaneous costs and overall PSEP administrative costs that are not attributable to a specific project and other related indirect costs.[689]

SoCalGas attests that it acted as a prudent program operator as follows: (1) SoCalGas developed standards and procedures for consistent management, identified and incorporated process improvements, and ensured compliance with applicable regulatory requirements; (2) SoCalGas employed a seven-part Stage Gate Review Process to organize workflow and management review; (3) when evaluating whether to test or replace any particular pipeline segment, SoCalGas reviewed other considerations such as impacts to customers, incidental or accelerated mileage, and other means of service during construction; (4) SoCalGas collaborated with local stakeholders; (5) SoCalGas coordinated with other company projects; (6) SoCalGas conducted design and construction consistent with SoCalGas's standards to promote compliance, safety, and efficiency; (7) SoCalGas carefully considered information that was known at the time decisions

[688] Sempra Opening Brief at 180.

[689] Sempra Opening Brief at 181-188.

were made, exercising experienced and professional judgment in its decision-making; (8) all of the cost components were incurred in accordance with the Commission-approved PSEP decision tree and are properly presented for recovery through the reasonableness review process; (9) SoCalGas recorded PSEP O&M and capital expenses in the approved balancing accounts; and (10) the amount requested reflects the 50 percent interim rate recovery subject to refund by the Commission in D.16-08-003.[690]

SoCalGas requests recovery of the above PSEP costs presented for reasonableness review for the December 2015 – December 2020 period, in the amounts of $45.013 million for O&M and $453.765 million for capital,[691] broken down in the table below and totaling $498.778 million. No intervenors opposed this request.

Table 12.11
SoCalGas's PSEP Cost Recovery Request Breakdown

Project Areas	Capital ($000)	O&M ($000)
PSEP: 14 Replacement Projects	246,603	-
PSEP: 5 Hydrotest Projects	7,621	34,914
PSEP: 2 Derate/Abandonment Projects	37,457	-
PSEP: 116 Valve Enhancement Projects	135,067	6
a) PSEP Subtotal	426,208	34,920
b) Misc. Costs	2,517	10,093
c) Line 306 Purchase	25,040	-
Total (a-c)	**453,765**	**45,013**

690 Sempra Opening Brief at 180-181.

691 Sempra Opening Brief at 180.

Unlike the last three PSEP reasonableness review applications, which included active participation from intervenors, including Cal Advocates, TURN, and SCGC, only Cal Advocates filed testimony in this proceeding regarding PSEP reasonableness. In it, Cal Advocates only provided a one-page summary of PSEP recorded costs from 2017-2021 for comparison with forecasted costs, without any review of whether the 2015-2020 costs for which SoCalGas seeks recovery are reasonable.[692] Similarly, TURN-SCGC filed testimony regarding PSEP, but not regarding any of the PSEP reasonableness reviews.[693]

SoCalGas's testimony and workpapers regarding these costs reveal gaps in information that raise further questions regarding the reasonableness of these costs. The FTEs were not provided for company labor or for the construction contractors. To the extent that any other direct cost components[694] include labor, SoCalGas's supporting data lacks the cost of labor and associated FTEs to describe them. Additionally, SoCalGas does not explain how Allowance for Funds Used During Construction (AFUDC) and property taxes were estimated and what drives the differences between the reported estimates and actuals. SoCalGas did not make explicit the AFUDC rate or property tax rate, or the costs and property these rates were applied to. As a result, the Commission finds that SoCalGas has not met its burden at this time to demonstrate that its requested PSEP costs for the December 2015 – December 2020 period are reasonable.

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[692] CA Ex-03 at 9-10; Cal Advocates Opening Brief at 70-75.

[693] TURN-SCGC Ex-03.

[694] In addition to company labor and construction contractors, these include materials, construction management & support, environmental, engineering & design, project management & services, and rights-of-way & permits.

In its Opening Comments, SoCalGas argues that despite no opposition from any party, the proposed decision imposes an elevated burden of proof and evidentiary showing inconsistent with past PSEP reasonableness reviews and denies them due process by not providing notice of these additional requirements.[695] These arguments are not persuasive for several reasons. SoCalGas has the burden of proof, and the standard of proof is the preponderance of the evidence. To meet its burden, SoCalGas has the burden of affirmatively establishing the reasonableness of all aspects of its application.[696]

In this case, SoCalGas states that it provided AFUDC and property tax information in other areas of testimony with citations to the relevant exhibits. The Commission finds that this testimony does not provide sufficient information.[697] The Commission requires specific supporting material that provides a clear tieback to base data from the stated expenditure, along with an explanation of the assumptions used.[698] SoCalGas fails to provide supporting documentation of Indirect Costs related to "Overheads," AFUDC and property taxes, and for Direct Costs including the assumptions used in estimating these costs specific to PSEP and an explanation describing what led to the difference between estimates and actual costs.[699] SoCalGas also fails to provide a sufficient breakdown of Direct Costs, such as Company Labor (including FTEs), Materials, Construction Contractor, Construction Management & Support, Environmental, Engineering &

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695 Sempra Opening Comments at 13-14.

696 *See* Section 2 above.

697 SCG Ex-31 only provides a generic explanation of AFUDC unspecific to PSEP, and SCG Ex-33-2R similarly provides no information regarding PSEP.

698 D.07-07-004, *Opinion Modifying Energy Rate Case Plan* (July 12, 2007) Appendix A at A-30- A-31.

699 *See* for example, D.16.12-063 at 13-14.

Design, Project Management & Services, Right of Way (ROW) & Permits, and "GMA."[700] SoCalGas provides general information and narratives but limited supporting documentation of costs. Without this information, the Commission has insufficient facts to evaluate the reasonableness of SoCalGas's $498.77 million request. Similarly, general statements regarding past decisions[701] and reasonableness reviews do not make up for the deficiencies in this PSEP application. Due to the level of participation by intervenors, this application has not received as thorough of a review as previous applications.[702]

In order to more fully develop the record of this proceeding, the Commission orders that the PSEP reasonableness review be continued in Track 3 of this proceeding. The Commission will issue a scoping memo for Track 3 to direct the parties to submit supplemental evidence. Such additional evidence shall include the information discussed above for the reasonableness review of SoCalGas's PSEP December 2015 - December 2020 costs. For PSEP balancing accounts, SoCalGas is already authorized interim rate relief for 50 percent of the amount requested.[703]

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[700] SCG Ex-08-WP-S, Supplemental Workpapers to Prepared Direct Testimony of Bill Kostelnik (Pipeline Safety Enhancement Plan) VOLUME II OF VIII.

[701] D.20-08-034, *Decision Adopting Settlement Agreement Resolving the Application of Southern California Gas Company and San Diego Gas & Electric Company for Review of Costs Incurred in Executing Pipeline Safety Enhancement Plan*.

[702] D.19-02-004, *Decision Authorizing Southern California Gas Company and San Diego Gas & Electric Company To Recover Costs Recorded in the Pipeline Safety and Reliability Memorandum Accounts, the Safety Enhancement Expense Balancing Accounts, and the Safety Enhancement Capital Cost Balancing Accounts,* disallowed costs and authorized $186,532,169 with participation by three intervenors;

D.16.12-063, *Decision Granting Application of Southern California Gas Company and San Diego Gas & Electric Company,* authorized $33,238,567 with the participation of three intervenors.

[703] Safety Enhancement Expense Balancing Account Preliminary Statement effective May 1, 2019 and Safety Enhancement Capital Balancing Account Preliminary Statement effective May 1, 2019.

12.1.3.5. Senate Bill 1383 Dairy Pilot Program Reasonableness Review

In response to passage of SB 1383 (Stats. 2016, ch. 395), the Commission opened R.17-06-015 to develop a framework which directed California's gas utilities to implement dairy biomethane pilots (four of which would be located in SoCalGas's service territory), to demonstrate interconnection efficacy with the gas pipeline system, and to allow for recovery of reasonable infrastructure costs. In D.17-12-004, the Commission established the Dairy Pilots selection and implementation framework. Once a proposed Dairy Pilot was selected, SoCalGas was required to file a Tier 2 Advice Letter "to establish a memorandum account and balancing account to record expenditures for eligible Dairy Biomethane Pilot Project costs."

On December 3, 2018, the selection committee identified the following four Dairy Pilots located in the SoCalGas service territory: (1) CalBioGas Buttonwillow LLC; (2) CalBioGas North Visalia LLC; (3) CalBioGas South Tulare LLC; and (4) Lakeside Pipeline LLC, all of which are located in the San Joaquin Valley. The Lakeside Pipeline project has a separate developer. SoCalGas submitted ALs 5398 and 5398-A to establish balancing and memorandum accounts, which the Commission approved on February 14, 2019. SoCalGas's Dairy Biomethane Project Memorandum Account (DBPMA) tracks Dairy Pilot costs associated with methane pipeline laterals, pipeline extensions, and points of receipt. SoCalGas recovers its capital-related costs through its annual regulatory account balance update filing only for recovery up to authorized amounts. Pursuant to D.17-12-004, the dollar amounts above those authorized through annual balancing updates are recorded in the DBPMA and are being addressed in this GRC under this reasonableness review.[704]

In this GRC, SoCalGas requests review of SB 1383 Dairy Pilot Program capital costs of $20.262 million above the amount authorized in D.17-12-004 of $36.559 million.[705] To determine the total cost of $36.559 million authorized by the Commission in its decision approving AL 5398, SoCalGas developed a Class 4 cost estimate consistent with Association for the Advancement of Cost Engineering International recommended practices for each Dairy Pilot site. SoCalGas utilized multiple sources of information to identify the preliminary scope in order to estimate the anticipated costs of the four Dairy Pilots. SoCalGas's testimony describes how the actual costs vary from the initial anticipated costs for the four Dairy Pilots.[706]

The construction costs for each pilot vary significantly due to the unique local needs of each pilot program. For example, the Lakeside Dairy Pilot in Kings County is alleged by SoCalGas to have required a driveway approach and encroachment permit from Kings County and included a temporary right of entry for a laydown yard, as well as a larger supply line to accommodate increases in volume to achieve objectives set forth in its SB 1383 solicitation.[707] Other dairy pilots, such as the North Visalia Dairy Pilot, were located in Tulare County and are alleged by SoCalGas to have required an encroachment permit through Tulare County for pipeline extension.[708] The North Visalia Dairy Pilot also had

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[704] Sempra Opening Brief at 189.

[705] Sempra Opening Brief at 160.

[706] Sempra Opening Brief at 190.

[707] SCG Supplemental PSEP Workpapers Volume VII at 46-48.

[708] SCG Supplemental PSEP Workpapers Volume VII at 10.

unique cost overruns such as having to hire additional third-party field engineering, inspection teams, and experienced construction three times longer than the originally estimated durations from the SB 1383 solicitations.[709]

SoCalGas has not demonstrated how the large cost overruns are reasonable. Accordingly, the Commission denies SoCalGas's requests for recovery of the costs associated with each of these pilots. SoCalGas shall file applications for cost recovery for the SB 1383 Dairy Pilot programs, with the three CalBioGas dairy pilots combined into one application.

12.1.3.6. SDG&E PSEP Reasonableness Review

SDG&E requests a reasonableness review of the costs associated with completed PSEP Phase 1A, valve enhancement bundle projects, and other miscellaneous costs that were incurred from August 2014 to July 2019. For SDG&E's PSEP, there are no forecasted costs in this GRC. Any costs associated with the implementation of PSEP Phase 2B are encompassed within the newly proposed Integrated Safety Enhancement Plan. Other PSEP work, including the testing and replacement of Line 1600, is being addressed in other proceedings.[710] As with SoCalGas's PSEP projects, SDG&E filed reasonableness review applications following rulemaking proceedings and decisions that established decision trees and processes for allowing recovery of certain costs.[711]

In this GRC, SDG&E requests approval of the costs associated with seven PSEP pipeline and six valve bundle projects, amounting to approximately $238.775 million in capital expenditures and $1.085 million in O&M expenditures incurred in executing the projects, and an additional $0.529 million for other

[709] SCG Supplemental PSEP Workpapers Volume VII at 21.

[710] Sempra Opening Brief at 191-192.

[711] Sempra Opening Brief at 192.

associated miscellaneous costs incurred to execute SDG&E's PSEP. SDG&E estimates the ending balance as of December 31, 2023, associated with these assets being reviewed to be $52.1 million undercollected in revenue requirement.[712] No intervenors opposed this request.

SDG&E's costs for the PSEP projects and other related costs include the same structure and process as SoCalGas for oversight of the PSEP. More specifically, SDG&E's PSEP costs include pipeline replacement projects, pressure test projects in combination with pipeline replacement projects, abandonment projects, valve projects, miscellaneous costs, and post-completion adjustments.[713]

Pursuant to D.18-06-028, the Commission required SDG&E to establish a memorandum account to record costs associated with the audit of the Line 1600 records to track expenses because they should be subject to after-the-fact reasonableness review.[714] As directed, SDG&E selected an independent auditor to oversee the audit, executed a contract for the Commission Safety Enforcement Division's auditor, paid the contractors' fees, and recorded those costs in the memorandum account for later recovery. As a result, SDG&E is seeking the recovery of the $136,000 associated with the Line 1600 records audit by that auditor to comply with the Commission's directive. Line 1600 is otherwise not part of this GRC or SDG&E's requests in this proceeding.

SDG&E attests that SDG&E acted as a prudent program operator as follows: (1) SDG&E developed standards and procedures for consistent management, identifying and incorporating process improvements, and overseeing compliance with applicable regulatory requirements; (2) SDG&E

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712 Sempra Opening Brief at 192.

713 Sempra Opening Brief at 192-196.

714 D.18-06-028, Finding of Fact 78.

employed a seven-part Stage Gate Review Process to organize workflow and management review; (3) SDG&E reviewed other considerations such as impacts to customers, incidental or accelerated mileage, and other means of service during construction, when evaluating whether to test or replace any particular pipeline segment; (4) SDG&E collaborated with local stakeholders; (5) SDG&E coordinated with other company projects; (6) SDG&E conducted design and construction consistent with SDG&E's standards to promote compliance, safety, and efficiency; (7) SDG&E mitigated obstacles, such as permitting, material availability, and unforeseen factors, to maximize efficiencies and complete construction as soon as practicable; and (8) SDG&E managed costs through (a) scope validation to identify areas of cost avoidance; (b) sequencing PSEP projects to maximize efficiency; (d) prudent procurement; and (e) the Performance Partnership Program, a program that promoted competitive solicitations through the use of a risk/reward system for contractor cost-effectiveness. In addition, pursuant to D.14-06-007, SDG&E removed $3.472 million in disallowed costs.[715]

SDG&E's testimony and workpapers regarding these costs reveal significant gaps in information that raise further questions regarding the reasonableness of these costs. As with SoCalGas's filing, the FTEs were not provided for company labor or for the construction contractors. To the extent any other direct cost components[716] include labor, the labor amount and associated FTEs should have been provided. Additionally, SDG&E does not explain how AFUDC and property taxes were estimated and what drives the differences

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715 Sempra Opening Brief at 196-197; SDG&E Ex-08 at 19.

716 In addition to company labor and construction contractors, these include materials, construction management & support, environmental, engineering & design, project management & services, rights-of-way & permits, and Gas Measurement and Analysis System.

between the reported estimates and actuals. SDG&E did not make explicit the AFUDC rate or property tax rate, or the costs and property these rates were applied to. As a result, the Commission finds that SDG&E has not met its burden to demonstrate that its requested PSEP costs are reasonable.

For PSEP balancing accounts, SDG&E is already authorized interim rate relief for 50 percent of the amount requested.[717] After the effective date of this decision, SDG&E may refile its request in a separate application.

The discussion above regarding SoCalGas's PSEP reasonableness review applies to SDG&E's PSEP reasonableness review as well. In order to more fully develop the record of this proceeding, the Commission orders that the PSEP reasonableness review be continued in Track 3 of this proceeding. The Commission will issue a scoping memo for Track 3 to direct the parties to submit supplemental evidence. Such additional evidence shall include the information discussed above for the reasonableness review of SDG&E's PSEP December 2015 - December 2020 costs.

13. Gas Pipeline Integrity

Sempra's Gas Integrity Management Programs maintain and enhance natural gas system safety consistent with local, state, and federal regulatory[718] and legislative requirements and support SoCalGas's and SDG&E's efforts to mitigate risks associated with hazards to safety, infrastructure integrity, and system reliability.[719]

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[717] Safety Enhancement Expense Balancing Account Preliminary Statement effective May 1, 2019, and Safety Enhancement Capital Balancing Account Preliminary Statement effective May 1, 2019.

[718] 49 C.F.R. Section 192, Subpart O.

[719] Sempra Opening Brief at 198.

13.1. SoCalGas

SoCalGas requested $223.908 million in 2024 Gas Integrity Management Programs O&M expenses ($2.499 million for Shared and $221.409 million for Non-Shared expenses), an increase of $56.010 million over 2021. SoCalGas is proposing approximately $537.896 million in capital expenditures for 2024.[720]

13.1.1. SoCalGas Transmission Integrity Management Program

The SoCalGas Transmission Integrity Management Program (TIMP) continuously identifies threats to transmission lines located within High Consequence Areas and Medium Consequence Areas (HCAs and MCAs) and includes updates related to the Gas Transmission Safety Rule Part 1 (GTSR).[721] While state and federal regulations[722] are generally the main driver for this program,[723] the process of meeting government guidelines can depend upon assessment volumes and the types of repairs needed. Asset improvements can depend upon the results of inspections[724] or new regulations, such as the GTSR and PSEP Phase 2B, which have recently gone into effect.

TIMP programming is broadly associated with inspections or assessments, testing, and repair, and these activities generally fall under four categories. One of the most common of these, In-Line Inspection (ILI), uses inspection tools known as pigs which travel, or run, within the pipeline to collect information. Alternatively, utilities employ pressure testing, which fills pipelines with a fluid, such as water, to a high pressure to identify leaks. Where these approaches aren't

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[720] Sempra Opening Brief at 209.

[721] SCG Ex-09 at 27; *see* PHMSA rulemaking in 84 Federal Register 52180, October 2019.

[722] 49 C.F.R. Section 192, Subpart O *et seq*.

[723] Sempra Opening Brief at 198.

[724] SDG&E Ex-09-R at 1947; SCG Ex-09 at 27, 69, 74.

used, utilities will resort to more traditional and intensive approaches of directly assessing pipes for internal or external corrosion. Finally, to address any issues uncovered by the first three steps, the company will go through a process known as remediation, which can involve repairs, reconditioning, or replacement.[725] Assessment and Remediation (A&R) are often paired with one another.[726]

13.1.1.1. SoCalGas Non-Shared TIMP O&M

SoCalGas is seeking $135.136 million in 2024 for TIMP O&M, a 30 percent increase of $31.479 million above the 2021 Base Year costs of $103.657 million.[727] SoCalGas selected a base year recorded forecast because it represents the current structure of the organization and costs.[728] SoCalGas states that historical spend alone is not the best predictor of future spending needs for the following reasons: (1) infrastructure continues to change and evolve (e.g., aging and environmental changes such as earth movement or weather related outside forces); and (2) continuous improvement of assessments and results through ongoing program modifications (e.g., technological and process improvements, new regulatory requirements such as the recent GTSR, and resulting changes to threat identification and repair requirements).[729] SoCalGas bases the increased forecast on the following factors: 1) contract increases; 2) continuous improvements to business processes; 3) regulatory changes; and 4) advances in assessment tools and processes that have increased the number of activities associated with TIMP assessments, especially the use of additional inspection tools focused on the

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[725] SCG Ex-09 at 29-34.

[726] TURN-SCGC Opening Brief at 30, 38-41.

[727] Sempra Opening Brief at 203.

[728] SCG Ex-09 at .

[729] Sempra Reply Brief at 128.

detection and characterization of cracks. SoCalGas elaborates further that the use of additional tools increases inspection costs, excavation costs, and project management costs for each assessment that requires the use of crack-detection tools. As the inspection tools and assessment methodologies continue to mature, more sophisticated and complex analyses tend to yield more reliable defect detection and characterization that in turn drive more effective mitigations.

Cal Advocates recommends that SoCalGas reduce its Non-Shared TIMP O&M forecast by $42 million using a lower unit cost[730] based on a comparison of 2021 and 2024 activity levels. Cal Advocates argues that SoCalGas has already been assessing pipelines in both HCAs and Non-HCAs and therefore a rise in activity compared to historical activity to address the GTSR Rules is not needed.[731] Cal Advocates also argues that SoCalGas's ILI unit cost forecast is an excessive and unsupported request for routine work. Cal Advocates recommends instead that SoCalGas use a base year ILI/ECDA (External Corrosion Direct Assessment) unit cost of $1.476 million per assessment using 2021 data since there is inadequate support for the ILI and ECDA work activity unit cost increase. [732]

TURN-SCGC recommends reducing SoCalGas's Non-Shared TIMP O&M forecast by 29 percent ($39.1 million) from $135.1 million to $96 million for several reasons.[733] First, TURN-SCGC contends that SoCalGas assesses more pipeline than required by enhanced PHMSA rules and GTSR Part 1 does not require any increase in assessment mileage.[734] Second, TURN-SCGC argues that SoCalGas

[730] CA Ex-03 at 17-18; SCG Ex-209-E at 3.

[731] *See* 49 C.F.R. Section 195.450 for more on HCAs.

[732] Cal Advocates Opening Brief at 81.

[733] TURN-SCGC Opening Brief at 30. TURN-SCGC's calculation contained a minor error.

[734] TURN-SCGC Ex-04-E at 8.

provided inadequate support for A&R, ILI, and ECDA unit costs, which represent most of the forecast. Third, TURN-SCGC states that SoCalGas's TIMP costs since 2017 have been excessive, especially since RSEs in the program are at the low level of 0.1 using TURN's methodology.[735] As a result, TURN-SCGC recommends reducing SoCalGas's forecast for all five categories in the TIMP O&M forecast based upon a five-year average (2017-2021) with three additional increases: $250,000 per dig allowance for 17 validation digs ($4.250 million), $7.145 million for crack management and $1.136 million for material verification (2021 dollars).[736]

In reply, SoCalGas opposes TURN-SCGC's recommended reductions for several reasons. First, SoCalGas contends that the reductions would hinder SoCalGas from fully complying with federal requirements.[737] Second, SoCalGas contends that TURN-SCGC has not considered other cost risks. For example, tools sometimes collect insufficient data or have become lodged in a pipeline, prompting additional tool runs or the use of alternate assessment methods.[738] Third, SoCalGas argues that TURN's use of RSEs is not appropriate for this proceeding, TURN's RSEs should not be used instead of SoCalGas's, and RSE scores should not be the only data point considered when evaluating risk mitigation activities, partly because some TIMP work is mandated compliance work.[739]

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[735] TURN-SCGC Opening Brief at 46-50; TURN-SCGC Opening Brief at 49.

[736] TURN-SCGC Ex-04-E at 8; TURN-SCGC Opening Brief at 30-44.

[737] Sempra Reply Brief at 129.

[738] Sempra Reply Brief at 129.

[739] Sempra Reply Brief at 131.

SoCalGas forecasts a 30 percent increase in TIMP work based on various factors it claims support the increase. However, SoCalGas's analysis generally lacks the quantitative support that intervenors seek to apply. For example, SoCalGas claims that some TIMP work is mandated compliance work. But SoCalGas fails to demonstrate the cost of such work and how specifically it may have increased beyond the amounts previously authorized. SoCalGas's forecast lacks unit costs and units of work, and SoCalGas fails to apply RSEs or to consider the cost-effectiveness of its forecast.

In the absence of SoCalGas's sufficient quantitative analysis, the Commission finds the analysis of the intervenors to be more specific and reasonable. ILI and Direct Assessment costs are markedly in excess of recorded amounts for work volume, which has not clearly changed from the last rate case. TURN-SCGC's recommendation that the A&R forecast be handled via a separate dig allowance is one method of quantifying the analysis.

Considering all of the above, the Commission adopts TURN-SCGC's approach to reducing the forecast by 29 percent ($39.1 million) from $135.1 million to $96 million using a five-year average (2017-2021) with additional increases of $4.250 million for validation digs, $7.145 million for crack management, and $1.136 million material verification.[740]

13.1.1.2. SoCalGas Shared TIMP O&M

SoCalGas is seeking $1.591 million in 2024 for Shared TIMP O&M, an increase of 6 percent in the amount of $0.095 million over the 2021 Base Year of $1.496 million. SoCalGas developed this forecast using the 2021 Base Year

[740] TURN-SCGC Opening Brief at 30, 38-41.

recorded forecast with adjustments for future considerations such as number of assessments or enhancements to SDG&E TIMP processes and tools.[741]

No party disputed SoCalGas's Shared TIMP O&M funding requests. Based on SoCalGas's methodology and cost drivers in its supporting documents, the Commission finds SoCalGas's 2024 Shared TIMP O&M of $1.591 million to be reasonable.

13.1.1.3. SoCalGas TIMP Capital

TIMP Capital activities include data management and ILI inspections of distribution mains and transmission pipelines, both of which cover pipeline route retrofitting and capital repair.[742] This work is separated into three budget codes.

Budget Code 276 captures all TIMP-related capital costs for pipelines defined as transmission under Department of Transportation (DOT) regulations and operated by the gas distribution organization within SoCalGas. The forecasts for this budget code for 2022, 2023, and 2024 are $20,818,000, $14,600,000, and $7,333,000, respectively.[743]

Budget Code 312 captures all TIMP-related capital costs for pipelines defined as transmission under DOT regulations and operated by the Gas Transmission organization within SoCalGas. The forecast for this budget code for 2022, 2023, and 2024 is $102.996 million, $110.163 million, and $150.990 million, respectively. [744]

Budget Code 756 captures all TIMP-related capital costs for Information Technology-related activities such as implementing new software applications

[741] SCG Ex-09 at 69-70.

[742] SDG&E Ex-09-R at 47; SCG Ex-09 at 78.

[743] SCG Ex-09 at 74.

[744] SCG Ex-09 at 74.

and data models to manage TIMP data. An initiative driving cost increases in this area is the development of a data lake to capture data from several asset sources and aggregate the data by asset class to identify risks and, ultimately, allocate resources. This will ultimately support the creation of an enterprise portal that will be the single source of pipeline data and would eventually provide customized map views of the system, highlight compliance needs, integrate spatial and non-spatial data, enhance real-time analytics and create a platform for enterprise-wide collaboration on safety and reliability issues. The forecasts for this budget code for 2022, 2023, and 2024 are $10.315 million, $10.215 million, and $9.515 million, respectively.[745]

SoCalGas forecasts $134.132 million in 2022, $134.982 million in 2023, and $167.841 million in 2024 for TIMP Capital. The 2024 amount represents a 49 percent increase of $55.204 million over the 2021 Base Year amount of $112.637 million.[746]

No party disputed SoCalGas's TIMP Capital request. Based on SoCalGas's methodology and cost drivers in its supporting documents, the Commission finds the uncontested TIMP Capital funding amounts of $134.132 million, $134.982 million, and $167.841 million to be reasonable and adopts them for 2022, 2023, and 2024 respectively.

For TIMP Capital in the PTYs, SoCalGas requests $21.4 million, $44.8 million, and $66.8 million for 2025, 2026, and 2027 respectively.[747] TURN-SCGC opposes this request because it is unsubstantiated.[748] Due to the lack of

[745] SCG Ex-09 at 75.

[746] Sempra Opening Brief at 209.

[747] Sempra Opening Brief at 844.

[748] TURN-SCGC Opening Brief at 102-105.

supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

13.1.1.4. TIMP Balancing Account

Pub. Util. Code Section 969 provides that "the Commission shall require the gas corporation to establish and maintain a balancing account for the recovery" of TIMP expenses, which may be a two-way balancing account or a one-way balancing account. The Commission approved a two-way balancing account for the TIMP (i.e., the TIMPBA) in D.13-05-010, in which it stated that "a two-way balancing account is appropriate due to the costs of complying with Subpart O and possible changes in pipeline inspection requirements in the future." This was reaffirmed in D.19-09-051.

SoCalGas requests continuation of the TIMPBA because infrastructure continues to change and it is making continuous improvement in its assessments.[749]

SoCalGas maintains that the TIMPBA recovery mechanism currently has ratepayer protections in place. SoCalGas is required to file a Tier 3 Advice Letter for an undercollection up to 35 percent of the total O&M and capital expenditures authorized. The undercollection cannot be recovered without Commission approval, and the Commission may audit SoCalGas's costs prior to approval. Furthermore, SoCalGas is required to file an application for an undercollection greater than 35 percent and this application is subject to reasonableness review.[750] SoCalGas also contends that keeping TIMP a two-way balancing account is also still appropriate due to the variability of TIMP work, which is dependent upon

[749] Sempra Opening Brief at 204.

[750] Sempra Reply Brief at 132.

inspection discoveries that can increase costs more regularly than would occur with PSEP projects.[751]

TURN-SCGC recommends the Commission convert the current TIMPBA to a one-way balancing account and record excess TIMP costs and undercollections in a memorandum account subject to reasonableness review in an application rather than an advice letter, similar to how PSEP costs are contained.[752]

As discussed in the Regulatory Accounts Section below, the Commission converts the TIMPBA to a one-way balancing account. This ensures a reduction in the amounts that may be recovered in rates in balancing accounts through advice letters and provides that rate recovery of any above-authorized costs will occur via the more thorough reasonableness review application process that will better protect ratepayers. Likewise, the Commission adopts the intervenor position that excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application rather than an advice letter.[753]

13.1.2. SoCalGas Distribution Integrity Management Program (DIMP)

The SoCalGas DIMP continually identifies, assesses, and mitigates threats to the distribution system.[754] SoCalGas has indicated that a forecast increase for two activities is driving this cost. The first is the Bare Steel Replacement Plan (BSRP) which focuses on the replacement of high-risk unprotected steel pipelines.[755] The other program, the Vintage Integrity Plastic Plan (VIPP),

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[751] Sempra Reply Brief at 132.

[752] TURN-SCGC Opening Brief at 45, 49; *see also* TURN Opening Brief at 429-445.

[753] TURN-SCGC Opening Brief at 45, 49.

[754] SCG Ex-09 at 36; *see* 49 C.F.R. Section 192, Subpart P.

[755] SCG Ex-09 at 43.

addresses threats to plastic mains and services commonly known as Aldyl A via surveys, reporting, and testing to identify potential pipeline failures.[756]

SoCalGas's forecasted increases below are based on an increase in pre-emptive plastic pipe replacement by almost 50%, from 92 miles in 2021 to 136 miles in 2024, and plans to reduce pre-emptive replacement of bare or unprotected steel pipe under the BSRP to almost a quarter of historical amounts, from 43 miles in 2021 to 10 miles forecast for 2024 on the SoCalGas system.[757]

The VIPP is a multifaceted risk reduction project driven by gas integrity principles in federal regulations. Pursuant to the Gas Distribution Integrity Management rule,[758] an operator must demonstrate a knowledge of its system, identify threats on its system, evaluate and rank risks, and identify and implement measures to address risks. VIPP addresses pipe, weld, or joint failure, incorrect operations, and natural force damage threats to early vintage plastic mains and services installed from 1969 to 1985 manufactured by DuPont with the moniker Aldyl A.[759] SoCalGas's DIMP O&M activities also cover analytical activities including mapping, auditing, and planning. All of these activities involve internal data collection pertaining to threat identification.[760]

There are three other projects under the DIMP. The Distribution Riser Inspection Project (DRIP) addresses the integrity threat of corrosion and failure of service line components known as anodeless risers which are often attached to residential meter set assemblies. The Gas Infrastructure Protection Project (GIPP)

[756] SCG Ex-09 at 42.

[757] SCG Ex-09-CWP at 43.

[758] 49 C.F.R. Part 192, Subpart P.

[759] Sempra Reply Brief at 134.

[760] SDG&E Ex-09-R at 26, 51; SCG Ex-09 at 36, 70, 83.

safeguards facilities exposed to high-speed traffic, which are a low frequency, high consequence risk. Finally, the Sewer Lateral Inspections Project (SLIP) addresses risks and damage associated with third-party trenchless sewer lateral installations known as "cross bore."[761]

13.1.2.1. SoCalGas Non-Shared DIMP O&M

SoCalGas forecasts $53.005 million in 2024 for Non-Shared DIMP O&M, a 17 percent increase of $7.684 million over the 2021 Base Year of $45.321 million. SoCalGas estimated this forecast using an average of unit costs for the base year with adjustments for changes.[762]

TURN recommends reducing Non-Shared O&M VIPP by $18 million ($6 million per year) by disallowing recovery of all Aldyl A replacements under the VIPP and increasing BSRP spending instead.[763] TURN asserts that replacement programs discussed above and authorized in the gas distribution section address risk from Aldyl A now that the riskiest elements of the system have been addressed, but there is still heightened risk to be addressed by the BSRP.[764] In addition, TURN contends that the VIPP is a discretionary program not required by DIMP regulations.[765]

Cal Advocates recommends reducing SoCalGas's forecast by $4 million for the DRIP expenses because Cal Advocates contends that this cost component is not adequately supported. Cal Advocates alleges DRIP should not have more funding because higher expenses for the program would not result in any

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[761] SCG Ex-09 at 39.

[762] SCG Ex-09 at 36.

[763] SCG Ex-209-E at 5; TURN Ex-5-R at 17, 85; TURN Opening Brief at 118-140.

[764] TURN Ex-05-R at 81-85.

[765] Sempra Opening Brief at 121.

proposed increase in activity.[766] Cal Advocates says that SDG&E's proposed increases are based on activity forecasts which did not provide detail regarding rising contract rates or contractor and management costs.[767]

SoCalGas argues that TURN's proposed disallowance of the VIPP should be dismissed because it eliminates a necessary safety-driven integrity management activity and the recommended moderate increase to BSRP would not adequately address those segments that exceed the SoCalGas established risk thresholds. SoCalGas claims that its proposed VIPP and BSRP work is based on those pipe segments that exceed the established safety risk threshold, as well as the need to address the projected long-term risks of aging assets.[768] Contrary to TURN, SoCalGas claims that risks associated with the VIPP based on leak data are not negligible.[769] SoCalGas argues further that its quantitative risk assessment (QRA) models, which are based on standard units, provide greater risk insight than relative risk models to support risk-related decision making.[770] Lastly, SoCalGas claims that TURN inconsistently argues that the RSE for the VIPP does not justify the activities SoCalGas requests but argues that BSRP with a relatively low RSE should be accelerated.[771]

Federal regulations require SoCalGas to assess and evaluate the risks on its system. These regulations give SoCalGas discretion in developing measures to

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766 CA Ex-03 at 19-21; SCG Ex-209-E at 3.

767 Cal Advocates Opening Brief at 82-83.

768 Sempra Reply Brief at 134.

769 Sempra Reply Brief at 134.

770 Sempra Reply Brief at 134-135.

771 Sempra Reply Brief at 136.

address its existing risks. For example, these regulations do not specify any rate at which SoCalGas must replace its pre-1986 plastic pipe.

Pursuant to federal regulations, SoCalGas has developed its own model to assess pipeline risk with its own risk thresholds for selecting pipe for replacement. Within this context, SoCalGas forecasts Test Year costs for approval by the Commission within the Commission's risk-based decision-making framework, which includes consideration of an activity's cost-effectiveness.

In the last GRC, the Commission authorized SoCalGas to remove 78 miles of plastic pipe annually, starting in 2019.[772] In this GRC, SoCalGas forecasts the removal of 136 miles of plastic pipe. The Commission finds that SoCalGas fails to demonstrate the necessity and reasonableness of continuing to fund an accelerated plastic pipe replacement rate through DIMP in addition to SoCalGas's routine pipeline replacement programs. Based on the continued increased risk to be addressed by the BSRP, however, the Commission agrees that it is reasonable to continue the accelerated replacement under the BSRP at the level recommended by TURN close to the 2021 replacement rate.

SoCalGas opposes Cal Advocates' recommendation by contending that Cal Advocates' recommendation does not provide the necessary funding to support the riser inspection program, which mitigates the risk of failure of anodeless risers that are commonly located alongside residences.

In the absence of support for SoCalGas's Non-Shared DIMP O&M forecast, the Commission finds TURN's reductions to SoCalGas's Non-Shared DIMP O&M forecast of $6 million per year to be reasonable. Based on TURN's

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[772] TURN Opening Brief at 123.

recommendations, the Commission adopts a forecast for Non-Shared DIMP O&M of $47.005 million.

13.1.2.2. SoCalGas Shared DIMP O&M

SoCalGas is seeking $0.794 million in 2024 for Shared DIMP O&M, a 27 percent increase of $0.170 million over the amount of $0.624 million in 2021. No party disputed SoCalGas's Shared DIMP O&M funding requests. Based on SoCalGas's methodology and cost drivers in its supporting documents,[773] the Commission finds the uncontested amount of $0.794 million for SoCalGas's 2024 Shared DIMP O&M to be reasonable and adopts it.

13.1.2.3. SoCalGas DIMP Capital

DIMP Capital activities include the service replacements plan, VIPP, and BSRP.[774] SoCalGas forecasts $231.052 million in 2022, $231.744 million in 2023, and $232.119 million in 2024 for DIMP Capital. The 2024 amount is a 9.07 percent increase of $19.309 million from the 2021 Base Year amount of $212.813 million. SoCalGas bases this forecast on the average unit cost for the 2021 Base Year with adjustments because the primary driver for costs are activities, projects, or programs that may change or be completed from year to year.[775]

Budget Code 756 captures all DIMP-related capital costs for the IT-related activities such as implementing new software applications and data models to manage DIMP data. The forecasts for this budget code for 2022, 2023, and 2024 are $4,626,000 for each year.[776]

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[773] SCG Ex-09 at 70.

[774] SDG&E Ex-09-R at 51; SCG Ex-09 at 83.

[775] SCG Ex-09 at 83.

[776] SCG Ex-9 at 83; SCG Ex-09-CWP.

CUE recommends increasing the VIPP by $30.6 million to $101 million. It also recommends that the Commission require an annual Aldyl A replacement plan with a forecast of miles to be replaced per year. CUE opposes TURN's position to eliminate the VIPP, saying that TURN made a flawed analysis, focused on frequency over magnitude of the problem, and misinterpreted the evidence.

TURN recommends the Commission reduce VIPP capital for 2022, 2023, and 2024, by $72.201 million, $93.250 million, and $188.034 million, respectively, totaling $353.475 million, to disallow some recovery of accelerated VIPP Aldyl A replacement for the same reasons discussed in the Non-Shared DIMP O&M Section.[777] First, TURN states that SoCalGas can instead rely on the Gas Distribution division's routine plastic pipe replacement program, not the gas integrity testing and repair program.

Second, TURN states that the program is inconsistent, with data demonstrating the plastic pipes' negligible risk, especially given the existence of other plastic pipe replacement programs.[778] The low risk is further supported by low RSE values for this program and other relevant industry pipeline characteristics indicating negligible risk.[779] With regard to BSRP, TURN states that SoCalGas is planning on decreasing activity for pipe replacement under the BSRP even though the pipe to be replaced[780] and regulatory advice indicates pipe to be replaced under the BSRP is riskier than pipe with the Aldyl A trademark.[781] TURN agrees that both the VIPP and the BSRP have low RSEs but it still

[777] Proposed in TURN Opening Brief at 119 but modified in TURN Opening Brief at 138.

[778] TURN Ex-5-R at 66-85.

[779] TURN Ex-5-R at 17.

[780] SCG Ex-9-CWP at 43.

[781] TURN Ex-5-R at 17, 66, 67.

recommends maintaining the accelerated rate of pipe replacement under the BSRP based on regulatory advice. TURN states that SoCalGas's trenching likely doesn't show the breadth of the problem, which is consistent with a federal bulletin that urges utilities to conduct a comprehensive review of their cast iron distribution pipelines.[782]

TURN recommends reducing SoCalGas's 2022 and 2023 BSRP forecast by $6.578 million and $9.152 million, respectively, for a total of $15.730 million. However, TURN also recommends raising SoCalGas's BSRP forecast for 2024 by $54.922 million. TURN's recommendation is based on maintaining a similar BSRP replacement rate using SoCalGas's five-year historic average for the 2017-2021 period rather than reducing mileage[783] for a total of 80 miles during the 2022-2024 period.[784] TURN's recommendation is also based on a rolling 3-year average unit cost cap of $2,164,000 for 2022, $2,100,000 for 2023, and $2,453,000 for 2024, to smooth the variance within the historical values.[785]

As discussed in the Non-Shared DIMP O&M Section above, SoCalGas states that their VIPP and BSRP activity proposal is based on internal safety risk thresholds and projected long-term risk. SoCalGas states that TURN's proposed disallowance ignores the VIPP as a necessary activity and TURN's recommended increase to BSRP does not address segments which exceed SoCalGas's own risk thresholds.[786] In its Opening Comments, SoCalGas claims that TURN's position that Aldyl A does not pose a significant risk is mistaken because TURN did not

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[782] TURN Ex-5-R at 87.

[783] TURN Ex-5-R at 83.

[784] SCG Ex-9-CWP at 43.

[785] TURN Ex-5-R1 at 85.

[786] Sempra Opening Brief at 206; SCG Ex-209-E at 26.

consider the consequence of failure when assessing risk as required by PHMSA regulations.[787] However, TURN's analysis focused on likelihood of failure rather than consequences due to flaws in Sempra's risk analysis.[788] Sempra claims that it is necessary to replace 136 miles of plastic pipe through the VIPP program due to the need to replace Aldyl A pipe, but Sempra's risk analysis is based on different pipe segments - those that exceed the established safety risk threshold, as well as the need to address the projected long-term risks of aging assets.[789]As TURN states, this constitutes a "lack of sufficient tranching in the RSE model to analyze consequence" and an arbitrary and conservative criterion to select which pipes represent high risk segments.[790] Sempra's claim that TURN did not consider the consequence of failure is not accurate also because RSE analysis inherently incorporates likelihood of risk event (LoRE) and consequence of risk event (CoRE)[791] per Section 7 above.[792] As with SoCalGas's Non-Shared DIMP O&M forecast, the Commission finds that SoCalGas fails to demonstrate the necessity and reasonableness of continuing to fund VIPP at previous levels or at an accelerated plastic pipe replacement rate through DIMP in addition to SoCalGas's routine pipeline replacement programs. The Commission agrees with TURN's finding that routine activities will address risk from Aldyl A now that the riskiest elements of the system have been addressed.[793] However, due to the uncertainties

[787] Sempra Opening Comments at 6-9.

[788] TURN Reply Comments at 2-3.

[789] Sempra Opening Brief at 210 and 219.

[790] TURN Reply Comments at 2-3.

[791] TURN Opening Brief at 136-137.

[792] TURN Opening Brief at 137.

[793] TURN Ex-05-R at 17.

inherent in any risk analysis, federal regulation,[794] and Commission requirements that gas utilities identify or assess and implement measures to sufficiently mitigate risks,[795] the Commission finds that TURN's BSRP and alternate VIPP proposal for maintaining this activity is consistent with the Commission's risk-based decision-making framework discussed above and is reasonable.

TURN's alternate VIPP recommendation provides for the separation of all Aldyl A plastic pipe into pre-1973 and post-1973, and only includes the pre-1973 pipe in the VIPP for accelerated replacement according to Sempra's originally proposed "Second Tier" of the VIPP. For SoCalGas, this would be approximately 11.2 miles of Low-Ductile-Inner-Wall (LDIW) or brittle Aldyl A plastic pipe.[796] Thirty to forty percent of the pipe with the Aldyl A trademark, made of Alathon 5043 resin between 1970 and 1972, was found by the manufacturer to have brittle characteristics during elevated temperature stress rupture testing that resulted from excessive temperature settings during the extrusion process.[797] LDIW Aldyl A has been used since 1970 with varying degrees of leakage depending on various factors, including soil conditions.[798] Sempra reports that the two systems had 1,141 miles of pre-1973 Aldyl A plastic pipe in 2014.[799]However, SoCalGas does not report how much pre-1973 Aldyl A pipe it

[794] 49 C.F.R. Part 192, Subpart P, Section 192.1007(d) includes possible additional reporting requirements related to Aldyl A pipe ; Sempra Opening Comments at 8.

[795] 49 C.F.R. Part 192, Subpart P, Section 192.1007(d); Sempra Opening Comments at 8.

[796] TURN Ex-05-R at 83.

[797] Commission Hazardous Analysis and Mitigation Report on Aldyl A Polyethylene Gas Pipelines in California (June 11, 2014).

[798] TURN Ex-05-R at 67-73.

[799] SCG Ex-209-E, Appendix B at 28.

replaced in 2015-2022, how much is left, or what type of pipe it plans to replace in the remainder of this GRC period.[800]

Based on SoCalGas's unit cost for replacing such plastic pipe in 2024 determined by dividing its 2022-2024 requests by its proposed miles of pipe to be replaced in the same period, the average cost of replacing 11.2 miles of plastic pipe in 2024 is $14.259 million.[801]

Based on the above, the Commission disallows SoCalGas's remaining 2024 VIPP request for accelerated replacement of Aldyl A plastic pipe and adopts TURN's initially recommended amounts of $46.394 million, $47.010 million, and $0 for the years 2022, 2023, and 2024, respectively, plus $14.259 million annually for 2022-2024, resulting in adopted totals of $60.653 million, $61.259 million, and $14.259 million for the years 2022, 2023, and 2024, respectively. Since SoCalGas may be using more LDIW and other Aldyl A pipe under conditions that could lead to leakage or other failure, the Commission authorizes SoCalGas to record the cost of removing it in the DIMP memorandum account when found through other integrity management programs, or the location of the pipe is known in an area of elevated risk, and apply for recovery in the next GRC up to the amount removed in 2021 of 92 miles.[802] As part of the reasonableness review of VIPP costs in the next GRC, Sempra shall at a minimum provide information required by the Commission's risk-based decision making framework, including the miles of LDIW Aldyl A pipe installed, the amount to be removed by year of pipe installation, the known locations of installed pipe, the leak rate of known locations, the soil and other conditions where the pipe is

[800] SCG Ex-209-E, Appendix B at B-28; SDG&E Ex-209-E, Appendix B at B-3.

[801] SCG Ex-09-CWP at 44-46.

[802] SoCaGas Ex-09-CWP at 43.

installed that may lead to an elevated risk or a reason for removing it, how Sempra is locating and finding such pipe, and population density.

For BSRP, the Commission adopts a forecast of $86.578 million, $63.005 million, and $79.737 million for the years 2022, 2023, and 2024, respectively. This amounts to DIMP Capital funding amounts of $166.532 million, $143.601 million, and $113.266 million for 2022, 2023, and 2024 respectively. The Commission finds these amounts to be reasonable and adopts them for 2022, 2023, and 2024, respectively, which includes SoCalGas's uncontested forecasts for the GIPP and Data Management – IT.

For DIMP Capital in the PTYs, SoCalGas requests $46.7 million, $85.3 million, and $124.9 million for 2025, 2026, and 2027, respectively.[803] TURN-SCGC opposes this request because it is unsubstantiated.[804] Due to the lack of supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

13.1.2.4. SoCalGas DIMP Balancing Account

SoCalGas proposes the continuance of a two-way balancing mechanism for the DIMP.[805] TURN recommends the Commission convert existing two-way balancing accounts, such as the Distribution Integrity Management Program Balancing Account (DIMPBA), to one-way and establish a memorandum account to recover above-authorized spending when needed.[806]

The Commission converts the DIMPBA to a one-way balancing account. Excess costs and undercollections may be recorded in a memorandum account

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803 Sempra Opening Brief at 844.

804 TURN-SCGC Opening Brief at 102-105.

805 SCG Ex-09 at vii; Sempra Opening Brief at 199.

806 TURN Ex-15 at 16.

subject to reasonableness review in an application rather than an advice letter. See the Regulatory Account Section for a discussion of the request.

13.1.3. SoCalGas Storage Integrity Management Program

SoCalGas's Storage Integrity Management Program (SIMP) develops prescriptive management plans addressing storage reservoir and well integrity issues. Program activities include program management, data management, auditing and reporting, monitoring practices, integrity demonstration, verification and abandonments.[807]

Cost drivers include state and federal safety and risk management regulations and new regulations, most of which come from the California Geologic Energy Management Division (CalGEM).[808] SoCalGas has indicated that this program is designed for the current regulatory environment, but the company must regularly incorporate new regulations pertaining to gas storage.[809]

13.1.3.1. SoCalGas SIMP O&M

SIMP O&M activities include well inspections, threat assessment, data management, and other related activities in compliance with state and federal regulatory requirements. SoCalGas is seeking $16.66 million in 2024 for SIMP O&M. The 2024 amount is a 1 percent decrease of $0.14 million from $16.8 million in 2021 and is uncontested. SoCalGas chose to use a base year recorded forecast because prior years are not the best reflection of future activities as SIMP requirements continue to evolve.[810]

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[807] SCG Ex-09 at 47, 85.

[808] *See* 14 California Code of Regulations (C.C.R.) Section 1726; 49 C.F.R. Section 192.12.

[809] *See* 14 C.C.R. Section 1726.

[810] SCG Ex-09 at 47.

Based on SoCalGas's methodology and cost drivers in its supporting documents, the Commission finds SoCalGas's SIMP O&M forecasts to be reasonable and adopts them.

13.1.3.2. SoCalGas SIMP Capital

SIMP Capital activities include well remediation and abandonment when applicable and are driven by SIMP O&M activities. Remediation activities are required and necessary to maintain the integrity of SoCalGas storage fields.

SoCalGas is seeking $54.417 million in 2022, $46.791 million in 2023, and $26.982 million in 2024 for SIMP Capital. The 2024 amount is a reduction of $60.249 million, or 69%, from $87.231 million in 2021, and is uncontested. SoCalGas chose to use a base year recorded forecast because it represents the organization's structure. SoCalGas says it adjusts the forecasts according to the number of assessments conducted each year.[811]

Based on SoCalGas's methodology and cost drivers in its supporting documents, the Commission finds SoCalGas's forecasts for SIMP Capital to be reasonable and adopts them.

For SIMP Capital in the PTYs, SoCalGas requests $2.9 million, $6.8 million, and $10.7 million for 2025, 2026, and 2027, respectively.[812] TURN-SCGC opposes this request because it is unsubstantiated.[813] Due to the lack of supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

811 SCG Ex-09 at 74.

812 Sempra Opening Brief at 844.

813 TURN-SCGC Opening Brief at 102-105.

13.1.3.3. SoCalGas SIMP Balancing Account

SoCalGas proposes the continuance of the two-way balancing mechanism for the SIMP.[814] TURN recommends the Commission convert the existing two-way balancing accounts, such as the Storage Integrity Management Program Balancing Account (SIMPBA), to one-way and establish a memorandum account to recover above-authorized spending when needed.[815]

The Commission converts the SIMPBA to a one-way balancing account. Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application rather than an advice letter. See the Regulatory Account Section for a discussion of the request.

13.1.4. SoCalGas Facilities Integrity Management Program

Facilities Integrity Management Program (FIMP) is a new integrity management program designed to identify and mitigate potential risks to equipment within facilities based on industry recommended practices including renewable natural gas, storage facilities, and vehicle fueling. Facilities include pressure vessels, aboveground tanks, gas storage, and electrical equipment. The assessments, repairs, and enhancements which drive this program usually depend upon the results of inspections. As a result, SoCalGas asserts a need for extensive program management to achieve program objectives and develop best practices because the program is still under development.[816]

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814 SCG Ex-09 at vii; Sempra Opening Brief at 207, 210.

815 TURN Ex-15 at 16.

816 SDG&E Ex-09-R at 32, 53; SCG Ex-09 at 52, 71, 88.

13.1.4.1. SoCalGas FIMP O&M and Capital

SoCalGas forecasts $14.953 million for Non-Shared O&M, $100,000 in Shared O&M, and $2.366 million in Capital FIMP in 2024. As a new undertaking, SoCalGas's zero-based FIMP O&M forecast includes the hiring of over 50 new employees and associated non-labor costs.[817] SoCalGas requests no funding in 2022 and 2023 for FIMP Capital because this is a new program.

SoCalGas chose to use a zero-based forecast because the program is a new undertaking and is partially based on a 2019 pilot.[818] Cal Advocates recommends disallowing FIMP for several reasons. Cal Advocates argues that other programs and data management systems and their associated costs already cover these activities,[819] including vessel inspections performed by SoCalGas's Gas Engineering group. As such, Cal Advocates argues that a separate program is unsupported.[820] TURN recommends disallowing SoCalGas's FIMP forecast because managing additional activities within existing programmatic structures may involve less administrative burden and reduce complexity than introducing another administrative layer that must coordinate with existing divisions and programs.[821] As result, TURN recommends requiring the reallocation of any additional activities proposed to other programs (e.g. TIMP, SIMP) where appropriate.[822]

[817] SCG Ex-09 at 52, 71; SCG Ex-09-WP at 42.

[818] SDG&E Ex-09-R at 32, 52; SCG Ex-09 at 52, 71.

[819] Cal Advocates Opening Brief at 83-86; CA Ex-03 at 22.

[820] Cal Advocates Opening Brief at 86.

[821] TURN Opening Brief at 143.

[822] TURN Opening Brief at 140-144; TURN Ex-5-R at 17, 85.

In reply, SoCalGas claims the following in support of FIMP. First, the purpose of FIMP is to provide a comprehensive inspection process beyond existing routine maintenance to systematically address the integrity of equipment located at its facilities. Second, SoCalGas claims that comprehensive, systematic, and integrated processes are needed to confirm that equipment integrity is addressed across multiple departments and would enhance the safety of SoCalGas's transmission, storage, and natural gas vehicle facilities. SoCalGas further claims that applying integrity management principles to facilities in this manner would enable effective allocation of resources for prevention, detection, and mitigation activities; in the absence of a centralized program management approach, there is an increased risk of inconsistency and inefficiency. Third, SoCalGas has provided detailed cost breakdowns of the activities included in the program by work description, unit quantity, and unit cost.[823]

SoCalGas claims that it has substantiated the cost elements of FIMP by providing a detailed cost breakdown of the activities included in the program by work description, unit quantity, and unit cost in an appendix to an exhibit.[824] Upon review of this information, the Commission agrees with Cal Advocates' and TURN's recommendations and finds that such information fails to support how FIMP activities are separate from all the other gas integrity programs, how any additional activity costing $14.953 million is needed or reasonable, and how any additional cost for such activity would be cost-effective. SoCalGas provides a few examples of additional processes the FIMP would provide,[825] and the appendix

[823] Sempra Opening Brief at 207.

[824] SoCalGas Reply Brief at 139-140; SCG Ex-209-E at 22, Appendix B, Response to PAO-SCG Ex-036-DAO.

[825] SCG Ex-209-E at 18-20.

provides a spreadsheet and an additional 20 pages of tables. This information fails to demonstrate why over 50 additional employees are needed to perform work that may be performed, at least partially, by existing staff. The information also fails to identify the timeline for implementing such a program. SoCalGas's request indicates that SoCalGas currently lacks centralized management to effectively allocate integrity management resources for prevention, detection, and mitigation activities. This request also fails to demonstrate how adding another layer of management at a cost of $14.953 million will increase efficiency rather than decrease it.

Based on the above, the Commission disallows all requested forecasts for FIMP, including $14.953 million in SoCalGas FIMP Non-Shared expenditures,[826] $0.100 million in Shared O&M, and $2.366 million in Capital FIMP in 2024 and zero dollars in the PTYs.[827] In addition, SoCalGas must reduce any short-term incentive compensation and benefits associated with FIMP. To facilitate the reallocation of additional activities proposed as FIMP, the Commission directs SoCalGas to have an independent study performed of the efficiency of SoCalGas's TIMP and DIMP programs and related activities, including their management, to determine how best to improve their effectiveness, efficiency, and cost-effectiveness. A report of the study's findings shall be filed with SoCalGas's application in the next GRC.

SoCalGas shall make corresponding reductions to O&M costs related to this reduction of FIMP funding, including but not limited to compensation and benefits.

[826] SCG 209-E at 5; Sempra Opening Brief at 206; TURN Ex-5-R at 17, 85.

[827] CA Ex-03 at 21-24.

13.1.4.2. SoCalGas FIMP Balancing Account

Sempra Utilities requests approval for the Facilities Integrity Management Program Balancing Account (FIMPBA)[828]. TURN recommends denying the FIMPBA.[829, 830] The Commission is not convinced that the FIMPBA is necessary and therefore disallows authorization of the FIMPBA. See the Regulatory Account Section for a discussion of the request.

13.1.5. Gas Safety Enhancement Programs (GSEP)

The Gas Safety Enhancement Programs (GSEP) are new integrity management programs designed to implement changes to other integrity management programs in response to new rules found in GTSR Parts 1 and 2, Valve Rule, and PSEP Phase 2B. GSEP activities include new direct assessment guidelines pertaining to O&M for External Corrosion, Internal Corrosion, and Stress Corrosion Cracking, most of which is incremental to the TIMP. GSEP activities also include work done under the ISEP, which is incremental to PSEP. Under ISEP, pipeline segments may be tested, replaced, abandoned, or have their pressure reduced according to MAOP reconfirmation rules.

Due to the possibility that PHMSA will promulgate additional regulations in response to the Protecting our Infrastructure of Pipelines and Enhancing Safety (PIPES) Act of 2020, Sempra Utilities proposes the creation of the GSEP balancing account to address any incremental costs it may incur as new regulations are issued.

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[828] Sempra Opening Brief at 208, 211.

[829] Sempra Opening Brief at 207; TURN Ex-15 at 22; TURN Opening Brief at 443; *see also* TURN-SCGC Joint Opening Brief at fn. 425.

[830] Cal Advocates Opening Brief at 86.

13.1.5.1. SoCalGas Shared and Non-Shared GSEP O&M

GSEP O&M activities include direct assessment for corrosion, planning, surveys, repairs, and remediation. GSEP O&M costs cover support activities such as data and reporting management and training. Some incremental costs SoCalGas expects to incur include O&M costs related to risk analysis, project management, engineering and design, environmental requirements, construction management, and updates to policies and procedures. GSEP O&M also includes PHMSA requirements for testing newly installed valves.[831]

SoCalGas is seeking $1.670 million ($1.656 million Non-Shared and $0.014 million Shared) in 2024 for GSEP O&M, which is uncontested. For this new undertaking, SoCalGas bases this forecast on the addition of 3.3 FTEs in 2024 compared to 2021 along with associated non-labor costs.[832]

Based on SoCalGas's methodology and cost drivers in its supporting documents, the Commission finds that SoCalGas's 2024 Shared and Non-Shared GSEP O&M forecast of $1.670 million is reasonable and adopts it.

13.1.5.2. SoCalGas GSEP Capital

As discussed above, GSEP capital activities generally involve implementing recent changes to state and federal regulations and include direct assessment for corrosion, planning, surveys, repairs, and remediation.[833] More specifically, new gas safety rules and regulations, including the GTSR Parts 1 and 2 and other rules driven by the PIPES Act of 2020, require SoCalGas to reconfirm the MAOP of transmission pipeline through pressure testing, replacement, or the installation of

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[831] SCG Ex-09-CWP.

[832] SDG&E Ex-09-R at 36; SCG Ex-09 at 58; SCG Ex-09 at 72.

[833] SDG&E Ex-09-R at 54; SCG Ex-09 at 90.

automatic shut-off valves or remote-controlled valves.[834] For GSEP Capital SoCalGas forecasts $6.936 million in 2022, $48.340 million in 2023, and $108.588 million in 2024. For this new undertaking, SoCalGas bases this forecast on the addition of 6.9 FTEs, 62 FTEs, and 121 FTEs in 2022, 2023, and 2024, respectively. In 2024, this forecast includes $96.485 million in non-labor costs,[835] which are driven by pipeline surveys and reconfirmations.[836]

For the reduction of mileage covered by the ISEP, SoCalGas states that Commission precedent requires the identification of non-compliant pipelines.[837] SoCalGas proposes to verify the MAOP for 778 miles of pipelines[838] subject to federal regulations and 330 miles subject to state regulations.[839]

TURN-SCGC recommends instead that SoCalGas comply with state and federal guidelines without doing extra work,[840] since SoCalGas states only some of the required work must be done by 2028 and 2035.[841] To reduce the mileage covered by the ISEP in this GRC cycle, TURN-SCGC recommends that SoCalGas do 50 percent of the Class 3 or 4 pipelines in 2024 to reconfirm 50 percent of the 550 miles of transmission pipeline for which reconfirmation is required by the PHMSA regulations, leaving the remaining 50 percent of the 550 miles for reconfirmation by 2035 during the SoCalGas 2028 Test Year and 2032 Test Year

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834 SCG Ex-09-CWP at 100.

835 SCG Ex-09 at 99.

836 SCG Ex-09 at 9, 58, 72, 90.

837 Non-compliant pipelines are those tested under the pre-1970 ASA Code; *see* TURN-SCGC Opening Brief at 52.

838 14 miles of Class 1 or 2 and 764 miles of Class 3 or 4; *see* 49 C.F.R. Section 192.624.

839 Regulated under PSEP; *see* TURN-SCGC Opening Brief at 55.

840 49 C.F.R. Section 192.624(b); Pub. Util. Code Section 958; TURN-SCGC Opening Brief at 58.

841 SCG Ex-209-E at 4, 30.

GRC cycles as required.[842] TURN-SCGC further recommends that the remaining ISEP miles be reconfirmed with SoCalGas's PSEP Phase 2B "as soon as practicable" to test PSEP mileage in two batches in the Test Year 2032 and Test Year 2036 cycles.[843] Similarly, by excluding ISEP from the PTYs, TURN-SCGC recommends downward forecasts in the PTYs as well.[844] TURN-SCGC's recommendations would allow the GSEP forecast to be reduced by $43 million from $138 million to $95 million total ($2 million, $14 million, and $26 million reductions for 2022, 2023, and 2024, respectively).[845]

PCF advocated for denying the ISEP entirely because implementation of the GTSR was poorly explained and SoCalGas had done a poor job of breaking down the ISEP drivers.[846]

In reply, SoCalGas claims that TURN-SCGC's recommendation would risk noncompliance with federal requirements.[847] However, in support of that claim, SoCalGas only states that, of the estimated 550 miles in scope subject to 49 C.F.R. Section 192.624 and Pub. Util. Code Section 958, SoCalGas determined that approximately 518.5 miles at a minimum would need to undergo initial planning during the 2024 Test Year GRC cycle to meet the 50 percent and 100 percent compliance deadlines per the federal requirements. SoCalGas would complete this initial planning during the 2024 Test Year GRC because external and internal

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[842] TURN-SCGC Opening Brief at 52.

[843] TURN-SCGC Opening Brief at 55.

[844] TURN-SCGC Opening Brief at 58.

[845] TURN-SCGC Opening Brief at 52.

[846] PCF Opening Brief at 46.

[847] Sempra Reply Brief at 140-141.

factors such as permitting, environmental studies, or operational limitations may cause a hydrotest or replacement to take years to complete.[848]

The Commission finds that SoCalGas's reply does not refute TURN-SCGC's assertions and recommendation not to schedule work at an accelerated rate. Since the required work may be completed by mid-2035 or as practicable and that some of SoCalGas's proposed work pertains to a mid-2028 interim deadline,[849] the Commission finds TURN-SCGC's reductions of $2 million, $14 million, and $26 million (for the 2022-2024 period) to be reasonable and adopts $4.936 million, $34.340 million, and $82.588 million for GSEP Capital in 2022, 2023, and 2024, respectively.

For GSEP Capital PTY exceptions in revenue requirement, SoCalGas requests $16.3 million, $39.1 million, and $66.1 million for 2025, 2026, and 2027, respectively.[850] TURN-SCGC opposes this request because it is unsubstantiated.[851] Due to the lack of supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

13.1.5.3. Proposed GSEP Balancing Account

SoCalGas requests authorization of a two-way GSEP balancing account (GSEPBA) due to the high variability of year-to-year project planning to both comply with federal deadlines and balance system planning constraints to support gas system reliability, as well as the potential for reconfirmation methodologies to change for selected ISEP projects.[852]

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[848] Sempra Reply Brief at 141.

[849] Sempra Opening Brief at 211.

[850] Sempra Opening Brief at 844.

[851] TURN-SCGC Opening Brief at 102-105.

[852] Sempra Opening Brief at 212.

TURN-SCGC recommends denying the GSEPBA. TURN-SCGC contends that a balancing account is not required and that denying the account would encourage SoCalGas to institute cost reductions. TURN-SCGC also reasons that activities for the account have historically been addressed elsewhere and, importantly, projects like Hydrotesting have very low RSEs. TURN-SCGC also states that if the Commission does authorize the GSEPBA, it should be for this GRC cycle only, future rules and regulations should be excluded from the GSEPBA, and the Commission should not permit recovery of 35 percent above authorized via a Tier 3 Advice Letter.[853]

Considering the above summary of SoCalGas's rationale for this request and the intervenors' arguments, the Commission is not convinced that a balancing account for GSEP is necessary, reasonable, or appropriate. Consequently, this request is denied.

13.2. SDG&E

13.2.1. SDG&E TIMP

As with the SoCalGas TIMP, the SDG&E TIMP continuously identifies threats to transmission lines. Regulations, assessment volumes, and repairs drive this program.[854] TIMP O&M activities cover ILI, pressure testing, and direct assessment. It also includes A&R.[855] TIMP Capital activities cover IT applications, data modeling, and ILI activities.[856]

853 TURN-SCGC Opening Brief at 59.

854 SDG&E Ex-09-R at 26.

855 SDG&E Ex-09-R at 19.

856 SDG&E Ex-09-R at 47.

13.2.1.1. Non-Shared SDG&E TIMP O&M

SDG&E is seeking $9.514 million in 2024 for TIMP O&M, an increase of $742,000 above the 2021 Base Year amount of $8.772 million,[857] which is uncontested. SDG&E selected a base year recorded forecast because it represents the current structure of the organization and costs.[858]

Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the forecast of $9.514 million for SDG&E's Non-Shared TIMP O&M to be reasonable and adopts it.

13.2.1.2. SDG&E TIMP Capital (Budget Code 3468)

SDG&E is seeking $21.477 million in 2022, $19.173 million in 2023, and $9.290 million in 2024 for TIMP Capital, an increase of $7.003 million above the Base Year amount of $2.287 million,[859] which is uncontested. SDG&E selected a base year recorded forecast because it represents the current structure of the organization and costs.[860] Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the TIMP Capital forecasts of $21.477 million, $19.173 million, and $9.290 million for 2022, 2023, and 2024, respectively, to be reasonable and adopts them.

For TIMP Capital in the PTYs, SDG&E requests $1.6 million, $2.7 million, and $3.9 million for 2025, 2026, and 2027, respectively.[861] TURN-SCGC opposes this request because it is unsubstantiated.[862] Due to the lack of supporting

[857] SDG&E Ex-09-R at 19.

[858] SDG&E Ex-09-R at 25.

[859] SDG&E Ex-09-R at 47.

[860] SDG&E Ex-09-Rat 50.

[861] Sempra Opening Brief at 845.

[862] TURN-SCGC Opening Brief at 102-105.

evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

13.2.1.3. SDG&E TIMP Balancing Account

SDG&E proposes the continuance of the two-way balancing mechanism for the TIMPBA.[863] TURN recommends converting the TIMPBA to a one-way balancing account because TURN argues that TIMP costs have been excessive, and undercollections[864] have risen for programming where RSEs are low.[865] As the Commission also discusses in the Regulatory Accounts Section, the Commission converts the TIMPBA to a one-way balancing account.[866] Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application rather than an advice letter.

13.2.2. SDG&E DIMP

SDG&E requested $70.534 million in 2024 DIMP costs, an increase of $10.020 million over $60.514 million in 2021.[867] A forecasted increase in replacements associated with the VIPP is driving the DIMP. DIMP O&M activities include the VIPP, which covers Aldyl A replacement activities. DIMP Capital activities include the main and service replacements plan and the VIPP.[868]

13.2.2.1. Non-Shared SDG&E DIMP O&M

SDG&E is seeking $2.866 million in 2024 for Non-Shared DIMP O&M, a 27 percent increase of $0.612 million above the 2021 Base Year of $2.254 million.[869]

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863 SDG&E Ex-09-R at vi.

864 TURN-SCGC Opening Brief at 48.

865 TURN-SCGC Opening Brief at 49.

866 SDG&E Ex-09-R at vi.

867 SDG&E Ex-09-R at 51.

868 SDG&E Ex-09-R at -26, -51.

869 SDG&E Ex-09-R at -19.

SDG&E selected a base year recorded forecast based on an average unit cost with adjustments to account for changes.[870]

TURN's recommendation for SDG&E's DIMP is to reduce the VIPP by $3 million per year for the 2022-2024 period. TURN cites the same reasons for taking this position as with SoCalGas but on a smaller scale. TURN cites RSEs and SDG&E's own data to contend that the utility's bare and unprotected steel exhibit greater risk profiles than that of Aldyl A.[871]

The Commission finds TURN's reductions to SDG&E's Non-Shared DIMP O&M forecast reasonable for the same reasons SoCalGas's DIMP forecasts are reduced. Accordingly, the Commission reduces SDG&E's annual Non-Shared DIMP O&M expense by $2.866 million annually for a total of $8.598 million for the 2022-2024 period. The impact of this reduction decreases SDG&E's 2024 Non-Shared DIMP O&M forecast to $0, which the Commission finds to be reasonable and adopts.

13.2.2.2. SDG&E DIMP Capital (Budget Code 9546)

SDG&E is seeking $60.230 million in 2022, $64.482 million in 2023, and $70.534 million in 2024 for DIMP Capital. The 2024 costs represent a 21 percent increase of $12.274 million above the 2021 Base Year of $58.260 million. SDG&E selected a base year recorded forecast because SDG&E states that it represents the current structure of the organization and costs.[872]

TURN recommends reducing SDG&E's VIPP by $195.246 million total based on Aldyl A plastic pipe exhibiting a "relatively negligible risk of leaks

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870 SDG&E Ex-09-R at -31.

871 TURN Ex-05-R-E1 at 17, 82-83.

872 SDG&E Ex-09-R at -51.

compared to other piping" and the low RSE values. TURN asserts that the accelerated replacement of Aldyl A under the VIPP is an imprudent use of ratepayer funds.[873]

SDG&E opposes TURN's recommended SDG&E VIPP disallowance for the same reasons that it opposes SoCalGas's VIPP disallowance.[874]

The Commission finds TURN's alternate recommendation for SDG&E's VIPP program to be reasonable for the same reasons as TURN's alternative recommendation for disallowance of SoCalGas's VIPP program. SDG&E fails to demonstrate the necessity and reasonableness of continuing to fund VIPP at previous levels or at an accelerated plastic pipe replacement rate through DIMP in addition to SDG&E's routine pipeline replacement programs. TURN's alternate VIPP recommendation only includes accelerating the replacement of pre-1973 pipe according to Sempra's originally proposed "Second Tier" of the VIPP. For SDG&E, this would be approximately 14 miles of LDIW or brittle Aldyl A plastic pipe.[875]

Based on SDG&E's unit cost for replacing such plastic pipe in 2024 determined by dividing its 2022-2024 requests by its proposed miles of pipe to be replaced in the same period, the average cost of replacing 14 miles of plastic pipe in 2024 is $16.079 million per year. The Commission disallows SoCalGas's 2024 remaining VIPP request for accelerated replacement of Aldyl A plastic pipe and adopts TURN's alternative recommended amount for SDG&E's VIPP program of $16.079 million per year for 2022-2024.

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873 TURN Ex-05-R-E1 at 17.

874 Sempra Reply Brief at 133-137.

875 TURN Ex-05-R at 83.

Since it is unclear how much LDIW Aldyl A may still be installed in SDG&E's system under conditions that could lead to leakage or failure, the Commission permits SDG&E to record the cost of removing it in the DIMP memorandum account when found through other integrity management programs, or the location of the pipe is known in an area of elevated risk. SDG&E may apply recovery of the cost of removing LDIW Aldyl A in the next GRC up to the amount removed in 2021 of 52 miles.[876] However, SoCalGas shall only use funds in VIPP to replace pre-1973 Aldyl A pipe verified as such. As part of the reasonableness review of VIPP costs in the next GRC, SDG&E shall at a minimum provide information required by the Commission's risk-based decision making framework, including the estimated miles of LDIW Aldyl A pipe installed, the amount to be removed by year of pipe installation, the known locations of installed pipe, the leak rate of known locations, the soil and other conditions where the pipe is installed that may lead to an elevated risk or a reason for removing it, how Sempra is locating such pipe, and population density where the pipe is located.

For DIMP Capital in the PTYs, SDG&E requests $13.4 million, $26.0 million, and $40.1 million for 2025, 2026, and 2027, respectively.[877] TURN-SCGC opposes this request because it is unsubstantiated.[878] Due to the lack of supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

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[876] SCG Ex-09-CWP at 21.

[877] Sempra Opening Brief at 844.

[878] TURN-SCGC Opening Brief at 102-105.

13.2.2.3. SDG&E DIMP Balancing Account

SDG&E proposes the continuance of a two-way balancing mechanism for the DIMP.[879] TURN recommends the Commission convert existing two-way balancing accounts, such as the DIMPBA, to one-way and establish a memorandum account to recover above-authorized spending when needed.[880]

The Commission converts the DIMPBA to a one-way balancing account. Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application rather than an advice letter. See the Regulatory Account Section for a discussion of the request.

13.2.2.4. SDG&E FIMP

SDG&E requested $403,000 in 2024 costs for the FIMP, which is a new program.[881] Repairs and enhancements drive SDG&E FIMP, which usually depends upon the results of inspections. Program activities include assessments and inspections which drive repairs and asset enhancements.[882]

13.2.2.5. Non-Shared SDG&E FIMP O&M

SDG&E is seeking $258,000 in 2024 for FIMP O&M. FIMP O&M activities include assessments and inspections which drive repairs and asset enhancements.[883] SDG&E selected a zero-based forecast because this is a new program without historical costs.[884]

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[879] SDG&E Ex-09-R at vi; Sempra Opening Brief at 199.

[880] TURN Ex-15 at 16.

[881] Sempra Opening Brief at 216-218.

[882] SDG&E Ex-09-R at 32, 36.

[883] SDG&E Ex-09-R at 32.

[884] SDG&E Ex-09-R at 32; Sempra Opening Brief at 216-218.

TURN recommends disallowing the amount SDG&E has requested for FIMP O&M expenditures from this GRC[885] and also removing any O&M dedicated to FIMP activities which cannot be attributed to other programs. TURN also recommends reallocating activities to other programs (e.g. TIMP, SIMP) where appropriate.[886]

The Commission agrees with TURN's argument to reject SDG&E's proposed FIMP. As a result, the Commission disallows $0.258 million in SDG&E FIMP Non-Shared O&M from this GRC and reallocates all remaining pertinent activities to other programs (e.g., TIMP).

SoCalGas shall make corresponding reductions to O&M costs related to this reduction of FIMP funding, including but not limited to compensation and benefits.

13.2.2.6. SDG&E FIMP Capital

SDG&E is seeking $0.145 million in 2024 for FIMP Capital. SDG&E selected a zero-based forecast because it is a new program without historical costs.[887]

TURN recommends the Commission disallow $145,000 in SDG&E FIMP capital expenditures from this GRC and reallocate activities to other programs (e.g., TIMP).[888]

As discussed above with regard to the SoCalGas FIMP, the Commission agrees with TURN and denies the creation of SDG&E's proposed FIMP. As a result, the Commission disallows $145,000 in SDG&E FIMP capital expenditures

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885 SDG&E notes that the correct amount of TURN's proposed FIMP reduction is $0.258 million. Sempra Opening Brief at 217, fn. 1244.

886 Sempra Opening Brief at 206; TURN Ex-5-R at 18, 102.

887 SDG&E Ex-09-R at -53.

888 SDG&E Ex-209 at 13; Sempra Opening Brief at 206; TURN Ex-5-R at 17, 85.

from this GRC and reallocates all pertinent activities to other programs (e.g., TIMP). The Commission also disallows the FIMP forecast for the PTYs based on its rejection of SDG&E's proposed FIMP.

13.2.2.7. SDG&E FIMP Balancing Account

SDG&E requests authorization of a two-way FIMP balancing account (FIMPBA).[889] TURN recommends denying the FIMPBA.[890] The Commission is not convinced that the FIMPBA is necessary and therefore disallows authorization of the FIMPBA. See the Regulatory Account Section for a discussion of the request.

13.2.3. SDG&E GSEP

SDG&E requests $27.286 million in 2024 costs for the GSEP, which is a new program.[891] Pipeline surveys and reconfirmations drive unit counts for this program. The utility also says program management requirements such as reporting or training needs will raise or lower the amount of work to be performed.[892] GSEP activities include new work which is incremental to the TIMP. Activities also include work done under ISEP which is incremental to PSEP. See the Regulatory Account Section for a discussion of this request.

13.2.3.1. Non-Shared SDG&E GSEP O&M

SDG&E is seeking $130,000 in 2024 for Non-Shared GSEP O&M, which is uncontested.[893] SDG&E selected a zero-based forecast because it is a new program without historical costs.[894]

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889 Sempra Opening Brief at 208, 211.

890 Sempra Opening Brief at 207; TURN Ex-15 at 22; TURN Opening Brief at 443; *see also* TURN-SCGC Opening Brief at fn. 425.

891 Sempra Opening Brief at 216-218.

892 SDG&E Ex-09-R at -54.

893 SDG&E Ex-09-R at 19.

894 SDG&E Ex-09-R at -36.

Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the amount of $130,000 for SDG&E's 2024 Non-Shared GSEP O&M to be reasonable and adopts it.

13.2.3.2. SDG&E GSEP Capital

SDG&E is seeking $3.221 million in 2023 and $27.156 million in 2024 for GSEP Capital.[895] SDG&E selected a zero-based forecast because this is a new program without historical costs.[896]

Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the amounts of $3.221 million in 2023 and $27.156 million in 2024 for capital expenditures to be reasonable and adopts them.

For GSEP Capital in the PTYs, SDG&E requests $4.7 million, $9.1 million, and $12.8 million for 2025, 2026, and 2027, respectively.[897] TURN-SCGC opposes this request because it is unsubstantiated.[898] Due to the lack of supporting evidence, the Commission agrees and disallows additions to this forecast in the PTYs.

13.2.3.3. GSEP Balancing Account

SDG&E requests authorization of a two-way GSEP balancing account (GSEPBA).[899] TURN-SCGC recommends denying the GSEPBA.[900]

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[895] SDG&E Ex-09-R at 47.

[896] SDG&E Ex-09-R at 54.

[897] Sempra Opening Brief at 844.

[898] TURN-SCGC Opening Brief at 102-105.

[899] SDG&E Ex-09-R at vi.; Sempra Opening Brief at 212.

[900] TURN-SCGC Opening Brief at 59.

The Commission is not convinced that a balancing account for GSEP is necessary, reasonable, or appropriate. Consequently, this request is denied. See the Regulatory Account Section for a discussion of the request.

14. Gas Storage Operations and Construction

SoCalGas's Gas Storage Operations and Construction (Gas Storage) operations include the engineering design, operation, and maintenance of the ability to inject and withdraw natural gas from the four storage fields needed to meet customer demand according to regulatory requirements that promote their safety, integrity, and reliability. This operation includes the routine installation, maintenance, refurbishment, and replacement of heavy industrial equipment such as engines, compressors, electrical systems, wells, piping, gas processing components, and instrumentation within and outside the perimeter of storage fields where gas pipelines, storage wells, compressors, and storage purification systems exist.[901] This operation also provides centralized fiscal and operational management of the large capital investments needed to perform the functions managed within this operation, including analysis and consultation regarding cost estimates, permit requirements, scheduling, and execution of major gas infrastructure facilities projects necessary for the safe and reliable transmission of natural gas throughout the service territory.[902]

SoCalGas operates four underground storage fields – Aliso Canyon, Honor Rancho, La Goleta, and Playa del Rey — and gas storage is an essential part of its integrated transmission pipeline and distribution system. This interconnected system consists of high-pressure pipelines, compressor stations, and underground

[901] Sempra Opening Brief at 221.

[902] Sempra Opening Brief at 222.

storage fields, designed to receive natural gas from interstate pipelines and local production sources. The integrated system enables deliveries of natural gas to customers or into storage field reservoirs, depending on system demands. SoCalGas uses its storage assets to meet these gas balancing requirements.

To satisfy these requirements, the individual storage facilities act as "gas suppliers" or "consumers," depending upon the withdrawal or injection requirements. Fluctuating demands may require storage operations to perform gas injection or withdrawal functions at any hour of the day, 365 days per year. Storage fields are continually staffed with operating crews and on-call personnel to support these critical 24/7 operations. The SoCalGas system relies on underground storage to supply volumes of gas over brief time periods due to extreme weather conditions occurring locally or out of state, unforeseen pipeline maintenance, or from the temporary reduction of interstate supplies for other reasons. Such conditions place demand on the wells, pipelines, and other storage facilities that must support the withdrawal requirements. The reliance on the availability of storage gas requires continuous maintenance activities and ongoing investments into the wells, pipelines, and other storage facilities to meet customer demands. Gas Storage includes both operational and technical support groups that provide services essential to operating and maintaining the safety, integrity, and reliability of these critical gas delivery assets. While each storage field has its own unique operating conditions and characteristics, there are common support activities performed on a regular basis which make up the bulk of routine expenses presented in the Gas Storage Operations and Construction testimony.[903]

[903] SoCalGas Opening Brief at 224-225.

14.1. Operations and Maintenance

14.1.1. Non-Shared O&M

For overall Gas Storage Operations and Construction Non-Shared and Shared O&M, SoCalGas requests a total of $47.782 million. This includes an increase in underground storage costs of $202,000 from $4.686 million[904] in 2021 to $4.888 million in 2024 to operate SoCalGas's four underground storage fields.[905] PCF recommends reducing Gas Storage O&M costs based on eliminating the Aliso Canyon field, asserting that it is no longer necessary. However, the necessity of Aliso Canyon is out of the scope of this proceeding because the feasibility of minimizing or eliminating the use of Aliso Canyon while still maintaining energy and electric reliability for the region is scoped into I.17-02-002.

For aboveground storage costs, which includes costs for compressors, pipelines, purification, and auxiliary equipment in 2024, SoCalGas forecasts $42.555 million for labor and non-labor, which represents a 16.8 percent increase of $6.134 million over the amount of recorded costs in the 2021 Base Year of $36.421 million.[906] SoCalGas bases this forecast on a zero-based methodology due to variability in work associated with Gas Storage operations.

However, SoCalGas does not describe how it uses "knowledge of experienced personnel at the storage fields and quotes for necessary materials and equipment" to estimate a base amount with any adjustments for differences in future work.[907] SoCalGas relies on unquantified descriptions of cost drivers, such

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904 SCG Ex-10-WP-R-E at 3,11.

905 SCG Ex-10-R at 13.

906 SCG Ex-10-R at 13.

907 SCG Ex-10-R at 16.

as safety, risk management, and increasingly stringent state and federal regulations. This is particularly true for the aboveground storage forecast because SoCalGas does not state what increases in regulations impacting aboveground storage would support a 16.8 percent increase in aboveground storage costs, as opposed to the regulations for underground storage[908] costs that SoCalGas estimates is similar to 2024 costs. Neither does SoCalGas adequately quantify how the volume of maintenance work, along with its complexity and the limited availability of replacement components on equipment such as the compressors, may support a higher annual cost.[909] As a result, the Commission does not find SoCalGas's estimated increase in aboveground storage costs for 2024 to be supported and reasonable. Instead, the Commission finds SoCalGas's 2024 forecasts for underground storage of $4.888 million and a forecast for aboveground storage of $36.421 million based on the 2021 Base Year to be reasonable and adopts them.

14.1.2. Shared O&M

Shared Services are activities performed by SoCalGas's Shared Services department for the benefit of: (i) SDG&E or SoCalGas, (ii) SoCalGas Energy Corporate Center, and/or (iii) any affiliate subsidiaries. These services and costs are allocated to entities receiving those services.[910] For Gas Storage activity, the Shared costs include the costs associated with the activities of the Vice President of Transmission and Storage group.[911]

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[908] SCG Ex-10-R at 16-17; CalGEM Requirements for California Underground Gas Storage Projects, 14 C.C.R. Section 1726 *et seq.* and PHMSA Underground Natural Gas Storage regulations, 49 C.F.R. Section 192.12.

[909] SCG Ex-10-R at 16-17.

[910] SCG Ex-10-R at 17.

[911] SCG Ex-10-R at 18.

For 2024 Gas Storage, SoCalGas forecasts a decrease in costs of $28,000 from the 2021 Base Year of $367,000 to $339,000. SoCalGas bases this forecast on a three-year average of historical costs because the costs are expected to remain consistent with the most recent recorded historical costs.[912] The Commission finds SoCalGas's 2024 Gas Storage Shared Services O&M cost of $339,000 to be reasonable based on its methodology and adopts it.

14.2. Gas Storage Capital

14.2.1. Honor Rancho Compressor Station Modernization Project

The Honor Rancho Compressor Station Modernization (HRCM) Project consists of the Principal component and the Advanced Renewable Energy (ARE) component. The Principal component of the HRCM Project includes the installation of the new compression equipment to comply with SCAQMD Rules 1110.2 and 1100. Currently, the Honor Rancho compression capacity is provided by five obsolete units that are reaching the end of their useful life. They were purchased and installed in 1975, and the company that made them went out of business in 1989, making replacement parts difficult to find. The Principal component of the HRCM Project also includes the installation of a microgrid comprised of a super capacitor and/or battery energy storage system and a system of solid oxide fuel cells (SOFC) to generate electricity to support auxiliary and administrative electrical loads while reducing the need for grid purchase of electricity.[913]

The ARE component includes the installation of green hydrogen equipment such as electrolyzers, storage vessels, blending equipment, and a green hydrogen

[912] SCG Ex-10-R at 18.

[913] Sempra Opening Brief at 230-231.

fueling station for fleet vehicles. SoCalGas states that the ARE component is designed to 1) reduce GHG emissions and support climate conservation goals by blending green hydrogen with natural gas as the combustion fuel for the four new compressor gas lean-burn engines; 2) use green hydrogen as a fuel in SoCalGas company fleet vehicles, ; and 3) use green renewable electricity as the power source for the ARE component to produce green hydrogen.[914]

For the Principal component for 2022, 2023, and 2024, SoCalGas forecasts $3.7 million, $23.3 million, and $112.7 million, respectively. SoCalGas bases this estimate on the engineering procurement and construction phase for the Principal component being initiated in 2023 and placed into service in 2027,[915] followed by the ARE component in 2028. Due to the expected completion date of the Principal component being forecasted beyond 2024, the associated revenue requirement is zero dollars for 2025-2026 and $92.4 million in 2027.[916] SoCalGas does not include any revenue requirements associated with the ARE Component in this GRC.[917]

14.2.1.1. Intervenor Positions and Recommendations

Air Products and other intervenors oppose the ARE component and the ratepayer funded investments in the production and use of hydrogen based on various policy reasons, including its cost-effectiveness and necessity.[918] In addition, EDF argues that SoCalGas has not demonstrated that the ARE component is, in fact, going to use green hydrogen.[919]

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914 Sempra Opening Brief at 231.

915 SCG Ex-10-R-22.

916 Sempra Opening Brief at 845; SCG Ex-40-2R-E at KN-9.

917 SCG Ex-10-R-21.

918 Air Products Opening Brief at 7-19, 29-30, 31-32; TURN-SCGC Ex-05.

919 EDF Reply Brief at 34-35.

As with the Moreno Compressor Modernization Project, Cal Advocates initially argued that this project should be removed from PTY forecasts and placed in the next GRC or as a separate application due to limited support for the project in testimony, and delays that would push the completion date into the next GRC.[920]

TURN-SCGC does not oppose the inclusion of the Principal component of this project, although they recommend removal of funding for a microgrid. TURN-SCGC also recommends that the ARE projects (hydrogen production, storage, blending and fueling station) should be rejected.[921]

TURN contests the hydrogen refueling station portion of the HRCM Project based on its contention that the hydrogen refueling station risks exposure to increased pollution and risks associated with hydrogen blending into existing pipelines.[922]

Subsequently, in their October 24, 2023 motion for approval of a settlement, Cal Advocates and SoCalGas recommend adoption of the HRCM Project in a reduced amount for the 2022-2027 period totaling $525.2 million (in 2021 base year constant dollars) for the compressor installation only when the Principal component goes into service in 2027.

14.2.1.2. Discussion

The Commission finds that the HRCM project is important for safety and reliability and for mitigating the risk of impacting future customer costs and non-compliance with SCAQMD regulations.[923] The Honor Rancho compressor has

[920] Cal Advocates Opening Brief at 356-357.

[921] TURN-SCGC Ex-05 at 1-2.

[922] TURN Ex-10-R at 3-15.

[923] SDG&E Ex-06-R at 38.

reached the end of its useful life, and its replacement is expected to decrease NOx emissions. Continuing to run the existing compressor risks failure, resulting in a reduction of system reliability and high maintenance and commodity costs that would likely increase customer costs. Given the opposition to the ARE component's production and use of hydrogen, the ARE component of the HRCM is denied. Although parties oppose pieces of the Principal component or the process for approval as detailed above, parties do not oppose the Principal component as part of the project overall. Additionally, SoCalGas has demonstrated the benefits of the Principal component of the HRCM as described above. Accordingly, the Commission finds the proposed costs for the HRCM project without the ARE component and any hydrogen-related costs to be reasonable and adopts the amount authorized below.

Because the project's forecasted costs have significantly risen, the Commission also adopts the following cost controls:

1. The amount authorized for this forecast is capped at $525.2 million. This authorization includes construction of a microgrid as part of the Principal component for reliability and environmental benefits.[924]
2. The amount of the authorized cap includes the respective project costs already incurred during plant construction, called construction work in progress, recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant is moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in other Sections of this decision may be put into rates until these projects are in-service.

[924] Sempra Opening Brief at 233.

3. SoCalGas may seek recovery of the cost of this project once it is completed and placed in service via a Tier 2 Advice letter.

14.2.2. Aliso Canyon Turbine Replacement

Following Commission authorization to recover costs for the Aliso Canyon Turbine Replacement Project (ACTR),[925] the Commission continued the Aliso Canyon Memorandum Account (ACMA) to record additional capital-related costs in excess of $275.5 million and provided that any recovery sought for these amounts would be subject to a reasonableness review in a future GRC. In compliance with D.19-09-051, SoCalGas requests review and recovery of $21.6 million in capital-related costs to complete the ACTR[926] over the total cost approved for recovery in the 2019 GRC decision through December 31, 2023.[927]

Cal Advocates recommends reducing SoCalGas's request of $21.6 million by $12.6 million to $9.5 million for two elements of ACTR costs.

14.2.2.1. Company Labor

Cal Advocates contends that the Commission should deny SoCalGas's request for $1.8 million in Company Labor for the following reasons: 1) the utility did not hire any FTEs specifically for the ACTR project; 2) instead, SoCalGas shifted qualified FTEs between projects depending on resource demand at any given time; and 3) the project saw decreases in hours charged and associated FTEs from 2018 through 2020.[928]

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925 D.13-11-023 and D.19-09-051.

926 Sempra Opening Brief at 235; Sempra Reply Brief at 151.

927 Cal Advocates Opening Brief at 91; Sempra Opening Brief at 235 citing to SCG Ex-10-R and SCG Ex-38- R.

928 Cal Advocates Opening Brief at 91-92.

In response, SoCalGas contends that the $1.8 million in Company Labor is supported by several reasons.[929] First, SoCalGas states that whether SoCalGas hired FTEs specifically for the ACTR project has no bearing on whether the Company Labor costs incurred to complete the ACTR project were reasonable because the $1.8 million in Company Labor costs were specific to the ACTR project and have not been recovered from any other project or in O&M.[930] In support of this argument, SoCalGas states that it engaged a team of qualified and experienced employees, included in Company Labor, to provide internal support and oversight of the ACTR project. The ACTR project team of technical, management, and field personnel included a project manager, engineering manager, construction manager, environmental compliance manager, safety advisor, and storage operations, as well as direct support from project controls, contract management, engineering, and other specialties. Once the ACTR project was completed, SoCalGas personnel continued work on other projects, while some filled vacancies in other SoCalGas departments. Second, SoCalGas states that the Code of Federal Regulations, which is the utility accounting guidance SoCalGas follows, states that the cost of construction work includes labor costs that include the pay and expenses of employees of the utility engaged in construction work. Furthermore, SoCalGas states that any costs, such as Company Labor, which contribute to the value of the asset, can be capitalized, per the Code of Federal Regulations and Generally Accepted Accounting Principles (GAAP).[931]

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[929] Sempra Reply Brief at 151-152.

[930] SCG Ex-210 at 15.

[931] SCG Ex-210 at 16.

The above arguments raise unresolved questions and assumptions. First, merely stating that costs associated with personnel previously hired by SoCalGas who were engaged to work on the ACTR project were not recovered from previously forecasted and authorized O&M or any other project costs does not demonstrate that recovery of such costs is reasonable in this GRC. In fact, the opposite may be true: the cost of the personnel engaged in the ACTR project may have already been included in rate base. If such personnel had been reprioritized, then ratepayers should instead receive a credit for not receiving a benefit for the cost of personnel included in rates for other work. SoCalGas has the burden to resolve these issues by providing sufficient documentation. Second, including labor in the cost of construction and capitalizing it is already a recognized practice in GRCs. As such, federal regulations and GAAP have no impact on SoCalGas's assumptions above that are not in evidence.

As a result of the above questions and assumptions not in evidence, the Commission finds SoCalGas's request to recover $1.8 million for ACTR Company Labor to be unsupported and unreasonable. Thus, the Commission reduces SoCalGas's recovery for the ACTR by $1.8 million.

14.2.2.2. Indirect Costs

Cal Advocates recommends a $2.2 million adjustment to ACTR indirect costs because such ongoing overhead costs that are not directly attributed to other activities are already included in rate base. Cal Advocates states that such costs generally include non-labor facility costs, rents, utilities, and government fees and labor costs, such as benefits, paid time off, building services, information technology device services, fleet, indirect labor, payroll taxes, and operational management and support.[932]

In response, SoCalGas argues that the Commission should reject Cal Advocates' recommendation on the treatment of overheads as it is inconsistent with the methodology established by the Federal Energy Regulatory Commission (FERC) and the Commission authorized methodology for treatment of overheads on large capital projects.[933]

In rebuttal or other testimony,[934] SoCalGas again does not demonstrate that $2.2 million in ACTR indirect costs are not already included in rate base. As a result, the Commission finds SoCalGas's request to recover $2.2 million for ACTR indirect costs to be unsupported and unreasonable. Thus, the Commission reduces SoCalGas's recovery for the ACTR by $2.2 million.

The Commission does not find that Cal Advocates provided sufficient evidence to support its recommendation to reduce SoCalGas's request of $21.6 million by $12.6 million to $9.5 million.[935] The Commission does find sufficient evidence to support Cal Advocates' recommendation to reduce SoCalGas's request for Company Labor and indirect costs by $4 million. Therefore, the Commission finds the amount of $21.6 million minus $4 million, equal to $17.6 million, to be reasonable and approves recovery for the ACTR costs in the amount of $17.6 million.

14.2.3. Remaining SoCalGas Gas Storage Capital

The following SoCalGas capital expenditures forecasts are uncontested:

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932 Cal Advocates Opening Brief at 92-93.

933 Sempra Reply Brief at 152.

934 SCG Ex-210 at 15-16.

935 Cal Advocates Reply Brief at 21, citing CA Ex-03 at 27-30.

Table 14.1
Capital Expenditures: Gas Storage Facility Projects ($000)

Project	Party	2021 Adj-Recorded	2022 Forecast[8]	2023 Forecast	2024 Forecast	2022-2024 Total
Compressors	SoCalGas	20,654	16,439	16,122	15,342	47,903
Wells	SoCalGas	80,721	83,188	58,000	57,000	198,188
Pipelines	SoCalGas	33,902	30,126	25,532	28,946	84,604
Purification	SoCalGas	5,740	11,670	7,991	11,304	30,965
Auxiliary Equipment	SoCalGas	45,747	64,772	55,634	33,958	154,364
Total		**186,764**	**206,195**	**163,279**	**146,550**	**516,024**

Based on the methodologies and their application to the subcategories in SoCalGas's testimony and workpapers, the Commission finds these total decreased costs to be reasonable and adopts them.

15. Procurement

15.1. SoCalGas's Gas Acquisition

SoCalGas's Gas Acquisition Department procures (1) natural gas and clean fuels for retail core customers of both SoCalGas and SDG&E; and (2) Cap-and-Trade GHG emissions compliance instruments for SoCalGas's covered end-use customers and its gas transmission and storage facilities.[936]

For 2024 gas acquisition activity, SoCalGas forecasts $5.247 million, which is an increase of $166,000 over the 2021 Base Year cost of $5.081 million.[937] This increase is based on adjustments to fill existing Gas Acquisition Department vacancies and to add two employees for risk management and scheduling

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[936] Sempra Opening Brief at 237-238.

[937] Sempra Opening Brief at 238.

functions to maintain a staff of 38 total full-time employees in 2024.[938] The additional employees include a Senior Risk Analyst and an Interstate Transportation Analyst. The latter will be part of the front office Gas Scheduling group that manages gas transactions on more than 15 interstate/intrastate pipelines, manages upstream supply cuts that commonly occur throughout the gas day, monitors pipeline maintenance events, and re-routes gas, if necessary, to optimize supplies flowing into SoCalGas's system.[939]

The Commission finds this uncontested forecast to be reasonable and adopts it.

15.2. Injection Enhancement Cost Memorandum Account

The Injection Enhancement Cost Memorandum Account (IECMA) is an interest-bearing memorandum account recorded on SoCalGas's financial statements established by approval of SoCalGas Advice Letter 5140 on July 11, 2017. In the IECMA, SoCalGas records all incremental costs associated with the Injection Enhancement Plan and Injection Enhancement Memorandum between SoCalGas's System Operator and SoCalGas's Gas Acquisition Department.[940]

As a result of Commission directives to use procurement capabilities of the SoCalGas Gas Acquisition Department to support SoCalGas's storage requirement for system reliability for both storage system reliability directive periods, the Gas Acquisition Department executed incremental gas purchase and Secondary Market Services (SMS) gas park transactions to optimize storage injections for reliability purposes for the benefit of core and noncore customers.

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[938] SCG Ex-11-WP at 3.

[939] SCG Ex-11 at 13-24.

[940] Sempra Opening Brief at 238.

Incremental transaction costs totaling approximately $130,000 were recorded in the IECMA for 2017 and an incremental credit totaling approximately $296,000 was recorded in the IECMA for 2018. After applying interest to the IECMA account balance calculated in the manner described in SoCalGas's Preliminary Statement Part I, Section J, the net IECMA balance as of December 31, 2021 is an overcollected credit totaling approximately $167,000.[941]

SoCalGas proposes to amortize the balance as of March 31, 2022 of $167,000 to be refunded to ratepayers as of December 31, 2023 in customers' gas transportation rates, and at the end of the amortization period, transfer any residual balances to the Core Fixed Cost Account (CFCA) and Non-Core Fixed Cost Account (NFCA) and eliminate the account.[942] The Commission finds this disposition to be reasonable and adopts it.

15.3. SDG&E Energy Procurement

SDG&E's Energy Procurement (EP) function is tasked with procuring both long-term and short-term resources to provide electric service to bundled service customers, optimizing those resources in the wholesale energy and ancillary services markets, prudently administering resource contracts, including utility-owned resources, accurately settling all energy procurement transactions, optimizing its legacy portfolio through capacity sales transactions and allocating/selling Renewables Portfolio Standard resource attributes through the Voluntary Allocation and Market Offer process, and providing subject matter expertise to support SDG&E's regulatory compliance and advocacy efforts. Energy Procurement is also required by the Commission to procure capacity

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[941] SCG Ex-11 at 22.

[942] SCG Ex-38-R-E at 11.

resources on behalf of community choice aggregators and direct access customers when necessary to ensure reliability.[943]

SDG&E requests approval to recover $9.4 million in annual O&M expenses to support the EP function, which represents an increase of $1.466 million over the 2021 Base Year.[944] SDG&E attributes this increase primarily to the need to fill several vacancies that existed in 2021, as well as the addition of five employees to provide additional expertise for the evolving technology and policy landscape and increasing complexity of the work performed by EP.[945]

This work is separated into the following Non-Shared O&M cost categories, some of which are disputed below: Resource Planning, Origination and Portfolio Design, Back Office, and Energy Supply & Dispatch.

15.3.1. SDG&E Energy Procurement-Resource Planning

The Resource Planning function involves consideration of studies, forecasts, regulatory requirements, and information exchanged through stakeholder engagement processes, combined with historical data, existing and potential resource capability, and costs associated with alternative portfolio solutions to identify an optimal resource plan.[946]

SDG&E forecasts $1.203 million for its Energy Procurement Resource Planning section in 2024, which is comprised of $938,000 for labor and $265,000

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[943] Sempra Opening Brief at 239-240.

[944] Sempra Opening Brief at 240.

[945] SDG&E Ex-10-WP at 6.

[946] SDG&E Ex-10 at 22.

for non-labor. SDG&E bases the labor component of this forecast on employing 6.9 FTEs in 2024, and the non-labor on a five-year average.[947]

Cal Advocates recommends a downward adjustment from $1.203 million to $874,000 using a 3-year-average methodology to reflect stable, recent recorded costs associated with the Resource Planning labor. Cal Advocates also disputes that the increase in labor is due to partial vacancies in 2021 because the number of FTEs has not exceeded 6.4 in the last five years.[948]

In response, SDG&E states that Cal Advocates' analysis does not properly account for staff turnover that artificially depressed the level of FTEs over previous years. SDG&E submits that incremental funding above Base Year 2021 to account for vacancies during that year, and previous years, is appropriate to ensure that the Resource Planning function has the level of FTEs necessary to handle its increased workload. Given that SDG&E's Resource Planning staff is actively engaged in all long-term resource planning policy discussions at the Commission, the California Air Resources Board, the California Energy Commission, and the Legislature to develop resource plans needed to meet reliability and clean energy goals identified in agency proceedings,[949] the Commission finds the amount of SDG&E's modest increase in staff forecasted to be reasonable. Accordingly, the Commission adopts SDG&E's 2024 forecast of $1.203 million for its Energy Procurement Resource Planning section.

15.3.2. SDG&E Origination and Portfolio Design

SDG&E forecasts $2.479 million for its Origination and Portfolio Design (O&PD) group in 2024, which is an increase of $0.885 million above the 2021 Base

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[947] SDG&E Ex-10 at 22-23.

[948] Cal Advocates Opening Brief at 94.

[949] SDG&E Ex-10 at 22.

Year amount of $1.594 million.[950] The 2024 forecast includes uncontested non-labor costs of $292,000, which SDG&E calculated using a five-year average.[951] The 2024 labor cost for this forecast is $2.187 million and is based on filling vacancies that existed in 2021 and employing staff in three additional groups for a total of 15.4 FTEs in 2024.[952]

Cal Advocates recommends a reduction in SDG&E's labor forecast of $600,000 based on a five-year average for 2017-2021 during which contracts decreased from 2017 through 2021.[953]

In response, SDG&E contends that Cal Advocates' historical analysis does not take into consideration future needs for the following reasons: 1) SDG&E expects an increasing volume and complexity of transactions arising from the current regulatory and market environment; and 2) Cal Advocates fails to recognize that contract-related work is only one aspect of the duties performed by O&PD.[954]

SDG&E acknowledges that the true amount of the potential expected contracts is unknown at this time. The Commission finds that SDG&E has sufficiently demonstrated a recognized need for additional staff to manage new, more complex contracts for which it may be difficult to establish an average cost per contract at this time. Accordingly, the Commission finds SDG&E's forecast of $2.479 million for its Origination and Portfolio Design group in 2024 to be reasonable and adopts it.

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950 SDG&E Ex-10 at 6.

951 SDG&E Ex-10 at 11.

952 SDG&E Ex-10 at 14.

953 Cal Advocates Opening Brief at 95.

954 Sempra Opening Brief at 241-243.

15.3.3. Remaining SDG&E Energy Procurement O&M Costs

Cal Advocates reviewed and does not oppose SDG&E's requests for $3.535 million to recover labor and non-labor Non-Shared costs for its Energy Procurement-Back Office operations, and SDG&E's Energy Procurement-Energy Supply & Dispatch - O&M of $2.159 million.[955] Based on the methodologies and their application to the subcategories in SDG&E's testimony and workpapers, the Commission finds these total costs to be reasonable and adopts them.

16. SoCalGas Clean Energy Innovations

SoCalGas requests $47.223 million for Test Year 2024 O&M costs[956] and $12.988 million in capital costs[957] associated with Clean Energy Innovations.

SoCalGas states that Clean Energy Innovations supports early development and implementation of innovative technologies, such as the use and increased adoption of clean fuels, including renewable natural gas, clean renewable hydrogen, and bio-synthetic natural gas, as well as carbon management. Included within SoCalGas's Clean Energy Innovations are four key areas for O&M costs: Sustainability, Clean Fuels Infrastructure Development, Clean Energy Innovations Project Management Office (PMO), and Research Development and Demonstration (RD&D).

Table 16.1
Non-Shared O&M Summary of Cost ($000)[958]

[955] Cal Advocates Opening Brief at 95-96.

[956] Sempra Opening Brief at 244.

[957] Sempra Opening Brief at 275, 593.

[958] SCG Ex-12-WP-R-E at 4.

Clean Energy Innovations	2021 Adjusted Recorded	TY2024 Estimated	Incremental Change
Sustainability	$1,930	$1,982	$52
Clean Fuels Infrastructure Development	$8,195	$20,040	$12,205
Clean Energy Innovations Project Management Office	$297	$1,592	$1,295
Research Development and Demonstration	$18,039	$23,249	$5,209
Total Non-Shared	**$28,461**	**$47,223**	**$18,762**

In addition to O&M costs, SoCalGas also requests to recover the capital costs associated with two Clean Energy Innovations projects: (1) $4.573 million for the Hydrogen Innovation Experience (H2IE). SoCalGas states that it is a first-of-its-kind clean energy project that incorporates solar panels, battery storage, hydrogen production via electrolysis, a hydrogen fuel cell, and hydrogen storage, all functioning as an islanded clean hydrogen microgrid, showing how hydrogen can function as a part of the clean energy future; and (2) $8.415 million for a hydrogen refueling station to support zero-emissions vehicles in SoCalGas's fleet and the broader population.[959] These cost estimates will be discussed under Real Estate, Land Services, and Facility Operations.

According to SoCalGas, Clean Energy Innovations is a "newly formed organization" that consolidates several pre-existing functions but adds new ones not included in the predecessor organizations.[960]

[959] Sempra Opening Brief at 277; SCG Ex-19-R-E at BKG-35.

[960] SCG Ex-12-WP-R-E at 13.

The parties contesting portions of SoCalGas's Clean Energy Innovations revenue request include Cal Advocates, TURN-SCGC, IS, CEJA, EDF, Air Products, and PCF. The table below shows a summary of O&M cost differences among the parties.

Table 16.2
Non-Shared O&M Summary Cost Comparison ($000)[961]

Clean Energy Innovations	2021 Adjusted Recorded	Test Year 2024 Estimated	Change	Cal Advocates[962]	CEJA[963]	EDF[964]	TURN-SCGC	AP
Sustainability	$1,930	$1,982	$52	$1,982	$0	$0	$1,982	$1,982
Clean Fuels Infrastructure Development	$8,195	$20,400	$12,205	$13,745	$4,487	$0	$0	$0
Clean Energy Innovations Project Management Office	$297	$1,592	$1,295	$1,592	$297	$0	$0	$1,532
Research Development and Demonstration	$18,040	$23,249	$5,209	$18,839	$0	$0	$23,249	$0
Total	**$28,462**	**$47,223**	**$18,761**	**$36,158**	**$4,784**	**$0**	**$25,231**	**$3,514**

16.1. Sustainability

16.1.1. Summary of Party Comments

SoCalGas requests $1.982 million for Sustainability in the Test Year 2024. SoCalGas states that its sustainability team develops long-term strategies and plans, facilitates road mapping, uses technology to track and report on sustainability initiatives, and implements the ASPIRE 2045 sustainability

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961 Sempra Opening Brief at 244.

962 Cal Advocates Opening Brief at 26.

963 Joint Comparison Exhibit at 168-169.

964 Joint Comparison Exhibit at 175.

strategy.[965] It further states that the Commission has previously approved costs for the Environmental Communications group, where the primary function was to reach out to environmental agencies, tribal leaders, nongovernment organizations, and other stakeholders and communicate about sustainability activities.[966]

SoCalGas is requesting additional labor costs to hire sustainability managers and a project manager to support the execution and coordination of the ASPIRE 2045 sustainability strategy across business units.[967]

Table 16.3
Clean Energy Innovations Sustainability SoCalGas Cost Summary[968]

Clean Energy Innovations	2021 Adjusted Recorded ($000s)	Test Year 2024 Estimated ($000s)	Change ($000s)
Sustainability Labor	$994	$1,382	$388
Sustainability Non-Labor	$936	$600	($336)
Total	**$1,930**	**$1,982**	**$52**

CEJA recommends that the Commission deny the entire $1.982 million for rate recovery. CEJA contends that SoCalGas could not identify a single project it pursued because of the ASPIRE 2045 planning exercise that it would not have otherwise pursued.[969] CEJA argues that "SoCalGas has not identified any concrete benefits that its spending on 'Sustainability' provides to ratepayers," and the

965 SCG Ex-12-WP-R-E at 5.

966 SCG Opening Brief at 246.

967 SCG Ex-12-R at AI-15-16.

968 SCG Ex-12 at AI-14.

969 CEJA Opening Brief at 49.

ASPIRE 2045 strategy contradicts state policy.[970] CEJA further states that the ASPIRE 2045 document is a glossy promotional material that does not comport with best practices for industry sustainability.[971]

In its Reply Brief, SoCalGas states that the Sustainability group does a host of activities, of which hydrogen-related work is just one part.[972] It further states that SoCalGas focuses on continuous improvement, innovation, and partnerships to advance California's climate objectives by incorporating holistic and sustainable business practices and approaches throughout SoCalGas.[973]

16.1.2. Discussion

SoCalGas participates in sustainable practices such as coordination, planning, and research to effectively apply environmental, social, and governance business strategies. However, it is equally essential to ensure that ratepayer funding is directly related to the ratepayer benefits of the specific projects SoCalGas supports. This will help SoCalGas better serve its ratepayers and ensure that its sustainability initiatives are transparent and accountable, as well as consistent with state policy regarding the programs supported by ratepayers.

CEJA has made a valid point that SoCalGas has not identified any ASPIRE 2045-related projects. We agree with CEJA that ratepayers should not bear the burden if costs are not associated with specific tasks and projects that benefit ratepayers. Furthermore, ASPIRE 2045 is not a state-issued climate policy document, and the Commission has not evaluated whether it aligns with the state's climate and energy objectives.

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[970] CEJA Opening Brief at 49.

[971] CEJA Opening Brief at 49.

[972] Sempra Opening Brief at 17-18.

[973] Sempra Reply Brief at 155.

It is worth noting that the Sustainability team was established in 2021, and SoCalGas has only one year of costs, which is used to forecast Test Year 2024. However, as indicated by SoCalGas, the Sustainability team was consolidated from other departments in 2021 that were granted funding in the previous GRC. Knowing which roles were absorbed in the new department would have helped assess direct benefits to ratepayers. SoCalGas does not provide any such supporting information.

Overseeing sustainability activities broadly does not warrant hiring more employees beyond the current six full-time staff members. There is no evidence of direct ratepayer benefits of the additional labor costs. It is reasonable to reserve limited ratepayer funding for environmental and social initiatives designed to achieve state policies adopted and overseen by the Commission and the CEC.[974] Therefore, we reject SoCalGas's request for $52,000 in incremental cost increases and approve $1.594 million, including $994,000 for labor and $600,000 for non-labor O&M costs.

16.2. Clean Fuels Infrastructure Development

SoCalGas requests $20.400 million for Clean Fuels Infrastructure Development in Test Year 2024, an increase of $12.205 million over the 2021 Base Year adjusted recorded cost of $8.195 million.[975]

Under this cost area, SoCalGas is seeking cost recovery for Business Development, the Carbon Capture Utilization and Sequestration (CCUS) Front End Engineering and Design (FEED) Study Program, the Clean Fuels Operational

[974] CEJA Ex-01 at 24.

[975] Sempra Opening Brief at 248-250.

Readiness Program, the Clean Fuels Transportation Program, and Clean Fuels Power Generation.

The breakdown of labor and non-labor O&M costs for Clean Fuels Infrastructure Development is as follows:

Table 16.4
Clean Fuels Infrastructure Development SoCalGas O&M Cost Summary[976]

Functional Area	2021 Adjusted Recorded (000s)	Increase Requested (000s)	Test Year 2024 Estimated (000s)
Clean Fuels Infrastructure Development (Labor)	$3,975	$857	$4,832
Clean Fuels Infrastructure Development (Non-Labor)	$4,220	$11,348	$15,568
TOTAL O&M	**$8,195**	**$12,205**	**$20,400**[977]

SoCalGas did not break down the cost categories for Clean Fuels Infrastructure Development, so we manually calculated the incremental increases based on the information split across the exhibits. The following table shows the breakdown of the incremental costs for Test Year 2024:

976 SCG Ex-12-WP-R-E at 11.

977 SCG Ex-12-R Revised Testimony at 16.

Table 16.5
Clean Fuels Infrastructure Development
Incremental Cost Increases by Category ($000)

	Labor	Non-Labor	TOTAL
Business Development	$333	$2,000	$2,333[978]
CCUS - FEED Study Program		$6,655	$6,655[979]
Clean Fuels Operational Readiness Program		$2,500	$2,500[980]
Clean Fuels Transportation Program	$224	$133	$357[981]
Clean Fuels Power Generation	$300	$060	$360[982]
TOTAL	**$857**	**$11,348**	**$12,205**

16.2.1. Business Development

16.2.1.1. Summary of Party Comments

SoCalGas requests $2.333 million in incremental funds for Business Development, including $333,000 in labor and $2.000 million in non-labor O&M costs.[983] SoCalGas proposes to backfill two business development managers: a "Commercial Development CCUS Manager" and a "Commercial Development Hydrogen Manager" to support the development of clean fuels.[984] According to SoCalGas, non-labor costs include consulting services, feasibility studies, strategic initiatives, and increased engagement with other state agencies.

Regarding the forecasting method, SoCalGas states that incremental adjustments to the Base Year were included to represent the expense

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978 SCG Ex-12-R Revised Testimony at 21.

979 SCG Ex-12-R Revised Testimony at 26.

980 SCG Ex-12-R Revised Testimony at 27.

981 SCG Ex-12-R Revised Testimony at 38.

982 SCG Ex-12-R Revised Testimony at 40.

983 SCG Ex-12-R at 21.

984 SCG Ex-12-WP-R at 15.

requirements anticipated in Test Year 2024.[985] SoCalGas states that it used this method because trends, multi-year averages, or other methods would not accurately reflect the fact that some costs associated with Clean Fuels Infrastructure Development are new and include functions under Clean Energy Innovations that consolidated several pre-existing functions while also adding new functions not included in the predecessor organizations.

TURN-SCGC and CEJA oppose SoCalGas's request. TURN-SCGC states that Test Year 2024 funding is unknown since SoCalGas has not provided 2021 Base Year costs for Business Development.[986] According to TURN-SCGC, clean fuel projects are not utility services. TURN-SCGC requests that SoCalGas's natural gas ratepayers should not bear the cost of the proposed Business Development activities.[987] TURN-SCGC argues that a cost recovery mechanism is in place for the two Business Development activities that SoCalGas can identify with specificity; therefore, there is no need for separate GRC funding of the Business Development function for either the SB 1383 dairy projects or Angeles Link.[988] TURN-SCGC further states that SoCalGas admits that it is "premature and speculative" to surmise which other Business Development activities might be part of future utility service.[989]

CEJA states that it is not appropriate for SoCalGas's current gas customers to subsidize the development of new, separate lines of business.[990] CEJA

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[985] SCG Ex-12 at 17.

[986] TURN-SCGC Opening Brief at 74; TURN-SCGC Ex-06 at 5.

[987] TURN-SCGC Ex-06 at 5.

[988] TURN-SCGC Opening Brief at 75.

[989] TURN-SCGC Opening Brief at 75.

[990] CEJA Ex-01 at 25.

recommends denying all funding for Clean Fuels Infrastructure Development.[991] CEJA argues that SoCalGas's funds, which it uses to hire outside consultants to help it develop new lines of business, are unnecessary for serving its ratepayers.[992]

CEJA argues that SoCalGas is using its Business Development resources to hire consultants for work unrelated to providing safe, affordable, and reliable methane service to its captive customers.[993] CEJA takes issue with specific contracts that were included in the historical period.[994] CEJA argues that the contract for work on developing industrial clusters is related to stimulating demand for hydrogen because SoCalGas's concept for "industrial clusters" depends on using hydrogen in the industrial sector.[995] It further argues that, of the top 11 contracts included in 2021 Base Year non-labor costs, SoCalGas spent a total of $2.383 million on six contracts related to the use of pure hydrogen and $540,000 on a carbon dioxide pipeline study.[996]

CEJA states that allowing SoCalGas to use ratepayer funds to examine new lines of business would also needlessly invite violations of the Commission's affiliate transaction rules.[997] CEJA further argues that as part of Business Development, SoCalGas is seeking cost recovery for contracts that include spending designed to influence the decisions of public officials, which should be

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[991] CEJA Opening Brief at 27.

[992] CEJA Opening Brief at 27.

[993] CEJA Ex-01 at 29.

[994] CEJA Ex-01 at 26-30.

[995] CEJA Opening Brief at 30.

[996] CEJA Opening Brief at 30.

[997] CEJA Opening Brief at 31.

booked to the shareholder-funded FERC Account 426.4 instead of to ratepayers, and demonstrates a pattern of improperly booking its political activities to ratepayer accounts.[998] CEJA states that SoCalGas's contracts provide strategic advice and guidance for government relations efforts to ensure the U.S. Department of Energy (DOE) receives appropriations and guidance. In a different contract focused on developing a carbon dioxide pipeline system, the scope of work includes a task to "[r]efine the key messages that need to be made to influence CARB."[999]

CEJA argues that the Commission should deny all costs in this category and recognize it as part of SoCalGas's improper practice of attributing political activities to ratepayer accounts. CEJA objects to SoCalGas's inclusion of membership dues to trade associations, such as the Hydrogen Council.[1000]

In response to CEJA, SoCalGas references contracts highlighted by CEJA. SoCalGas argues that providing guidance and information to the DOE does not indicate influencing the decisions of public officials, and the contract was not for lobbying services.[1001] SoCalGas argues that it is seeking permission to explore different clean energy solutions that may be included in SoCalGas's future services, as it depends on approval from the government and other factors. SoCalGas contends that TURN-SCGC's argument that the Business Development group performs services that are recovered outside of the GRC is inaccurate as SoCalGas has worked on market research and financial and business analytics to

[998] CEJA Opening Brief at 31.

[999] CEJA Opening Brief at 31.

[1000] CEJA Opening Brief at 32-33.

[1001] Sempra Reply Brief at 156-157.

track clean energy market trends and decarbonization in the energy and utility sectors.[1002]

Referencing the contract involving communications with CARB, SoCalGas states that the issue CEJA complained about was a minor aspect of the contract, and if the Commission decides to deny the costs, it should be a small portion of the contract.

SoCalGas objects to CEJA's recommendation to remove dues paid to the Hydrogen Council from ratepayer accounts. SoCalGas states that the Hydrogen Council is an important source of information relating to hydrogen, as demonstrated by their publications, which have been referenced and cited throughout other research publications.[1003]

SoCalGas states that aspects of the contracts objected to by CEJA are minor aspects of the contract's total value or are just one sub-bullet point of a subsection of a much larger, comprehensive technical and commercial feasibility study outline.[1004]

16.2.1.2. Discussion

This decision denies incremental labor and non-labor cost increases for business development because of a lack of clear evidence supporting the various activities proposed by SoCalGas. Our review shows that SoCalGas does not provide clear, transparent evidence to support the requested labor and non-labor cost increases for Business Development-related work. Exhibit SCG-12-WP-R-E forecasts O&M costs for Clean Fuels Infrastructure Development without clearly identifying the costs for Business Development. For example, Exhibit SCG-12-R

[1002] Sempra Reply Brief at 158-159.

[1003] Sempra Reply Brief at 158.

[1004] Sempra Reply Brief at 157.

lists SoCalGas's cost drivers, but SoCalGas does not demonstrate which of the seven new FTE positions are for Business Development. It is challenging to know the basis of the increase and assess the reasonableness of the incremental cost recovery when all costs are aggregated under the main cost category of Clean Fuels Infrastructure Development.

Specifically, we deny SoCalGas's proposal to charge the Commercial Development Hydrogen Manager[1005] position to ratepayers because there is no program or proceeding that this position supports, and SoCalGas has not provided evidence for direct ratepayer benefits. SoCalGas proposes hiring multiple project managers and commercial development managers, but without tying them to the particular cost centers, it is unreasonable to seek blanket approval for the related costs. Therefore, we deny an incremental request of $2.333 million for Business Development.

In addition to denying the incremental cost increase, we require SoCalGas to base its forecast on revised cost amounts. We have reviewed Exhibit CEJA-01 and Attachment 5 to CEJA-01 and found that the contract costs used in the Base Year forecast are non-operational.[1006] Firstly, SoCalGas does not establish evidence that these contract costs are just and reasonable, and necessary for safe and reliable natural gas service.[1007] Second, we agree with CEJA and TURN-SCGC that SoCalGas's existing gas customers should not bear the cost of stimulating demand for the company's potential future carbon capture and hydrogen-

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[1005] SCG Ex-12-WP-R-E at 14.

[1006] These contracts were related to the use of pure hydrogen; developing industrial clusters is related to stimulating demand for hydrogen because SoCalGas's concept for "industrial clusters" depends on using hydrogen in the industrial sector.

[1007] Pub. Util. Code Section 451.

delivery business. We concur with CEJA that the purpose of these consultant contracts was to provide studies and analysis to influence the decisions of public officials on matters that would impact SoCalGas's future business and capital investment strategy in businesses other than gas services. SoCalGas claims that Business Development costs are reasonable because they are concerned with integrating clean fuels, such as hydrogen and carbon management systems, into SoCalGas's operations. These arguments are broad, generic statements to lower emissions, seeking future business opportunities that do not justify how its consultant work benefits current ratepayers.

Undertaking the consultant work and research, as highlighted by CEJA,[1008] at ratepayer expense is not justified because SoCalGas is a monopoly: its customers have no choice but to pay for any research the company undertakes. On the other hand, SoCalGas shareholders can choose not to invest in the company if these clean fuel ventures do not offer lucrative, guaranteed returns. These research activities do not directly benefit the current ratepayers, and any potential capital investments will benefit the shareholders. The result of the highlighted contracts is to fund business development opportunities that create more RNG, hydrogen, and carbon capture opportunities.

These contracts are non-operational expenses that should not be booked to ratepayer accounts.

[1008] CEJA Ex-01 at 27-29. SoCalGas contracts cited in Section IV of CEJA testimony are cited in: CEJA-SEU Ex-013, Attch Q23c_4; CEJA-SEU Ex-013, Attch Q23c_1; CEJA-SEU Ex-013, Attch Q23c_2; CEJA-SEU Ex-013, Attch Q23c_8; CEJA-SEU Ex-013, Attch Q23c_6; CEJA-SEU Ex-021 Q1_A3; CEJA-SEU Ex-021 Q1_A1; CEJA-SEU Ex-021 Q1_A4; CEJA-SEU Ex-021 Q1_A15; CEJA-SEU Ex-021 Q1_A6; CEJA-SEU Ex-021 Q1_A7; CEJA-SEU Ex-013 Attch Q25e; and CEJA-SEU Ex-013 Attch Q23c_7.

Finally, the research work under these contracts may not continue year after year, so it should not be included in the forecast. Normalizing the forecast by excluding activities not expected to continue in the TY and PTYs is important.

We decline to include in the forecast the cost of the six contracts, including $2,383,506 for pure hydrogen research and $540,000 for a carbon dioxide pipeline study. Accordingly, SoCalGas shall lower its forecasts by removing $2.923 million from the Business Development cost forecast. SoCalGas shall remove these costs from above the line and book them as below-the-line expenses in the appropriate FERC Account.

Regarding dues paid to the Hydrogen Council via ratepayer funds, we agree with CEJA and find that ratepayers should not fund the work undertaken by the Hydrogen Council. The Hydrogen Council is a trade association that appears before state regulators, legislatures, and policymakers. The impact of this work can influence their opinion on regulation. SoCalGas has not demonstrated that ratepayer funds used to pay Hydrogen Council's dues were used to provide its customers with safe and reliable gas service. We are not denying SoCalGas the opportunity to collaborate with the Hydrogen Council to leverage its resources, but it is not reasonable for SoCalGas to pass its membership dues on to ratepayers.

Therefore, we accept CEJA's recommendation to remove $561,789 from the forecast. These costs should be booked as below-the-line expenses.

We also find merit in CEJA's recommendation to require SoCalGas to justify these various membership contributions to the Commission because they are not evident in the direct testimony, rebuttal testimony, or workpapers. Therefore, in the next GRC application, SoCalGas shall provide a list of all membership dues recovered via ratepayer and the related FERC accounts.

In summary, we deny SoCalGas's incremental request of $2.333 million for Business Development, and it shall reduce its Base Year forecast to exclude $2.923 million for consultant costs and $561,789 for Hydrogen Council dues.

16.2.2. Carbon Capture, Utilization, and Sequestration Front End Engineering Design Study Program (CCUS FEED)

16.2.2.1. Summary of Party Comments

SoCalGas requests non-labor O&M costs of $6.655 million for a CCUS FEED Study Program.[1009] According to SoCalGas, the CCUS FEED Study Program would support federal and state goals for carbon management. It could leverage in-progress and future federal funding through the Infrastructure Investment and Jobs Act (IIJA) of 2021 and the Inflation Reduction Act (IRA) of 2022, including programs identified in Resolution E-5254.[1010]

SoCalGas proposes that the CCUS FEED Study Program evaluate the development of an open-access carbon dioxide pipeline network and transport infrastructure system for carbon capture, utilization, and storage technologies in Southern California.[1011] SoCalGas further states that it identifies routes to connect sources to the sink for storage while reducing environmental disturbance and siting concerns.[1012] According to SoCalGas, the final pipeline scope, design, and specifications will be developed to evaluate the project's capital investment estimates.[1013] SoCalGas asserts that capital costs are not included for assessing the potential for a carbon dioxide pipeline transport infrastructure system.

[1009] Sempra Opening Brief at 252.

[1010] Sempra Opening Brief at 252.

[1011] Sempra Opening Brief at 253.

[1012] Sempra Opening Brief at 253.

[1013] Sempra Opening Brief at 253.

TURN-SCGC, IS, Cal Advocates, CEJA, and EDF oppose the request for funding for a CCUS FEED Study Program.

TURN-SCGC states that transporting carbon dioxide is not a natural gas utility service, and it would be a separate line of business from gas utility services.[1014] TURN-SCGC argues that according to Resolution E-5254, utilities can establish an IIJA Memorandum Account to track any costs associated with match funding. At the same time, the actual spending requests for projects will be addressed in GRC proceedings or separate project applications.[1015] TURN-SCGC further asserts that SoCalGas was authorized to use its IIJA Memorandum Account on May 2, 2023, and received approval of its Advice Letter 6137-G on April 6, 2023. TURN-SCGC contends that if SoCalGas desires to pursue a CCUS FEED Study and to seek funding under the IIJA, SoCalGas should record the expenses it incurs in its IIJA Memorandum Account and seek recovery of the recorded expenses in either the next SoCalGas GRC or in a separate application.[1016]

IS states that the cost of the CCUS FEED study is not necessary to provide safe and reliable service and should be denied.[1017] According to IS, the cost proposal in the GRC would circumvent the Resolution E-5254 guidelines to ensure that applications meet the requirements and procedures established by the DOE that IOUs need to comply with to receive federal funding.[1018]

[1014] TURN-SCGC Opening Brief at 78.

[1015] TURN-SCGC Opening Brief at 79.

[1016] TURN-SCGC Opening Brief at 79.

[1017] IS Opening Brief at 6.

[1018] IS Opening Brief at 7.

Cal Advocates[1019] and CEJA[1020] argue that ratepayers should not fund the CCUS FEED Study Program because they will not see any benefit from it. Cal Advocates states that the costs should be denied because there is limited historical data for the program, and further technical and economic assessment is needed to assess the net impact of the project on ratepayers.[1021] CEJA recommends that the Commission deny $6.655 million in O&M costs.[1022] Additionally, CEJA states that incremental costs arising from SoCalGas's proposal to hire a "Commercial Development CCUS Manager" should be denied.[1023]

EDF recommends that the Commission deny SoCalGas's CCUS request without prejudice as it presents matters of first impression for the Commission, including jurisdiction.[1024]

In its Reply Brief, SoCalGas states that it included its CCUS FEED Study Program in this GRC because it knew of funding opportunities at that time, and no memorandum account mechanism was established.[1025] SoCalGas states that during hearings, no party challenged the costs. SoCalGas asserts that requesting cost recovery via this GRC is consistent with Resolution E-5254. SoCalGas further states that the DOE has selected the California Direct Air Capture Hub

[1019] Cal Advocates Opening Brief at 98.

[1020] CEJA Opening Brief at 64.

[1021] Cal Advocates Opening Brief at 98-99.

[1022] CEJA Opening Brief at 27.

[1023] CEJA Opening Brief at 34.

[1024] EDF Opening Brief at 56.

[1025] Sempra Reply Brief at 161.

Consortium, of which SoCalGas is a member, to conduct a FEED study, offering a real opportunity for matching funds.[1026]

16.2.2.2. Discussion

This decision declines to adopt a cost recovery amount for the proposed CCUS FEED Study Program because the Commission has already adopted a mechanism to record costs and seek cost recovery. SoCalGas is required to record the cost for CCUS FEED match funding and tax liabilities pursuant to any funds received from the federal grant program via the IIJA Memorandum Account authorized in Resolution E-5254 and seek recovery in its next GRC cycle or via an application.

SoCalGas is requesting cost recovery for the CCUS FEED Study Program, a feasibility study, to determine the viability of a carbon capture project. The Commission has provided guidance on how utilities can participate in federal funding programs to recover costs associated with matching funds and other expenses related to the IIJA, IRA, and Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPS) through Resolution E-5254. The CCUS FEED is a federal grant program that IOUs can apply for under the IIJA, as identified by the Commission in Resolution E-5254.[1027] An IOU may request project funding through its GRC or via a separate stand-alone application if an earlier cost recovery is needed.[1028] To track actual federal funding and how the funding was utilized, as well as provide a full accounting of the project expenses incurred, the Commission has authorized the IIJA Memorandum Account and a

[1026] Sempra Reply Brief at 161.

[1027] Resolution E-5254 at 4.

[1028] Resolution E-5254 at 10.

quarterly reporting mechanism.[1029] There is no merit in denying SoCalGas the opportunity to follow the process adopted in E-5254 and requiring it to file a separate application at this stage. IOUs are not excluded from the CCUS FEED grant program, and they could request cost recovery after receiving matching funds from the federal grant program to cover their remaining expenses and tax liabilities. Therefore, we agree with TURN-SCGC that SoCalGas should record costs associated with the CCUS FEED Study Program in the IIJA Memorandum Account and seek recovery of the recorded expenses in its next GRC or a separate application.

Although some intervenors argue that the costs are unknown and carbon sequestration is not a utility service, it is important to note that federal funding can augment the Commission's efforts to improve energy infrastructure by reducing carbon emissions, ensuring grid reliability, promoting safety, and keeping bills affordable. The Commission has identified a pathway for the utilities to pursue this opportunity. We anticipate that the federal funding will partially replace future ratepayer funding, resulting in cost savings for projects that ratepayers would otherwise have to support entirely through ratepayer funding.[1030]

Pursuant to Resolution E-5254, SoCalGas shall record costs (including labor and non-labor O&M costs) in the authorized IIJA Memorandum Account and seek recovery in the next GRC cycle or via an application if it wants an earlier cost recovery. Accordingly, we deny non-labor O&M costs of $6.655 million for a CCUS FEED Study Program.

[1029] Resolution E-5254 at 11-14.

[1030] Resolution E-5254 at 1-3.

16.2.3. Clean Fuels Operational Readiness Program

16.2.3.1. Summary of Party Comments

SoCalGas requests non-labor O&M costs of $2.500 million for the Clean Fuels Operational Readiness Program for Test Year 2024.[1031] SoCalGas states that the program will integrate hydrogen and carbon infrastructure into existing systems to ensure operational readiness for diverse clean fuels and carbon management.[1032]

TURN-SCGC argues that SoCalGas is proposing a program duplicative of other proceedings at the Commission. TURN-SCGC states that R.13-02-008 has been ongoing for a decade to ensure pipeline quality standards for renewable natural gas injected into SoCalGas's existing pipeline system.[1033] TURN-SCGC recommends that the Commission deny $2.5 million in Operational Readiness Program costs because it is the responsibility of renewable and bio-synthetic natural gas producers, not SoCalGas ratepayers, to bring their renewable natural gas to pipeline quality.[1034] TURN-SCGC states that the pending Joint Application (A.22-09-006) of SoCalGas, SDG&E, PG&E, and Southwest Gas Corporation to establish hydrogen blending demonstration projects should address the feasibility of introducing hydrogen into gas utility networks.[1035]

[1031] Sempra Opening Brief at 258.

[1032] Sempra Opening Brief at 258.

[1033] TURN-SCGC Opening Brief at 80.

[1034] TURN-SCGC Opening Brief at 80-81.

[1035] TURN-SCGC Ex-06 at 7.

In its Reply Brief, SoCalGas argues that internal expertise is still needed to consider issues in a rulemaking proceeding. Responding to TURN-SCGC, SoCalGas states that the request extends beyond RNG and Hydrogen.[1036]

16.2.3.2. Discussion

This decision denies $2.5 million in non-labor O&M costs for the Clean Fuels Operational Readiness Program. SoCalGas makes generic statements without specifying the projects and identifying direct ratepayer benefits. We agree with TURN-SCGC and decline to approve these costs because SoCalGas's activities duplicate work already being done in other proceedings. There are no recorded costs prior to Test Year 2024, and SoCalGas forecasts $2.5 million in non-labor costs based on its proposed work in other Commission proceedings. If SoCalGas wants to develop internal expertise for specific issues that are being considered in a rulemaking proceeding or an application, the requirements for the work and the cost recovery mechanism must be established in the relevant proceeding. SoCalGas has identified cost drivers related to work in proceedings R.13-02-008 and A.22-09-006. Until these proceedings decide on a need to accomplish these additional tasks, seeking cost recovery in this GRC is inappropriate. Furthermore, it is best to address whether the cost recovery SoCalGas is seeking should be from its ratepayers or renewable and bio-synthetic natural gas producers in the relevant proceeding.

16.2.4. Clean Fuels Power Generation

16.2.4.1. Summary of Party Comments

SoCalGas is seeking a $360,000 incremental increase in O&M costs for Clean Fuels Power Generation, including $300,000 in labor and $60,000 in non-labor to support increased workload to address growing interests in clean fuel power

[1036] Sempra Reply Brief at 162.

generation projects and to improve resiliency, reliability, decarbonization, air quality benefits, and new technology adoption.[1037] SoCalGas's Clean Fuels Power Generation team provides policy, technical, and economic feasibility analyses and advises internal and external stakeholders concerning regulations, tariffs, contracts, air quality, legislation, market transformation, and education and training specific to clean fuel power generation.[1038]

TURN-SCGC opposes SoCalGas's request, stating that SoCalGas has yet to demonstrate how Clean Fuels Power Generation functions differ from the services provided by account representatives for queries related to natural gas service provisions when line extension allowances are not provided.[1039] TURN-SCGC contends that SoCalGas does not specify the amounts spent during Base Year 2021 on the Clean Fuels Power Generation function.[1040]

In response, SoCalGas states that the Clean Fuels Power Generation team works in collaboration with Customer Energy Solutions Account Representatives to provide customer support in deploying clean fuel power generation to all customer segments.[1041] According to SoCalGas, additional funds are needed to implement the changes adopted in the decision to modify the gas line extension allowance (D.22-09-026).[1042]

[1037] SCG Ex-12-R at 41.

[1038] Sempra Opening Brief at 262.

[1039] TURN-SCGC Opening Brief at 76.

[1040] TURN-SCGC Opening Brief at 75.

[1041] Sempra Reply Brief at 164-165.

[1042] SCG Ex-212 at 26.

16.2.4.2. Discussion

This decision denies the incremental increase of $360,000 in O&M costs requested for the Clean Fuels Power Generation team. SoCalGas fails to provide evidence regarding the non-labor Clean Fuels Power Generation feasibility tool's authorization, for which it now requests ongoing maintenance costs. We agree with TURN-SCGC's observation that SoCalGas has failed to provide evidence indicating that the Clean Fuels Power Generation service is not redundant in comparison to the services offered by account representatives for inquiries related to natural gas service, in the absence of line extension allowances. SoCalGas's request for additional costs to hire new employees to educate its existing account representatives about the change in programs, tariffs, credits, and subsidies relating to DERs and clean fuels is unjustified. There is no valid reason to charge ratepayers more for something that should be part of the company's regular services, such as training its existing account representatives.

We also find it puzzling that SoCalGas would base its cost request for 2023 and 2024 on D.22-09-026 since the Commission adopted D.22-09-026 after the GRC application was filed. In D.22-09-026, we did not require SoCalGas to create new cost areas after we removed gas line extension subsidies.

Accordingly, this decision denies $360,000 in O&M costs requested for the Clean Fuels Power Generation team and requires SoCalGas to remove forecasted costs booked in this GRC proceeding.

16.3. Clean Energy Innovations Project Management Office (PMO)

SoCalGas is requesting $1.592 million in O&M costs for its Clean Energy Innovations PMO, including $1.523 million in labor and $69,000 in non-labor, an increase of $1.295 million over $297,000 for the 2021 Base Year.[1043] SoCalGas plans to increase its headcount from 2 to 12 by hiring 10 new employees in 2024, with those new hires increasing labor costs by $1.230 million.[1044] SoCalGas states that PMOs oversee various projects, including the PSEP, Mobile Home Park Utility Upgrade, Advanced Meter, and other subject areas, and their costs have routinely been approved as just and reasonable in prior GRCs.

TURN-SCGC and CEJA argue that SoCalGas's proposal to establish a PMO responsible for project governance, project management standards, and reporting is inappropriate for projects outside SoCalGas's core utility business. TURN-SCGC and CEJA also contend that the Clean Energy Innovations-PMO is "overhead-heavy." TURN-SCGC states that the need for a Clean Energy Innovations-focused PMO will shrink if the Commission declines SoCalGas's $20.4 million request for funding Clean Fuels Infrastructure Development functions and costs.

We agree with TURN-SCGC that SoCalGas does not need overhead for a Clean Energy Innovations-centric PMO when the overall projects are being reduced, thereby reducing the portfolio of projects to manage. Therefore, we deny incremental costs of $1.295 million and allow SoCalGas to continue the recovery of $297,000 in its 2024 Test Year rates.

16.4. Research, Development, and Demonstration (RD&D)

16.4.1. Summary of Party Comments

SoCalGas requests $23.249 million in O&M costs for its RD&D program for the 2024 Test Year, an increase of $5.209 million over the $18.040 million for the

1043 SCG Ex-12-R at 41.

1044 SCG Ex-12-WP-R-E at 32.

2021 Base Year.[1045] SoCalGas states that its Gas RD&D cost forecast for the 2024 Test Year supports California's climate policy goals and is driven by the need to develop and deploy technologies that (1) reduce GHG emissions, (2) increase safety, and (3) improve energy reliability for all Californians.[1046] SoCalGas contends that the 2024 Test Year forecast reflects increased RD&D activity in hydrogen production and utilization, building decarbonization, energy reliability and resilience, carbon capture, zero-emission transportation, and gas transmission and distribution system safety and reliability.[1047] SoCalGas forecasts costs using a zero-based method, arguing that it is more forward-looking as it considers funding for projects that are being planned rather than projects that have already been completed.[1048] SoCalGas proposes $2.608 million for labor and $20.641 million for non-labor O&M expenses.

SoCalGas proposes to submit a Tier 2 Advice Letter instead of a Tier 3 Advice Letter to the Commission's Energy Division with its Gas RD&D research plan, budget, and program details for review and approval.

Air Products,[1049] Cal Advocates, and CEJA oppose the proposed change in the Advice Letter process. The intervenors argue that adopting a Tier 2 Advice Letter process would lead to less oversight. Additionally, Cal Advocates opposes the Clean Transportation RD&D research domain, stating that the projects do not benefit ratepayers.

1045 Sempra Opening Brief at 264.

1046 SCG Ex-12-R at AI-44.

1047 SCG Ex-12-R at AI-45.

1048 Sempra Opening Brief at 264.

1049 Air Products Opening Brief at 35.

CEJA argues that the Commission should discontinue ratepayer funding for SoCalGas's RD&D outside the Gas Research and Development Program (administered by the CEC pursuant to D.04-08-010) and transfer it to the CEC. CEJA opposes SoCalGas's $23.249 million RD&D program request and contends that the Commission must consider California's energy affordability challenges in approving the RD&D program budget.[1050] CEJA recommends the Commission consider assigning SoCalGas a narrow role in administering RD&D projects, modeled after the utilities' limited role in the Electric Program Investment Charge (EPIC) program wherein only 20 percent of the budget is administered by an IOU.[1051] CEJA argues that costs of the Gas R&D program are collected through a usage-based Public Purpose Program (PPP) charge, whereas costs approved in the GRC are recovered through base transportation rates that fall more heavily on residential customers.[1052] CEJA identifies projects worth $11.12 million, which it argues include research on technologies inconsistent with California policy.[1053]

Cal Advocates recommends a forecast of $18.839 million for SoCalGas's RD&D Program, $4.410 million less than SoCalGas's forecast.[1054] Cal Advocates argues that, based on SoCalGas's RD&D Program 2021 Report, projects in the Clean Transportation sub-program do not demonstrate a clear, quantifiable net benefit to ratepayers.[1055] Cal Advocates accepts SoCalGas's non-labor forecasts for Clean & Renewable Energy Resources, Gas Operations, and Clean Energy

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[1050] CEJA Opening Brief at 37.

[1051] CEJA Opening Brief at 38-40.

[1052] CEJA Opening Brief at 40.

[1053] CEJA Opening Brief at 41- 48.

[1054] Cal Advocates Opening Brief at 99.

[1055] Cal Advocates Opening Brief at 99.

Applications, but it rejects SoCalGas's request for Clean Transportation RD&D costs.[1056]

EDF recommends that the Commission limit preliminary hydrogen projects in scope, scale, and cost.[1057]

SoCalGas argues that it cannot record RD&D project expenses in the one-way balancing account until the Advice Letter is approved. SoCalGas contends that the requirement of a Tier 3 Advice Letter presents the Commission with an enormous review and approval burden.[1058] SoCalGas also states that waiting for an approved Resolution for 78–206 days into the program year and more than a year after filing its Tier 3 Advice Letter delays SoCalGas's payment to its research teams.[1059]

SoCalGas argues that the review and approval of the Tier 3 Advice Letter has been delayed for three years in a row, and the extent of the delay has been increasing.[1060] SoCalGas contends that a Tier 2 Advice Letter would facilitate timely RD&D Program efforts without reducing stakeholder input. In response to Cal Advocates' opposition, SoCalGas argues that RD&D efforts in this GRC will advance new technology to make hydrogen fueling faster, more reliable, and more affordable.[1061]

[1056] Cal Advocates Opening Brief at 99.

[1057] EDF Opening Brief at 107.

[1058] SCG Ex-12 at AI-50.

[1059] Sempra Opening Brief at 266.

[1060] Sempra Opening Brief at 265-267.

[1061] Sempra Opening Brief at 266-267.

16.4.2. Discussion

This decision denies SoCalGas's request for $23.249 million in O&M costs for its RD&D program for the 2024 Test Year and authorizes $15.915 million instead.

Pub. Util. Code Section 740.1 allows the Commission to authorize utility RD&D activities that benefit ratepayers through improved reliability, safety, environmental benefits, or operational efficiencies.[1062] Such authorization is granted to increase the likelihood that SoCalGas may achieve those benefits and to ensure the RD&D focus is not unnecessarily duplicative of efforts by other research organizations. In D.16-06-054, we authorized SoCalGas's RD&D Program for an average annual funding level of $12.282 million from 2016 to 2018. In D.19-09-051, we approved $14.329 million for the program and authorized the recording of RD&D expenses in a one-way balancing account through 2022.

D.19-09-051 also established a Tier 3 Advice Letter mechanism and an annual workshop format to allow parties to review the expected RD&D programs and funding for better transparency and accountability. D.19-09-051 stated that SoCalGas's 2022 RD&D funding will be considered in its next GRC decision. However, in D.21-05-003, the Commission granted Sempra Utilities PTY Ratemaking through 2023, which facilitated SoCalGas to escalate its RD&D costs and continue its funding for the program years 2022 and 2023. Consistent with D.19-09-051, we continue the RD&D funding for this GRC cycle and the Tier 3 Advice Letter approval process.

CEJA has raised a policy question regarding funding gas research through the CEC-administered Gas Research and Development program instead of the

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[1062] Pub. Util. Code Section 740.1 guidelines as supplemented by D.90-09-045 in R.87-10-013 provide guidance on evaluation of the criteria to authorize RD&D funding.

utility. Although we understand the intent behind CEJA's request, this larger issue is beyond the scope of this proceeding. Until the Commission establishes an EPIC-style program for gas research that allows a separate RD&D funding track for gas projects, it is reasonable for SoCalGas to seek cost recovery for gas RD&D programs through the GRC with verification via the Advice Letter review process established in D.19-09-051 and adopted in this decision. CEJA and other intervenors are concerned about funding programs using ratepayer funds that rely on specific types of technology, such as hydrogen blending. While we are not reviewing the details of individual research areas identified by CEJA, we want to emphasize that all projects undergo a rigorous annual review process and receive appropriate merit-based funding. The technology gap analysis is suitable for the annual workshop and Tier 3 Advice Letter process, where stakeholders can consider the merits of each technology, recent market developments, funding sources, and its benefits to the ratepayers before the Commission authorizes the program via a Resolution. We agree with the intervenors that transparency and accountability are critical. The annual review process is working effectively, as we have adopted three Commission Resolutions since 2021, authorizing funding for the RD&D program through 2023.[1063]

The intervenors have recommended that the Tier 3 Advice Letter process not be changed to Tier 2. We agree with this recommendation and decline to modify the existing Tier 3 Advice Letter review process. SoCalGas is instructed to continue filing a Tier 3 Advice Letter per D.19-09-051. This instruction shall remain in effect until the next GRC cycle or until the Commission adopts a separate or different process, whichever comes first.

[1063] Resolutions G-3573, G-3586, and G-3601.

Regarding the delays caused by the review and approval process, the Energy Division should strive to maintain a reasonable approval process timeline, ensuring certainty for the third parties supporting the programs for SoCalGas.

Regarding budget approval, we agree with the intervenors that maintaining affordable rates while funding research programs is essential. We decline to adopt SoCalGas's RD&D budget based on a zero-based forecasting methodology within this GRC cycle. We have historical information from the previous two GRC cycles and the three recent Commission Resolutions that have vetted the programs and sub-programs before authorizing a budget. The last three budgets for the programs were approved based on stakeholder input regarding project details and scope, funding levels, benefits to ratepayers, market conditions, and other value propositions of each project.

Moreover, adopting a forecast budget when the Commission has not yet reviewed the 2024 Research Plan is speculative. Given that we have no insight into the feasibility of sub-programs and their funding levels, we decline to adopt SoCalGas's proposed $23.641 million or Cal Advocates' proposed $18.839 million RD&D program budget. It is reasonable to base the Test Year 2024 RD&D budget on the average trend of incurred costs authorized in recent years. Based on the authorized costs in the past seven years, we approve $15.915 million for Test Year 2024. This budget ceiling shall include the 10 percent administrative costs SoCalGas receives to administer the program.

Table 16.6
SoCalGas Incurred Costs for its RD&D Program ($000)[1064]

	2017	2018	2019	2020	2021	2022	2023	PD authorizes Test Year 2024
Labor	$2,479	$2,163	$1,861	$1,741	$2,111	$2,435	$2,608	$2,200
Non-Labor	$12,681	$11,262	$12,201	$15,451	$15,929	$14,216	$14,266	$13,715
Total	**$15,160**	**$13,425**	**$14,062**	**$17,192**	**$18,039**	**$16,651**	**$16,874**	**$15,915**

Consistent with D.19-09-051, SoCalGas shall continue funding the RD&D program subject to a one-way balancing account treatment. Unspent funds shall be returned to ratepayers at the end of each GRC cycle.[1065] In D.19-09-051 and subsequent resolutions approving the funding and research projects, the Commission adopted program oversight rules. This decision does not alter the provisions adopted in that prior decision and Commission resolutions.

16.5. Summary Clean Energy Innovations – SoCalGas

Table 16.7 Clean Energy Innovations Costs ($000s)

Clean Energy Innovations	2021 Recorded	TY2024 Estimated	PD	Cost Difference PD-TY2024
Sustainability	$1,930	$1,982	$1,594	($388)
Clean Fuels Infrastructure Development	$8,195	$20,400	$4,711	($15,689)
Clean Energy Innovations Project Management Office	$297	$1,592	$297	($1,295)
Research Development and Demonstration	$18,040	$23,249	$15,915	($7,334)
Total Non-Shared O&M Costs		**$47,223**	**$22,517**	**($24,706)**

1064 Costs for 2017-2020 are from SCG Ex-12-WP-R-E at 41; costs for 2021-2023 are from Resolutions G-3573, G-3586, and G-3601, respectively.

1065 D.19-09-051 CoL 66.

17. SDG&E Clean Energy Innovations

SDG&E requests a 2024 Test Year forecast of $9.984 million in O&M costs and capital expenditures in 2022, 2023, and 2024 of $23.024 million, $24.974 million, and $26.333 million, respectively, for various programs and projects under Clean Energy Innovations.[1066]

SDG&E states that its Clean Energy Innovations supports the evaluation, testing, and deployment of infrastructure and technologies needed to achieve SDG&E's and California's decarbonization, resiliency, and operational flexibility goals. According to SDG&E, Clean Energy Innovations tests the adoption of clean energy technologies and re-establishes an RD&D program at SDG&E.[1067]

In their opening briefs, Cal Advocates, TURN, CEJA, EDF, PCF, the Joint CCAs, and UCAN address various matters regarding SDG&E's 2024 Test Year forecasts for O&M costs and capital costs for the forecast years 2022, 2023, and 2024 associated with the Clean Energy Innovations area for SDG&E.

The following tables summarize SDG&E's O&M costs and capital forecasts compared to intervenor recommendations.[1068]

Table 17.1
TOTAL O&M - Constant 2021 ($000)

	SDG&E	Cal Advocates	TURN	CEJA	UCAN	EDF
2024 Test Year	9,984	5,956	9,984	3,974	9,610	0
Difference	-	(4,029)	0	(6,010)	(374)	(9,984)

[1066] Sempra Opening Brief at 280.

[1067] Sempra Opening Brief at 280.

[1068] Sempra Opening Brief at 283-284.

Table 17.2
TOTAL CAPITAL - Constant 2021 ($000)

	2022	2023	2024	Total	Difference between Intervenor and SDG&E
SDG&E	23,024	24,974	26,333	74,331	-
CAL ADVOCATES	1,425	0	800	2,225	(72,106)
TURN	20,227	7,817	1,727	29,771	(44,560)
UCAN	23,024	24,974	0	47,998	(26,333)
CEJA	23,024	24,974	25,178	73,176	(1,155)
EDF	0	0	0	0	(74,331)

We summarize general overall recommendations before describing the issues in detail further in the discussion.

Cal Advocates recommends that "[t]he Commission should reduce estimates of labor additions by 50 percent across the board" and reduce SDG&E O&M labor costs by $1,866,125 (identifying $1,428,625 of that amount as "Unique Adjustments") and SDG&E 2022 to 2024 capital-labor costs by $2,540,250 to reflect a 50 percent "across the board" cut.[1069]

UCAN recommends denying the $26.333 million 2024 capital cost budget for Clean Energy Innovations.[1070] According to UCAN, SDG&E's Clean Energy Innovations chapters contain generalizations and lack specific economic justifications for the proposed capital investments. UCAN states that SDG&E has not met the Commission's standard of providing sufficient evidence to support its capital requests.[1071] UCAN argues that SDG&E did not present accountability for

[1069] Cal Advocates Reply Brief at 25.

[1070] UCAN Ex-2 at 12.

[1071] UCAN Opening Brief at 109.

these activities and related costs.[1072]

EDF recommends that the Commission deny all hydrogen-related proposals without prejudice and undertake an additional phase of this proceeding to ensure that the capital and O&M costs, including overhead, rates of return, and other hydrogen-associated costs, have been excluded from any authorized revenue requirement.[1073] EDF states that Sempra Utilities' Clean Energy Innovations is business development for a new line of business for hydrogen that ratepayers should not bear.[1074]

Our review of the cost areas below addresses each intervenor's specific comments.

17.1. SDG&E's Clean Energy Innovations O&M Costs

SDG&E requests a 2024 Test Year forecast of $9.984 million for O&M costs.

Table 17.3
Clean Energy Innovations Non-Shared Services O&M (In 2021 $000)[1075]

	2021 Adjusted-Recorded	TY2024 Estimated	Change
Innovation Technology Development	0	5,000	5,000
Hydrogen Strategy and Implementation Department	617	1,010	393
Advanced Clean Technology Department	1,221	1,376	155
Sustainable Communities	180	282	102
Distributed Energy Resource Engineering Department	1,878	2,316	438
Total O&M	**3,896**	**9,984**	**6,088**

1072 UCAN Opening Brief at 83.

1073 EDF Opening Brief at 36; EDF Motion to Sever Hydrogen Requests at 2.

1074 EDF Opening Brief at 79.

1075 Sempra Opening Brief at 282.

The O&M costs are discussed below and further categorized into programs and projects.

17.1.1. Innovation Technology Development

For 2024 Test Year, SDG&E requests $5.0 million in O&M costs for an RD&D Innovation Technology Development Program to identify and support new technologies and research activities.[1076] SDG&E states that its RD&D program does not include any pre-commercial demonstrations, which it is separately authorized to conduct as part of the EPIC program.[1077] SDG&E concurrently requests authority to open a one-way balancing account to track the costs associated with an RD&D program under the Innovation Technology Department.[1078]

SDG&E plans to hire seven full-time employees and uses a zero-based forecast methodology for the following cost categories:

Table 17.4
Estimated Innovation Technology Development Cost Categories ($000)[1079]

Program	Sub-Program	Forecast
System Advancements	Planning, Control & Power Optimization	1,400
Clean Energy	Carbon Sequestration	1,300
Customer End-Use	Electrification Transformation	1,000
External Engagement	Consortia Subscription Fees, Stakeholder Workshops, Conferences, etc.	425

[1076] Sempra Opening Brief at 294.

[1077] Sempra Opening Brief at 294.

[1078] Sempra Opening Brief at 294.

[1079] Sempra Opening Brief at 294.

Program	Sub-Program	Forecast
Program Management	SDG&E Program Administration & Project Management	875
	Total	**5,000**

Cal Advocates and CEJA oppose SDG&E's cost requests for clarity and justification. The intervenors argue that SDG&E's workpapers lack sufficient information on the scope of work and that its forecasts are not credible.[1080]

Cal Advocates recommends reducing the Innovation Technology Department Program's O&M expenses by $3.5 million in 2024. It also recommends documenting the $800,000 cost of distribution equipment as a capital expenditure rather than an O&M expense. Cal Advocates' reduction includes denying the $1.0 million O&M cost request for the Customer End-Use Electrification Transformation sub-program.[1081] According to Cal Advocates, electric vehicle manufacturers and charging industries should develop the proposed technology demonstrations.

CEJA argues that SDG&E's proposed $5 million Innovation Technology Development Program would burden ratepayers with the costs of research activities without proper Commission oversight or alignment with SB 100.[1082] CEJA states that SDG&E's request to use ratepayer funds for carbon capture research is unjustifiable and could harm local communities and workers. CEJA also contends that SDG&E's proposal would improperly circumvent the

[1080] UCAN Opening Brief at 84; Cal Advocates Opening Brief at 102; CEJA Opening Brief at 53.

[1081] Cal Advocates Opening Brief at 102.

[1082] CEJA Opening Brief at 53.

Commission's recent efforts to consolidate and improve utility-administered research activities in the EPIC program per D.21-11-028.[1083]

In response, SDG&E states that it has demonstrated that internal business labor support is necessary for a successful RD&D program.[1084] SDG&E further states that while the electric vehicle charging industry should continue to develop technology demonstrations, SDG&E must also help guide customers through their electrification transformation with research and development of new technology.[1085] Regarding carbon sequestration, SDG&E argues that either SDG&E or its supplier could implement the solutions, which could use these technologies for their gas-fired generation plants. Opposing Cal Advocates' proposal to move the $800,000 Electric System Equipment forecast to capital expenditure, SDG&E argues that it may not even buy the equipment, and the project is part of an RD&D program, not an asset that it will continue to purchase. In response to CEJA's comments, SDG&E focuses on carbon sequestration and states that SDG&E is looking to evaluate all promising technologies to decarbonize its and suppliers' operations.[1086]

17.1.1.1. Discussion

We agree with CEJA that SDG&E's proposal for this newly created RD&D program, the Innovation Technology Development Program, should be denied. SDG&E's request for $5 million in O&M costs does not comply with the Commission's guidance in D.12-05-037.

[1083] CEJA Opening Brief at 54.

[1084] Sempra Reply Brief at 214.

[1085] Sempra Reply Brief at 215.

[1086] Sempra Reply Brief at 216-217.

Pursuant to D.12-05-037, SDG&E shall no longer make electric RD&D proposals in its GRC and should make every effort to detail its planned RD&D investments in each triennial EPIC investment plan.[1087] SDG&E cannot include technology demonstration and deployment expenditures in the GRCs unless specifically directed by the Commission to do so in a proceeding related to the EPIC. SDG&E has not provided evidence of any such guidance from the Commission. Per D.12-05-037, the investment plans for the EPIC program will be the primary vehicle for considering utility proposals for electric RD&D purposes.

CEJA has reasonably argued that SDG&E's Innovation Technology Development Program is a new RD&D program akin to the EPIC program but without the same level of Commission oversight. In this instance, SDG&E aims to recover costs for demonstrating pre-commercial technologies.[1088] Per D.12-05-037, SDG&E will fund more deployment-related activities, while the CEC will fund more demonstration activities.[1089] SDG&E is not authorized to create a parallel RD&D program with EPIC to demonstrate pre-commercial technologies.

For carbon sequestration, SDG&E should record costs associated with the CCUS FEED Study Program in its IIJA Memorandum Account and seek recovery of the recorded expenses in its next GRC cycle or a separate application.

We agree with UCAN that SDG&E's unique cost driver for Innovation Technology Development lacks clarity and supporting evidence on which technologies SDG&E will test. SDG&E's list of "underlying cost drivers" shows that the reason for the costs is simply the cost itself. SDG&E has not defined the actual underlying factors that drive the cost. For example, SDG&E states it will

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[1087] D.12-05-037 at 29.

[1088] Sempra Opening Brief at 267.

[1089] D.12-05-037 at 40.

test new power electronic equipment, sensors, monitoring devices, safety systems, data systems, and software visualization platforms for $1.4 million under the System Advancement category.[1090] However, it does not explain what type of technologies and systems it will test, how much they cost, and the benefits to the ratepayers. Simply stating that SDG&E plans to test safety systems or hardware and software protocols is insufficient justification for incremental ratepayer funding.

SDG&E has not demonstrated incremental value to ratepayers compared to the work already undertaken in the RD&D business unit that would necessitate an additional $5 million. Therefore, the Commission should decline the request for the Innovation Technology Department's $5 million in O&M costs. SDG&E may seek funding for Innovation Technology Development through the EPIC program.

17.1.2. Hydrogen Strategy and Implementation Department

SDG&E requests $1.010 million in O&M costs for its Hydrogen Strategy and Implementation Department.[1091] The incremental cost request is shown below:[1092]

Table 17.5
Incremental Cost Request ($000s)

	2021 Adjusted Recorded	2024 Test Year Estimated	Change
Total O&M	**617**	**1,010**	**393**

1090 SDG&E Ex-15-R-E at FV-12-13.

1091 SDG&E Ex-15-WP-E at 3-9.

1092 SDG&E Ex-15-R-E at FV-5.

SDG&E uses a Base Year forecast method for an incremental increase of $393,000 in O&M costs, including labor and non-labor expenses to support the sponsorship of industry standards committees, consortia membership fees, industry events, conference travel and attendance, technical advisory committees, and the development of critical safety training modules.[1093] SDG&E states that it has identified modeling and technical analysis studies to understand the current challenges and the associated costs of various hydrogen solutions, but it is not requesting cost recovery in this GRC application.[1094] SDG&E states that additional staff will support modeling efforts for future hydrogen investments, support of future hydrogen capital projects, and the development of new business opportunities, including applications for external funding sources.[1095]

Cal Advocates and CEJA oppose SDG&E's cost recovery request.

Cal Advocates recommends a decrease of $147,000 in O&M costs, bringing the new total to $863,000.[1096] Cal Advocates disputes SDG&E's labor requests, stating that they lack a credible estimate of required labor as they are based on a qualitative assessment without an identifiable scope of work.[1097]

CEJA argues that SDG&E should have sought Commission authorization before creating the Hydrogen Strategy and Implementation Department. CEJA

1093 Sempra Opening Brief at 291.

1094 SDG&E Ex 15-R-E at FV 5–FV 8; The studies proposed by SDG&E include a hydrogen blending Conversion Study and Technical Analysis at the Desert Star 490 MW combined cycle natural gas plant, hiring third-party technical and engineering experts to model the costs and feasibility of converting the Cuyamaca Energy Center 50 MW natural gas-powered black start peaker plant to be 100 percent hydrogen fuel, studying hydrogen injection into existing pipeline system, and Non-Labor funding to contract for a first-of-its-kind market research survey regarding Hydrogen Perception and Acceptance.

1095 SDG&E Ex 15-R-E at FV 8.

1096 Cal Advocates Opening Brief at 103-104.

1097 Cal Advocates Opening Brief at 103-104.

states that SDG&E changed its testimony on certain hydrogen-related studies and has not provided any information on its hydrogen-related grant applications or any new business opportunities under its proposal. CEJA also opposes SDG&E's request for $100,000 in non-labor O&M costs for the sponsorship of trade groups at ratepayer expense.[1098]

SDG&E responds that it is not required to seek Commission authorization when it creates, eliminates, or combines departments. Regarding the $100,000 budget, SDG&E argues that it needs funds to work on upcoming regulatory activity related to hydrogen and that will be used for industry events, committee memberships, and hydrogen safety training.[1099]

17.1.2.1. Discussion

We find that the request for incremental cost recovery from ratepayers does not comply with Pub. Util. Code Section 451 which requires utilities to offer safe and reliable service at just and reasonable rates.

According to SDG&E, the O&M labor and non-labor costs will support activities such as sponsoring industry standards committees, consortia membership fees, industry events, conference travel and attendance, technical advisory committees, and the development of critical safety training modules. Besides this high-level detail, SDG&E has not sufficiently demonstrated which regulatory proceedings or programs these activities will support and how these incremental cost requests will benefit ratepayers.

The proposal presented in this GRC is high-level qualitative information seeking cost recovery for additional modeling and surveys to improve the

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[1098] CEJA Ex-01 at 50.

[1099] SDG&E Ex-215 at FV-27.

knowledge base on various aspects of hydrogen technologies and adoption. We agree with CEJA and Cal Advocates that SDG&E has not provided supporting evidence to justify the incremental labor and non-labor costs for the newly created Hydrogen Strategy and Implementation Department. In 2021, SDG&E incurred $617,000 with four full-time employees. However, it has not provided details on how additional labor and non-labor costs will benefit ratepayers. Therefore, the current staffing levels are appropriate to support SDG&E's work in managing hydrogen-related regulatory activities at the Commission.[1100]

We also agree with CEJA that it is not justified and reasonable for ratepayers to fund research studies that duplicate CEC's findings on evaluating hydrogen's potential to decarbonize California's energy grid. Furthermore, costs arising from hydrogen-related grant applications may be reasonably booked under the IIJA Memorandum Account authorized in Res. E-5254.

For the above reasons, the Commission should deny SDG&E's $393,000 incremental O&M cost increase for the Hydrogen Strategy and Implementation Department.

After reviewing SoCalGas's and SDG&E's hydrogen-related proposals, we strongly recommend that Sempra Utilities consider a hydrogen strategy at a corporate level and as a shared service to avoid redundancy and inefficient spending on coordinated activities.

[1100] The only ongoing case related to SDG&E's hydrogen projects that is currently being reviewed by the Commission is A.22-09-006.

17.1.3. Advanced Clean Technology Department

SDG&E requests $1.376 million in O&M costs for its Advanced Clean Technology Department to develop and deploy energy storage, microgrids, integration software, and other clean energy technologies.[1101]

Table 17.6
Incremental Cost Increase ($000s)[1102]

	2021 Adjusted Recorded	TY 2024 Estimated	Change
Total O&M	1,221	1,376	155

SDG&E uses a base-year forecasting methodology.[1103] According to SDG&E, the Advanced Clean Technology Department supports regulatory activities relating to DER integration, technology innovation, and microgrid deployment. SDG&E's expenses include labor costs for the department staff and non-labor costs for training and staff development.[1104]

Cal Advocates opposes SDG&E's request and recommends $1.298 million, a reduction of $78,125.[1105] Cal Advocates makes similar arguments as it did for the Innovation Technology Department and Hydrogen Strategy and Implementation Department that SDG&E has not demonstrated the scope of the work to justify an increase in labor and non-labor costs.

1101 SDG&E Ex-15-WP-E at 11.

1102 SDG&E Ex-15-R-E at FV-9.

1103 SDG&E Ex-15-R-E at FV-9.

1104 SDG&E Ex-15-R-E at FV-9.

1105 Cal Advocates Opening Brief at 104.

17.1.3.1. Discussion

We find that labor costs mainly drive the increase in O&M costs over the 2021 Base Year costs. SDG&E shows that its full-time employee count has increased from 2.1 in 2017 to seven employees in the 2021 Base Year. SDG&E's request to increase the full-time employee count to 8.3 employees is neither supported nor justified because SDG&E does not show which Clean Technology Projects require the incremental cost increase. We agree with Cal Advocates and find that the overly broad information presented by SDG&E is insufficient to warrant increased labor costs. SDG&E's Opening Brief lacked sufficient reference to evidence to justify the additional personnel. The Brief only included projects supported by the Advanced Clean Technology Department, and SDG&E provided no specific explanation for the increased labor needs. Cal Advocates' proposal to deny SDG&E's request for 1.3 more FTE positions is reasonable. The Commission declines the $155,000 incremental O&M cost increase without supporting evidence.

17.1.4. Sustainable Communities - O&M

SDG&E requests $282,000 for 2024 Test Year in O&M costs for its Sustainable Communities Program using a base-year forecast method as shown below.[1106]

Table 17.7
Base Year Forecast Method ($000s)

	2021 Adjusted Recorded	TY2024 Estimated	Change
Total O&M	**180**	**282**	**102**

[1106] Sempra Opening Brief at 297-298.

SDG&E is requesting funds to support the ongoing operation and maintenance activities of the DERs installed at customer sites as part of the program's community-based energy strategy. The Program was authorized in D.04-12-015 and is no longer available for new enrollments. SDG&E states that it still has an obligation to maintain the existing assets.

Cal Advocates recommends reducing SDG&E's contingency factor from $57,000 to $10,000, which would reduce SDG&E's overall Sustainable Communities O&M forecast by $47,000.

17.1.4.1. Discussion

We decline authorization of $282,000 in O&M costs for the Sustainable Communities Energy System for the following reasons.

We note that assessing SDG&E's request for incremental costs was burdensome for the Commission and intervenors as details regarding the incremental increase were not available in any one document, but it was split across various sources, including workpapers, testimonies, and briefs.

D.04-12-015 adopted the Sustainable Community Energy Systems, which would provide funds for the engineering, design, materials, installation, testing, and maintenance of community-based energy strategies, state-of-the-art generation and storage technologies, and advanced control devices.

SDG&E has not specified what type of DERs it plans to maintain at its customer sites. In its testimony and opening and reply briefs, SDG&E provides limited information on the exact nature of maintenance activities required. Upon reviewing SDG&E Exhibit 15-WP-E (workpaper), we find that SDG&E has a service maintenance agreement for fuel cell equipment placed into service in December 2021. SDG&E's workpaper further shows that SDG&E plans to use the funds to negotiate lease renewals with customers as an incentive to renew with SDG&E for another term.

In D.04-12-015, we adopted the program budget as part of a settlement, with the condition that in the future, we need greater assurance that the efforts will serve the interests of all SDG&E ratepayers and the broader San Diego community.[1107] SDG&E provided no such information. While the program is no longer available for new enrollments,[1108] SDG&E has not provided any evidence to prove that it has the authority to grant further lease extensions.

Notwithstanding that future cost recovery from ratepayers for a program established 20 years ago should end as the program has ended, SDG&E's request for rate recovery does not comply with D.04-12-015 because it fails to show detailed information about the projects that will be pursued or the criteria the company used to select and serve projects.[1109] It is also questionable that SDG&E signed a lease to support fuel cell equipment in the 2021 Base Year, which would allow them to include the costs in the Test Year forecast. SDG&E has not shown when the fuel cell equipment project was authorized, if it is a pilot program, or how supporting it will benefit ratepayers. As such, SDG&E has failed to meet its burden of proof and is out of compliance.

SDG&E shall remove $282,000 for the Sustainable Communities program O&M cost forecast from the 2024 Test Year revenue requirement calculations and discontinue pursuing lease agreements under the Sustainable Communities program.

[1107] D.04-05-012 at 35-37.

[1108] Sempra Opening Brief at 298.

[1109] *See* D.04-12-015 CoL 6.

17.1.5. Distributed Energy Resource (DER) Engineering Department - O&M

SDG&E requests an increase of $438,000 in O&M costs for its DER Engineering Department, bringing the total from $1.878 million in 2021 Base Year to $2.316 million for 2024 Test Year.

Table 17.8
Distributed Energy Resource Engineering O&M Incurred Costs in 2021 $ ($000)[1110]

	Adjusted-Recorded				Adjusted-Forecast			
Years	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Labor	34	44	197	136	246	371	528	684
Non-Labor	731	240	777	929	1,632	1,632	1,632	1,632
Total	**765**	**284**	**974**	**1,065**	**1,878**	**2,003**	**2,160**	**2,316**

SDG&E requests an increase in funding to accelerate the development of microgrids, energy storage, advanced control systems, and proactive engineering, testing, and demonstration in the electric industry.[1111] SDG&E states that the funding for the DER Engineering Department will be used to proactively test energy storage and technology at the Integrated Test Facility to operate the electric system safely, reliably, and efficiently.[1112]

SDG&E uses a base-year forecast methodology to request 2024 Test Year costs. It states that the increased integration of DERs and microgrid operations drives cost increases. SDG&E is requesting additional engineering staff to test new technologies, conduct microgrid islanding studies, integrate microgrids into

[1110] SDG&E Ex-15-WP-E at 30.

[1111] Sempra Opening Brief at 298.

[1112] Sempra Opening Brief at 298; SDG&E Ex.15-WP-E at FV15-FV16.

SDG&E's local area distribution controller (LADC), and conduct other engineering studies related to DER integration.[1113]

Cal Advocates and UCAN oppose SDG&E's requested increase.

According to Cal Advocates, SDG&E failed to justify its additional labor costs. Cal Advocates proposes $2.097 million instead of $2.316 million, a reduction of $219,000 in SDG&E's DER Engineering Department budget.[1114]

UCAN opposes SDG&E's O&M budget request for grid modernization, advanced interconnection, and modeling as outmoded, inconsistent with the Commission's priorities, and unjustified.[1115] UCAN states that if the LADC project is not sized and scoped appropriately, it will become obsolete quickly and may need replacement during the current GRC cycle.[1116] UCAN argues that SDG&E's proposed LADC expenditures are solely for utility-side-of-the-meter (USOM) DER integration, and SDG&E ignores the broader DER integration needed to incorporate customer-side-of-the-meter (CSOM) DERs.[1117]

While UCAN does not specify any dollar amount that should be decreased from SDG&E's forecast, based on its review of UCAN's opposition, SDG&E puts that number at $375,000.[1118]

17.1.5.1. Discussion

We agree with the intervenors that there is no strong evidence supporting why the costs should increase. SDG&E's description is high-level and generalized.

1113 SDG&E Ex-E-15-WP-E at FV15-FV16.

1114 Cal Advocates Opening Brief at 106.

1115 UCAN Ex-01 at 241.

1116 UCAN Opening Brief at 84.

1117 UCAN Opening Brief at 84-85.

1118 Sempra Opening Brief at 299.

Cal Advocates argues that SDG&E's labor estimates lack credibility because they were not based on a defined scope of work.[1119] Without a scope, even subject-matter experts can only provide unreliable estimates.[1120]

Additionally, our review shows that SDG&E's non-labor O&M DER Engineering Department costs increased from $929,000 in 2020 to $1.632 million in 2021 Base Year, which forms the basis of its forecasted 2024 Test Year costs.[1121] Without sufficient evidence (lacking preponderance of evidence), SDG&E fails to justify the significant increase (over 75 percent) in these costs for the Base Year. This is particularly concerning since SDG&E chose a base-year forecasting methodology.

SDG&E states that the main cost driver for the DER Engineering Department is labor cost. However, a high non-labor 2021 Base Year cost contributes equally to these overall cost increases. SDG&E is proposing LADC deployment costs under multiple grid modernization projects.[1122] Still, whether the non-labor costs proposed here overlap with those requested under other cost categories is unclear. As we do not know the non-labor costs and lack visibility regarding cost overlaps between various DER integration and management tools, we decline to accept SDG&E's forecasted cost methodology. Instead, SDG&E shall base its forecasts on a historical average of the past six years for labor and non-labor costs, as shown below:

Table 18.9

[1119] Cal Advocates Opening Brief at 103-104.

[1120] This is further supported by the discrepancy between SDG&E's projected labor costs ($0.371 million) and the actual recorded costs in 2022 ($0.253 million).

[1121] SDG&E Ex-15-WP-E at 30.

[1122] Project/Program IDs. 00920AU, 00920Y, 00920L, and 1DD005. *See* UCAN Opening Brief at 84 and 145.

Distributed Energy Resource Engineering O&M Incurred Costs ($000)

	Adjusted-Recorded[1123]						
Years	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Average**
Labor	34	44	197	136	246	253	152
Non-Labor	731	240	777	929	1,632	1,118	905
Total	**765**	**284**	**974**	**1,065**	**1,878**	**1,371**	**1,056**

Accordingly, the Commission authorizes $1.056 million instead of $2.316 million in DER Engineering Department O&M costs.

17.2. SDG&E Clean Energy Innovations Capital Costs

SDG&E's 2024 Test Year capital cost forecast request is as follows:[1124]

Table 17.10
SDG&E's 2024 Test Year Capital Cost Forecast Request

Categories of Management	Estimated 2022 ($000)	Estimated 2023 ($000)	Estimated 2024 ($000)
Advanced Energy Storage Total	**13,258**	**16,448**	**22,582**
20278A Advanced Energy Storage	12,483	1,314	0
212690 Advanced Energy Storage 2.0	0	13,284	20,030
212710 Non-Lithium-Ion Energy Storage Technology	775	1,850	2,552
Microgrid and Controls Total	**6,721**	**102**	**0**
17246A Borrego 3.0 Microgrid	5,296	102	0
212660 ITF Expansion	1,425	0	0
Sustainable Communities Total	**969**	**407**	**439**
20281A Sustainable Communities Removal	969	407	439

1123 SDG&E Ex-302.

1124 Sempra Opening Brief at 282.

Categories of Management	Estimated 2022 ($000)	Estimated 2023 ($000)	Estimated 2024 ($000)
Mobile Energy Storage Total	**2,076**	**2,076**	**2,076**
212610 Mobile Battery Energy Storage Program	2,076	2,076	2,076
Hydrogen Total	**0**	**5,941**	**1,236**
212680 Hydrogen Build Ready Infrastructure	0	770	1,155
212720 Hydrogen Energy Storage System Expansion	0	5,171	81
Total Capital	**23,024**	**24,974**	**26,333**
NON-COLLECTIBLE (NC)	20,520	24,684	26,333
COLLECTIBLE (CO)	2,504	290	0

17.2.1. 20278A Advanced Energy Storage

SDG&E has requested $12.483 million in capital costs for the Advanced Energy Storage (AES) project in 2022, $1.314 million in 2023, and $0 in 2024.[1125] SDG&E states that AES was authorized in the 2019 Test Year GRC, D.19-09-051. For the current phase of AES, SDG&E is in the process of installing and integrating a 7.3 megawatt (MW)/14.6 megawatt-hours (MWh) Battery Energy Storage System (BESS) and a 0.25 MW/4 MWh Hydrogen Energy Storage System (HESS) to leverage excess solar photovoltaic (PV) at the Borrego Springs Microgrid.[1126]

Cal Advocates recommends denying SDG&E's request. It argues that D.19-09-051 authorized $21.4 million, but SDG&E delayed the project, with only $7,877,000 spent as of June 2022.[1127] Cal Advocates argues that SDG&E failed to

[1125] Sempra Opening Brief at 300.

[1126] Sempra Reply Brief at 191.

[1127] Cal Advocates Opening Brief at 106-107.

demonstrate the continued need for the AES project well past its 2019 planned online date and used the AES funds for other capital projects during this time.[1128]

UCAN opposes SDG&E's project and argues that standard lithium-ion battery storage is neither "advanced technology" nor innovative.[1129] It also recommends that SDG&E consider customer-side-of-the-meter DERs to provide battery storage options.[1130] In its Opening Brief, UCAN states that SDG&E has not demonstrated operational logistics to show how customer-side-of-the-meter DERs will be compensated and protected.[1131]

SDG&E argues that reprioritized funding to other capital projects does not negate the need or reasonableness for the funds requested in this GRC.[1132] In response to Cal Advocates and UCAN, SDG&E provided information on how the AES project will support energy service reliability due to the microgrid islanding events at the Borrego Springs Microgrid.[1133] Regarding UCAN's argument about using customer-owned storage resources, SDG&E states that customer-owned storage is not evidence that these resources are available or willing to provide energy at the circuits required for the Borrego Springs Microgrid.[1134]

17.2.1.1. Discussion

This decision allows SDG&E to complete the remaining AES project authorized in D.19-09-051. However, we decline the cost recovery for the

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[1128] Cal Advocates Opening Brief at 107 and Reply Brief at 27-28.

[1129] UCAN Opening Brief at 101.

[1130] UCAN Ex-01-E at 285.

[1131] UCAN Opening Brief at 102.

[1132] Sempra Reply Brief at 195.

[1133] Sempra Reply Brief at 190-193.

[1134] Sempra Opening Brief at 301-302.

hydrogen energy storage system included in the revised AES project capital cost estimates.[1135] There is no evidence that the Commission authorized SDG&E to build a hydrogen energy storage system as part of the original AES project.

In D.19-09-051, the Commission authorized $15.154 million for the AES project to help minimize intermittent and operational problems associated with variable output of renewable energy resources.[1136] The Commission also required SDG&E to submit a report on the AES project in this GRC, including specific costs of procuring the energy storage systems and a summary of the particular benefits realized by ratepayers.[1137] SDG&E's additional cost request of $12,483,000 in 2022 and $1,314,000 in 2023 includes the hydrogen energy storage system, which is not just and reasonable for rate recovery per Pub. Util. Code Section 451, which SDG&E shall deduct from the AES project cost increase. The requested dollar amount for the hydrogen energy storage system in Confidential Exhibit SDG&E-15-WP-S-C is denied.

As part of the AES project, the Commission approved costs for energy storage devices that would leverage excess renewable energy to charge during the day when the circuit is experiencing lighter load levels and discharge during higher load on the grid.[1138] In D.19-09-051, the Commission did not mention any hydrogen-related technology. However, SDG&E is now requesting costs for hydrogen electrolyzers, storage tanks, and fuel cell energy storage as part of the AES project in this GRC cycle. This new technology is being introduced in this

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1135 The requested hydrogen storage energy system costs are specified in Confidential Exhibit SDG&E Ex-15-WP-S-C.

1136 D.19-09-051 at 292.

1137 D.19-09-051 OP 29.

1138 D.19-09-051 at 293.

GRC cycle. We find that this added scope of a capital hydrogen energy storage system is not appropriate for ratepayer funding in this GRC cycle.

Although the revised cost of the AES project may not seem entirely reasonable, we disagree with Cal Advocates' assertion that the project was unnecessary. The decision to allow SDG&E to build the AES project was made in D.19-09-051. Between 2017 and 2021, SDG&E incurred $7.156 million for the AES project. We must now decide how much more funding is reasonable for SDG&E to complete the project without wasteful spending and the stranded costs of an incomplete project.

It is reasonable for SDG&E to complete the remaining work on the initially authorized AES project, as it will provide a power source to the Borrego Springs microgrid, which serves a region that experiences extreme weather conditions. The added storage will allow SDG&E to plan compliance maintenance. However, it is neither justified nor reasonable for SDG&E to delay the project and request higher ratepayer funding by adding novel hydrogen energy storage technologies to the storage options as part of the AES project scope. The proposal to implement a 0.25 MW hydrogen energy storage system was not mentioned or authorized in D.19-09-051. Therefore, we decline to authorize SDG&E to use ratepayer funds to add expensive hydrogen storage options as capital projects for grid reliability outside its EPIC or a hydrogen-related RD&D program. SDG&E shall remove energy procurement costs for hydrogen energy storage system costs from its forecasted costs of $12.483 million in 2022 and $1.314 million in 2023.[1139] We only authorize Battery Energy Storage System costs for 2022 and 2023.[1140]

Regarding SDG&E's report on procurement costs and ratepayer benefits, pursuant to D.19-09-051, SDG&E provided high-level information without mentioning the procurement dates for the hydrogen energy storage system or ratepayer benefits.[1141] SDG&E claims it will update the information when the project is in service, as negotiations for the construction services agreement were ongoing when the application was filed. From the Commission's review perspective, project construction delays and reprioritization have made assessing and quantifying the project's benefits difficult.

Pursuant to D.19-09-051, SDG&E is required to provide procurement costs and benefits. We require that SDG&E provide a single consolidated report with costs and benefits for transparency and ease of review. Costs shall include itemized capital expenditures, subcategories for each project component, and associated administration costs by year. Benefits shall include a description and quantification of each element contributing to the benefits, such as load shifting, energy production, or energy savings. The report shall be served on the service list of the GRC proceeding within 60 days of the completion of the project.

We want SDG&E to complete the AES project and expect transparency regarding costs and project details. The four-year GRC cycle allows the utility flexibility to reprioritize its funds for capital projects and enables it to manage its

[1139] The requested dollar amount for the hydrogen storage energy system in Confidential Exhibit SDG&E Ex-15-WP-S-C is denied.

[1140] The requested battery energy storage system costs are specified in Confidential Exhibit SDG&E Ex-15-WP-S-C.

[1141] SDG&E Ex-15-WP-S-C.

authorized funds for critical projects. However, delays and reprioritizing funds also lead to longer construction times, resulting in higher project costs over time, which can result in larger rate increases when the project becomes operational and added to the rate base. As stated under this decision's Accountability Reporting and Reprioritization Section, SDG&E shall submit additional data in its RSAR annually.

17.2.2. 212690 Advanced Energy Storage 2.0

For the AES 2.0 project, SDG&E is requesting capital costs of $0 (2022), $13.284 million (2023), and $20.030 million (2024).[1142]

According to SDG&E, the AES 2.0 project is the second phase of the previous AES project approved in SDG&E's 2019 Test Year GRC, which involves the construction of three energy storage systems, each approximately 7 MW/14 MWh in size.[1143] SDG&E uses a zero-based forecasting methodology.[1144] SDG&E states that it will deploy different energy storage chemistries as it cannot predict what storage chemistry will be the optimal solution for future requests for proposals.[1145]

Cal Advocates, UCAN, and TURN recommend denying the AES 2.0 capital project. The three intervenors' collective comments suggest that SDG&E has not met its burden of proof because the AES 2.0 proposal is vague, does not explain

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1142 Sempra Opening Brief at 302.

1143 Sempra Opening Brief at 302.

1144 SDG&E Ex-15-R-E at 20.

1145 SDG&E Ex-15-R-E at 20-21.

how it will achieve greater reliability and lacks basic information about the project's location, benefits, storage technology plan, and status. [1146]

Cal Advocates states that SDG&E provided no evidence that utility ownership is the proper structure to acquire storage.[1147] Cal Advocates recommends that SDG&E apply for recovery for AES 2.0 with an application that meets the reasonableness standard adopted in D.19-06-032 to comply with AB 2868 (Stats. 2016, ch. 681).[1148]

TURN argues that SDG&E's witnesses did not provide clear expense details for the AES 2.0 project, making it difficult for the Commission to assess investment reasonableness.[1149] TURN suggests that new energy storage proposals should be proposed in Integrated Resource Planning or a stand-alone application wherein SDG&E should provide a comprehensive explanation and consider cost options and third-party-owned facilities.[1150] TURN recommends that if the project is authorized, the Commission should require competitive solicitation for third-party-owned storage options and establish a two-way balancing account and a memorandum account to track SDG&E's costs.[1151]

In response to the above comments, SDG&E contends that not identifying specific circuits and locations doesn't indicate a lack of need, as it continues to assess renewables penetration on circuits where installing storage devices would

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1146 Cal Advocates Opening Brief at 110; UCAN Opening Brief at 102-103; TURN Opening Brief at 145.

1147 Cal Advocates Opening Brief at 110.

1148 Cal Advocates Opening Brief at 110.

1149 TURN Opening Brief at 146-147.

1150 TURN Opening Brief at 147-148.

1151 TURN Opening Brief at 148.

be most beneficial.[1152] SDG&E argues that the project is not requested pursuant to AB 2868 or its related requirements as they are for different purposes.[1153] SDG&E disagrees with TURN's recommendation regarding third-party ownership of distribution-based BESS. SDG&E believes it is best positioned to own and operate these assets to meet grid needs. SDG&E states that TURN's regulatory accounting treatment for establishing a two-way balance account is unwarranted in this GRC.[1154]

17.2.2.1. Discussion

This decision denies SDG&E's request for $0 (2022), $13.284 million (2023), and $20.030 million (2024) in capital expenditures for AES 2.0. SDG&E claims that AES 2.0 is an extension of AES but has failed to meet the originally proposed deadline for AES Phase 1. Due to the unexplained delays and reprioritization of funds, SDG&E has not demonstrated that it reasonably and prudently operated and managed the AES Phase 1 project. Pursuant to Pub. Util. Code Section 451, granting capital expenses before completing AES Phase 1 and demonstrating ratepayer benefits will not be prudent.

There is no dispute that California is heading towards a higher DER future, with energy storage being a common DER resource that will help the distribution grid handle the growth of intermittent renewable energy. Although we agree with SDG&E that AES 2.0 is not proposed under the requirements related to AB 2868, it would be imprudent to grant millions in capital costs for an energy storage project where the Commission has no insight into economic benefits, locational benefits, capacity usage, expected reliability benefits, whether the

1152 Sempra Reply Brief at 196.

1153 Sempra Reply Brief at 196-198.

1154 Sempra Reply Brief at 199.

project will defer or eliminate upgrades or provide clean energy, and the net costs to customers. It is unreasonable to grant upward of $33 million to SDG&E without considering the longer-term impact on the affordability of rates within SDG&E's service area, especially when the project lacks a clearly defined location, needs, and benefits. Regarding owning the grid asset, we disagree with SDG&E's claim that, as an IOU, it is best positioned to own and operate these assets to meet grid needs. SDG&E should not undermine the load management capabilities and DER Management Systems that can coordinate utility- and customer-owned batteries to smooth load curves and lower peak demand across a circuit to increase effective capacity. We agree with TURN that the Integrated Resource Planning docket or a stand-alone application should explain the need for storage and consider the costs of various options, including third-party-owned facilities.

Providing specific and detailed information is imperative to demonstrate the capability to manage renewables penetration effectively. Simply stating that the project will manage the integration of renewable energy sources without providing specific details on what and where these projects will be located and how ratepayers will benefit does not meet the burden of proof.

Therefore, it is reasonable to reject SDG&E's request for a capital expenditure of $0 (2022), $13.284 million (2023), and $20.030 million (2024) for AES 2.0 in this GRC cycle. After completing AES Phase 1, SDG&E may file an application for the next phase of the project, provided it provides specific details and shows ratepayer benefits to meet its burden of proof.

17.2.3. 212710 Non-Lithium-Ion Energy Storage Technology

SDG&E is requesting capital costs of $0.775 million (2022), $1.850 million (2023), and $2.552 million (2024) for a Non-Lithium-Ion Energy Storage

Technology project.[1155] SDG&E states that the project aims to find commercially available energy storage technologies that offer additional benefits and avoid issues associated with lithium-ion.[1156] SDG&E wants to deploy long-duration energy storage to maintain and/or improve system performance and operational flexibility, develop familiarity with them, and determine their suitability for large-scale deployments.[1157] It plans to deploy new commercially available battery chemistries and non-battery alternatives such as flywheels and gravity-based energy storage.[1158]

Cal Advocates, UCAN, and TURN recommend denying the project and its associated cost.

Cal Advocates states that SDG&E's proposed Non-Lithium-Ion Energy Storage activities would not count towards SDG&E's obligation under D.21-06-035.[1159] Cal Advocates argues that SDG&E's proposal would exceed its Commission-established responsibility to procure long-duration storage resources before June 1, 2026, burdening SDG&E's ratepayers.[1160] Cal Advocates recommends that SDG&E submit a separate application for this long-duration storage project that shows that its utility-owned storage activities represent the least cost to ratepayers and are consistent with D.21-06-035.[1161]

[1155] Sempra Opening Brief at 306.

[1156] Sempra Opening Brief at 306.

[1157] SDG&E Ex-15-R-E at FV-21.

[1158] SDG&E Ex-15-R-E at FV-21.

[1159] *See* June 24, 2021 D.21-06-035, *Requiring Procurement to Address Mid-Term Reliability (2023-2026)*. The decision requires utilities to procure long-duration storage by June 1, 2026.

[1160] Cal Advocates Opening Brief at 108.

[1161] Cal Advocates Opening Brief at 108–109.

TURN recommends that the Commission deny approval for the Non-Lithium-Ion Energy Project as it lacks information on capacity, energy discharge capability, location, vendor negotiations and selection, site permitting, and economic benefits.[1162] TURN argues that SDG&E's disinterest in evaluating third-party options prioritizes rate base additions over least-cost solutions for ratepayers. TURN suggests that SDG&E seek approval in the IRP proceeding or a stand-alone application.[1163] According to TURN, if the Commission authorizes the project, SDG&E should be required to conduct a competitive solicitation for a third-party-owned facility and be allowed to establish a two-way balancing account.[1164]

17.2.3.1. Discussion

This decision denies SDG&E the use of ratepayer funds to test technologies, develop familiarity with Non-Lithium-Ion Energy Storage Technology, and test its application for larger-scale deployments in this GRC cycle. SDG&E's proposal lacks clarity and is unnecessary, given the requirements set in D.21-06-035. The proposal is not just and reasonable per Pub. Util. Code Section 451.

We concur with Cal Advocates, TURN, and UCAN that SDG&E has not met its burden of proof in providing justification and evidence for its cost request to procure non-lithium-ion energy storage technologies. SDG&E carries the burden of proof to quantify ratepayer benefits that justify funding for procuring and rate basing these technologies.

Cost reasonableness and affordability of rates are important considerations as we review these projects. SDG&E's request for $5.177 million in capital

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1162 TURN Opening Brief at 150.

1163 TURN Opening Brief at 152.

1164 TURN Opening Brief at 153.

expenditure lacks a defined development plan and ratepayer benefits. As noted by TURN, SDG&E forecasted spending in 2022, but no record supports the capital expenses. This indicates that SDG&E's team is not on schedule to proceed with the project as proposed. We also do not know if third-party ownership will be cheaper and more reasonable for ratepayer funding rather than recording the costs as capital expenditure and including the asset in the rate base at the time of completion with no known benefits.

Given SDG&E's trend in this GRC application to seek ratepayer funding for cost overruns, such as for the AES and reprioritizing capital expense funds, we direct SDG&E to seek research and development funds for non-lithium-ion energy storage technologies via the EPIC program.

We agree with Cal Advocates that, pursuant to D.21-06-035, SDG&E can file an application if it plans to procure long-duration storage. However, if SDG&E claims that it will not file an application pursuant to D.21-06-035 because it does not intend for these three small-scale deployments to participate in the California Independent System Operator (CAISO) market initially, as it seeks to become familiar with the technologies and their capabilities,[1165] it raises questions about the urgency of funding this project through ratepayer funds in this GRC cycle outside of a research and development EPIC program.

Therefore, it is reasonable to deny $775,000 (2022), $1.850 million (2023), and $2.552 million (2024) in capital expenses for a Non-Lithium-Ion Energy Storage Technology project in this GRC cycle.

[1165] Sempra Opening Brief at 307.

17.2.4. Microgrid and Controls 17246A Borrego 3.0 Microgrid

SDG&E is requesting capital costs of $5.296 million (2022), $102,000 (2023), and $0 (2024) for the Borrego 3.0 Microgrid.[1166] According to SDG&E, a new distribution circuit has been added to support the installation of more DERs, thus increasing the microgrid's size in Borrego Springs.[1167] SDG&E states that additional DERs approved in the 2019 GRC are under construction and expected to be online in 2023-2024.[1168]

Cal Advocates and UCAN oppose SDG&E's request for capital expenditure for Borrego 3.0 Microgrid.

Cal Advocates alleges that SDG&E failed to provide information on the need-by dates and improvements and failed to demonstrate the necessity of capturing excess PV.[1169] UCAN argues that while Borrego Microgrid has yielded useful operational experience for SDG&E, including rate base earnings, further ratepayer funding in this exclusive-use facility is unnecessary.[1170]

SDG&E Exhibit-15-R-E shows that the Borrego Springs Microgrid cost is $5.296 million for 2022 (part of these costs are reimbursable from the Department of Energy, which is studying various microgrid capabilities; $2.792 million is non-collectible and $2.504 million collectible), $102,000 for 2023 of which ($(188,000) is non-collectible and $290,000 collectible, and $0 for 2024.[1171]

[1166] Sempra Opening Brief at 308.

[1167] Sempra Opening Brief at 308.

[1168] Sempra Opening Brief at 308.

[1169] Cal Advocates Opening Brief at 111 and Reply Brief at 30.

[1170] UCAN Opening Brief at 147.

[1171] SDG&E Ex-15-R-E at FV-22.

17.2.4.1. Discussion

Borrego Microgrid 3.0 is not a new capital project but an addition to the existing microgrid facility that would allow SDG&E to connect additional DERs. The microgrid serves resiliency and reliability needs, including services to rural/remote communities likely to rely on diesel and gas generators during outage conditions. The project's use of a federal grant has lowered ratepayer costs. We find that the project is reasonable and should be approved. Based on the above, we find it reasonable to approve $5.296 million (2022), $102,000 (2023), and $0 (2024) in capital additions for the Borrego Microgrid 3.0 project.

17.2.5. 212660 Integrated Test Facility (ITF) Expansion

We have reviewed SD&E's request for capital costs for the ITF Expansion project of $1.425 million (2022), $0 (2023), and $0 (2024).[1172] UCAN had generic comments opposing the cost request.[1173] However, it is reasonable to authorize the request for capital additions as they support grid modernization efforts. Therefore, a capital cost of $1.425 million for 2022 ITF Expansion is authorized.

17.2.6. 20281A Sustainable Communities Removal

SDG&E seeks $1.815 million to remove SDG&E-owned solar PV arrays and small batteries on customer sites throughout San Diego County through 2024. SDG&E estimates $969,000, $407,000, and $439,000 for 2022, 2023, and 2024, respectively. SDG&E's removal process and expenses include recycling the assets to dispose of parts in an environmentally safe way.[1174]

[1172] SDG&E Ex-15-R-E at FV-24.

[1173] UCAN Reply Brief at 36.

[1174] SDG&E Ex-15-R-E at FV-25.

In its Opening Brief, Cal Advocates recommends $0 for 2022 to 2024.[1175] It argues against authorizing the additional capital expenditure using ratepayer dollars to terminate projects that still have 40-60 percent of their useful life (based upon the depreciation period). In its testimony, Cal Advocates shows that SDG&E's historical data averaged 10 percent, SDG&E's proposed estimates averaged 27 percent, and Cal Advocates' estimates averaged 12 percent of the installation costs.[1176] Cal Advocates recommends alternate amounts in its testimony should the Commission not adopt its $0 capital expenditure recommendation.[1177]

17.2.6.1. Discussion

Given that SDG&E has investigated alternatives but found that they are unfeasible due to fire codes or negative customer impacts, it is reasonable for SDG&E to plan to remove these assets if the on-site customer chooses to do so. However, Cal Advocates' analyses based on historic removal and installation costs of the Sustainable Communities Program in Table 9-20 of Exhibit CA-09-E are reasonable regarding how they arrived at recommended costs. Cal Advocates analyzed the depreciated value and useful life of these assets. Cal Advocates demonstrated how SDG&E's requested amount is above the best-fit line analyses based on historical data. Furthermore, Cal Advocates found that SDG&E's estimated removal cost ranges from 12 to 36 percent while the actual cost ranges from 2 to 18 percent with an average of 10 percent.

Authorizing an amount based on the historical removal and installation cost is reasonable. Therefore, we accept Cal Advocates' alternate recommended

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[1175] Cal Advocates Opening Brief at 113.

[1176] Cal Advocates Opening Brief at 114.

[1177] CA Ex-09-E at 46-47.

adjustments in capital expenses toward removing these assets in this GRC cycle as shown below:

Table 19.11
Data from Table 9-20 of Exhibit CA-09-E with Authorization

	2022	2023	2024	Total
SDG&E Proposal	$969,000	$407,000	$439,000	$1,815,000
Cal Advocates' Proposal	347,141	$221,592	$132,850	$701,583
PD Authorizes	**$347,141**	**$221,592**	**$132,850**	**$701,583**

Since the Sustainable Communities program has ended, we expect further capital additions from this cost category to sunset in this GRC. SDG&E shall not incur capital expenditures after 2024 Test Year unless it shows evidence for removal costs of the existing assets.

17.2.7. Mobile Energy Storage Program

SDG&E is requesting $2.076 million for the Mobile Battery Energy Storage Program to purchase three mobile battery systems each year in 2022, 2023, and 2024, with a total of nine units. The program aims to increase grid resiliency and flexibility during public safety power shut-off events by deploying the battery systems to at-risk electric systems.[1178] According to SDG&E, multiple pre-commercial mobile energy storage system demonstration use cases have been successfully demonstrated within its EPIC-3 projects (EPIC-3, Project 7, Modules 1 and 2).[1179]

[1178] Sempra Opening Brief at 312.

[1179] SDG&E Ex-15-R-E at FV-26-27.

Cal Advocates recommends $0 for 2022 to 2024. Cal Advocates argues that SDG&E has not met its burden of proof as it has not provided specific justification for this project nor quantifying benefits.

We agree with SDG&E that it can leverage EPIC pre-commercial demonstrations and their successes to deploy the requested mobile energy storage systems in this GRC. This will reduce SDG&E's GHG emission footprint while offering power continuity to customers and supporting construction activities. There is no doubt that replacing a diesel generator with a mobile energy storage system will reduce GHG emissions, criteria air pollutants, and diesel fuel consumption. SDG&E plans to replace 16.12 kW of diesel generation and reduce 41.6 metric tons of CO2 equivalent with these nine units. We agree that reducing criteria air pollutants will also improve local ambient air quality, where ozone and particulate matter currently exceed state standards. Once the mobile units are deployed, SDG&E will see benefits as the units will support resiliency and reliability efforts, especially during PSPS events and other unplanned or planned outages. Therefore, it is reasonable to authorize $2.076 million in capital expenditure for each year from 2022 through 2024.

17.2.8. Hydrogen Projects - 212680 Hydrogen Build-Ready Infrastructure

SDG&E proposes to spend $1.925 million on Hydrogen Build-Ready Infrastructure, with $0 (2022), $0.770 million (2023), and $1.155 million (2024) in capital expenses, which would cover the interconnection-related costs for up to five customer installations of hydrogen electrolyzers on SDG&E's electric grid.[1180] These electrolyzers will have a maximum size of 2 MW and, per SDG&E's program requirements, must be supported by a solar installation with a

[1180] Sempra Opening Brief at 313.

nameplate capacity of at least 30 percent of the electrolyzer's power. SDG&E is requesting a two-way balancing account to track the costs associated with this project.[1181]

SDG&E's Opening Brief states that the estimated cost of the Hydrogen Build-Ready Infrastructure project has increased to $1.925 million, but it is not planning to update the forecast. SDG&E also states that the capital will only be used if customers apply and meet requirements.[1182]

Cal Advocates, CEJA, UCAN and FEA oppose SDG&E's proposed project and associated cost estimates. EDF recommends that the Commission deny all hydrogen-related proposals without prejudice and undertake an additional phase of this proceeding to ensure that the capital and O&M costs, including overhead, rates of return, and other hydrogen-associated costs, have been excluded from any authorized revenue requirement.

According to Cal Advocates, SDG&E's project will cross-subsidize the five customers at the expense of other ratepayers. Cal Advocates opposes the project on the grounds that it is regressive, harmful to low-income Californians, unnecessary, and could hinder efforts to reduce greenhouse gas emissions by raising electricity rates.[1183] Cal Advocates also highlights that, in a data request response, SDG&E's underlying cost estimates totaled $2.024 million instead of $1.925 million as requested by SDG&E.[1184]

CEJA contends that increasing the load on the electric grid to power hydrogen production when it is not producing hydrogen from a renewable

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1181 SDG&E Ex-15-R-E at FV-28.

1182 SDG&E Ex-15-R-E at FV-28.

1183 Cal Advocates Opening Brief at 112.

1184 Cal Advocates Opening Brief at 111.

resource has significant pollution impacts. CEJA also objects to cross-subsidization using ratepayer funding and argues that it negatively impacts ESJ communities.[1185]

In response to Cal Advocates and CEJA, SDG&E contends that this project will help reduce pollutants by displacing fossil fuels in the transportation sector. Regarding cost subsidization, SDG&E contends that the project has environmental benefits for all customers by incentivizing and subsidizing interconnection costs. It argues that the program is aligned with the ESJ Action Plan goals by incentivizing and supporting the early adoption of hydrogen transportation.[1186]

UCAN opposes the project, arguing that SDG&E has no experience in this uneconomic and largely speculative hydrogen market.[1187] SDG&E responded that it would not own the electrolyzers but would build and own the infrastructure required to connect to the grid.[1188]

FEA recommends a memorandum account instead of a two-way balancing account,[1189] to which SDG&E responded that it had revised its request for a one-way balancing account to align with Cal Advocates' recommendation.[1190]

17.2.8.1.1. Discussion

We appreciate that SDG&E intends to support the early adoption of hydrogen technology. However, due to the high cost and uncertainty of who will

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[1185] CEJA Opening Brief at 56.

[1186] SDG&E Ex-215 at FV-67, FV-70.

[1187] UCAN Ex-2 at 289.

[1188] SDG&E Ex-215 at FV-73.

[1189] FEA Ex-01 (Smith) at 50.

[1190] SDG&E Ex-215 at FV-74.

benefit from the hydrogen production through electrolysis, we cannot see any direct benefit for ratepayers. We agree with Cal Advocates, CEJA, UCAN and EDF that the Hydrogen Build-Ready Infrastructure project proposed by SDG&E should not be funded through ratepayer funds in this GRC cycle. Per Pub. Util. Code Section 451, these project costs are not just and reasonable. Moreover, this proposal raises concerns for the Commission, as SDG&E already has some of the highest rates in the country. Therefore, the affordability of rates considering these experimental proposals has not been sufficiently considered by SDG&E.

CEJA notes that if the subsidy is not authorized in this program, customers interested in electrolyzers will have to bear the cost of interconnecting to SDG&E's grid energy to power electrolysis.[1191] Additionally, SDG&E must undertake resource planning that would not negatively impact the grid and cause net environmental pollution if these 2 MW or larger capacity electrolyzers are added to the grid. Authorizing capital expenses in this GRC without additional resource planning is not justified. While efforts are underway to assess the potential of hydrogen in California, it is prudent to wait for demonstrations and guidance on resource planning and explore the financial and resource requirements associated with hydrogen adoption scenarios. Therefore, the Commission should decline to authorize $770,000 (2023) and $1.155 million (2024) capital expense requests to subsidize interconnection costs for Hydrogen Build-Ready Infrastructure for hydrogen electrolyzers.

[1191] CEJA Ex-01 at 56.

17.2.8.2. 212720 Hydrogen Energy Storage System Expansion

SDG&E requests capital costs for the Hydrogen Energy Storage System Expansion project of $0 in 2022, $5.171 million in 2023, and $81,000 in 2024.[1192] SDG&E plans to expand the hydrogen portion of the AES system at the Borrego Springs Microgrid, which includes onsite hydrogen fuel cell capacity from 250 kW to 1000 kW and doubling onsite hydrogen storage to support the increased fuel cell capacity.[1193] SDG&E argues that this expansion is critical to support the islanding operation of the microgrid and help better meet the community's high-solar penetration load after the sun has set.[1194] SDG&E plans to purchase an atmospheric water generation system[1195] to learn about alternative water supplies supporting clean electrolytic hydrogen production for the electrolyzer process.[1196]

Cal Advocates recommends $0 for 2023 and 2024. Cal Advocates states that Borrego Springs Microgrid's net load of 14 MW exceeds dispatchable generation (with the additional hydrogen fuel cell project) of 12.8 MW. Cal Advocates argues that expanding the hydrogen fuel cell system is unnecessary because it does not increase the duration of operation towards the 12-hour upper limit of observed outages. Cal Advocates further argues that SDG&E did not evaluate cost-effectiveness to compare it with a cheaper and better cost-benefit ratio. Cal

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[1192] Sempra Opening Brief at 315.

[1193] Sempra Opening Brief at 351.

[1194] Sempra Opening Brief at 351.

[1195] An atmospheric water generator converts ambient water vapor in the air into liquid using solar energy.

[1196] Sempra Opening Brief at 351.

Advocates opposes ratepayer spending on water generation as inequitable and regressive.[1197]

SDG&E states that the expanded hydrogen storage has eight hours of storage capacity, which meets SDG&E's footprint requirements and can operate alongside other DER assets. SDG&E adds that, if it becomes a participating generator per the CAISO Tariff, it may be able to dispatch the stored energy to the grid during daily operations.[1198]

17.2.8.3. Discussion

We understand Cal Advocates' concerns, but we also see some advantages of having an expanded storage option that could replace diesel fuel as a backup generator. However, we agree with Cal Advocates that SDG&E has not met its burden in showing why hydrogen is the most cost-effective and reasonable storage option for its ratepayers. SDG&E's request for capital expenses for hydrogen-related projects under its Clean Energy Innovations cost category lacks transparency and does not meet just and reasonable standards. This decision declines SDG&E's request for $5.252 million in capital expenses for the Hydrogen Energy Storage System Expansion project.

SDG&E has not provided evidence that hydrogen is a cost-effective and viable energy storage solution for the Borrego Springs Microgrid compared to other options.

Our review shows that SDG&E is requesting capital infrastructure expenses in a fragmented and complex manner. It is unclear whether this complexity is intentional or results from inadequate testimony and briefs. This approach makes

[1197] Cal Advocates Opening Brief at 116.

[1198] SDG&E Ex-215 at FV-75.

it challenging for intervenors and the Commission to evaluate the reasonableness of these expenses. For instance, under 20278 AES, SDG&E requested capital expenses for a 0.25 MW/4 MWh Hydrogen Energy Storage System to leverage excess PV at the Borrego Springs Microgrid. This is followed by requests under 212720 Hydrogen Energy Storage System Expansion, where SDG&E plans to expand an existing 0.25 MW Hydrogen Energy Storage System Expansion also at Borrego Springs Microgrid. It is unclear whether project 212720 is an expanded version of 20278. SDG&E also seeks capital costs for AES 2.0, which is explained as Phase 2 of AES. SDG&E does not explain whether the hydrogen energy storage under AES 2.0 relates to its hydrogen energy storage system request under 20278 AES and 212720 Hydrogen Energy Storage System Expansion. Furthermore, SDG&E does not break down cost estimates for its capital expenses under any of these project categories. The Commission does not have any information about the cost breakdown of the electrolyzer, hydrogen fuel cell unit, and atmospheric water generation system. It is also unclear who will own these electrolyzers. As noted by UCAN, SDG&E has no track record in developing or operating a hydrogen electrolyzer.

It is worth noting that these projects could be eligible for federal grants, tax credits, and other public funding, which could significantly reduce ratepayers' costs. As a result, we decline to approve any cost request for expanding the 212720 Hydrogen Energy Storage System Expansion project to 1 MW in this GRC. SDG&E may file a separate application demonstrating the cost-effectiveness of the hydrogen energy storage system compared to other storage technologies and with a detailed cost breakdown of the various project components.

18. Electric Generation (SDG&E only)

SDG&E requests 2024 Test Year forecasts for O&M costs for Non-Shared services and capital costs for the forecast years 2022, 2023, and 2024 associated with the Electric Generation area. The O&M costs include the following categories: (1) Generation Plant, (2) Distributed Energy Facilities (DEF), and (3) Plant Administration.[1199]

18.1. Non-Shared Service O&M Costs

For purposes of this GRC, SDG&E treats costs for services received from the Corporate Center as Non-Shared Service costs. SDG&E requests $40.809 million for Non-Shared O&M expenses, including $40.506 million for Generation Plant and $303,000 for Plant Administration. The following tables summarize Non-Shared Service O&M costs.

Table 18.1
Non-Shared O&M Summary of Costs[1200]

ELECTRIC GENERATION (In 2021 $)			
Generation Plant	**2021 Adjusted-Recorded (000s)**	**2024 Test Year Estimated (000s)**	**Change (000s)**
1. Generation Plant Palomar	19,016	20,746	1,730
2. Generation Plant Desert Star	13,769	15,112	1,343
3. Generation Plant Miramar	1,980	1,963	-17
4. Generation Plant Cuyamaca	1,114	906	-208
5. Distributed Energy Facilities	429	1,779	1,350
Total	**36,308**	**40,506**	**4,198**
Administration	**2021 Adjusted-Recorded (000s)**	**2024 Test Year Estimated (000s)**	**Change (000s)**
1. Generation Plant Administration	268	303	35
Total	**268**	**303**	**35**

[1199] SDG&E Ex-14 at DSB-1.

[1200] SDG&E Ex-14 at DSB-9.

18.1.1. Generation Plant

SDG&E is requesting $40.506 million in 2024 Test Year Non-Shared O&M costs for Generation Plant, an 11.56 percent increase over $36.308 million in 2021 Base Year costs. SDG&E based its forecast on a five-year average.[1201] O&M cost forecasts include labor costs, including salaries for supervision, support staff, and maintenance and operations personnel. Non-labor costs include industrial gases, chemicals, water, outside services, spare parts, miscellaneous consumables, maintenance activities, and planned outages scheduled through the CAISO.

SDG&E owns and operates two combined-cycle generating facilities: [1202]

- Palomar Energy Center in Escondido, CA (588 MW). In addition to regular O&M at the generation plant, SDG&E is also requesting O&M costs to support a hydrogen fueling pump for hydrogen-powered vehicles, which would provide additional transportation for the DEF.[1203]
- Desert Star Energy Center in Boulder City, NV (480 MW).[1204]

SDG&E also owns and operates two peaking plants:[1205]

- Miramar Energy Facility in San Diego, CA (92 MW).
- Cuyamaca Peak in El Cajon, CA (45 MW).

1201 SDG&E Ex-14 at DSB-10-12.

1202 SDG&E Ex-14 at DSB-2-3.

1203 SDG&E Ex-14 at DSB-10.

1204 SDG&E Ex-14 at DSB-2: SDG&E is considering extending the current lease agreement beyond 2027 and exploring options to convert the plant to a clean dispatchable resource. If these initiatives proceed, SDG&E will make additional regulatory filings.

1205 SDG&E Ex-14 at DSB- 2-3.

18.1.2. Distributed Energy Facilities Current and Scheduled

SDG&E's generation-related DEF O&M costs include labor and non-labor costs, which are forecasted using a base-year recorded forecasting methodology.[1206] SDG&E adjusted the base-year forecast for labor costs to account for additional FTEs to support its new-generation projects.[1207] For the non-labor forecast, SDG&E accounted for additional DEF assets.[1208]

SDG&E's online DEF consist of the following projects:[1209] [1210]

Table 18.2
SDG&E's Online DEF Projects

Resource	Capacity (MW)	Type
Escondido Battery Energy Storage System (Escondido BESS)	30	4-hour BESS Li-ion
El Cajon BESS	7.5	4-hour BESS Li-ion
Kearny BESS	20	4-hour BESS Li-ion
Miguel Vanadium Redox Flow BESS	2	4-hour BESS Li-ion
Ramona Solar Energy Project	4.32	PV solar
Miramar Top Gun BESS	30	4-hour BESS Li-ion
Ramona Air Attack Base Microgrid	0.5	Lithium-ion technology rated at 2 MWh with a maximum output of 500 kW.
Fallbrook BESS	40	Lithium-ion technology rated at 160 MWh with a maximum output of 40 MW for up to 4 hours.

1206 SDG&E Ex-14-WP at 28.

1207 SDG&E Ex-14-WP at 28.

1208 SDG&E Ex-14-WP at 28.

1209 SDG&E Ex-14 at DSB-iv.

1210 Sempra Opening Brief at 321.

Resource	Capacity (MW)	Type
Westside Canal	131	Lithium-ion technology is rated at 524 MWh and can produce a maximum output of 131 MW for up to 4 hours.

In addition to the online DEF assets, SDG&E proposed adding new DEF to the electric generation fleet in 2022 and 2023. The cost forecasts include costs for additional employees to support the expansion of the DEF. The DEF planned for construction in 2022 and 2023 include:[1211]

Table 18.3
DEF Planned for Construction

Resource	Description
Borrego Springs Microgrid (AES includes a BESS and HESS)[1212]	Will be constructed by the Advanced Clean Technology department. Includes a lithium-ion BESS rated at 13.6 MWh with a maximum output of 6.7 MW for 2 hours and a 12 MW hydrogen electrolyzer to produce fuel for over 8 hours of output via a 250 kW fuel cell to supply a local 12 kV distribution circuit serving the desert community of Borrego Springs.
Butterfield Ranch Microgrid	Will be constructed to support the Wildfire Mitigation Plan (WMP). Includes a lithium-ion BESS rated at 2.5 MWh with a maximum output of 600 kW and 650 kW (alternating current) solar power plant.
Cameron Corners Microgrid	Was constructed to support WMP. Iron Flow BESS is rated at 2.4 MWh with a maximum output of 540 kW and an 875 kW (alternating current) solar power plant.
Melrose BESS	Will be constructed to support the Emergency Reliability proceeding R.20-11-003. Will consist of two lithium-ion batteries, each rated at 40 MWh and with a maximum output of 10 MW.

1211 Sempra Opening Brief at 332-334.

1212 Sempra Opening Brief at 321. Sempra accounts for the BESS project separate from the HESS project.

Resource	Description
Pala-Gomez Creek BESS	Will be constructed pursuant to R.20-11-003; lithium-ion technology is rated at 60 MWh with a maximum output of 10 MW for up to 6 hours.
Shelter Valley Microgrid	Will be constructed to support the WMP; lithium-ion BESS rated at 3.25 MWh with a maximum output of 700 kW and 800 kW (alternating current) solar power plant.
Boulevard BESS and Microgrid	Will be constructed to support and enhance reliability starting in the summer of 2022 and 2023 pursuant to the Microgrid rulemaking R.19-09-009. Lithium-iron phosphate technology is rated at 50.5 MWh with a maximum output of 10 MW for up to four hours.
Clairemont BESS and Microgrid	Will be constructed to support and enhance reliability starting in the summer of 2022 and/or 2023 pursuant to the Microgrid rulemaking R.19-09-009. Lithium-iron phosphate technology is rated at 29 MWh with a maximum output of 9 MW for up to four hours.
Elliott BESS and Microgrid	Will be constructed to support and enhance reliability starting in the summer of 2022 and/or 2023 pursuant to the Microgrid rulemaking R.19-09-009. Lithium-iron phosphate technology is rated at 50.5 MWh with a maximum output of 10 MW for up to four hours.
Paradise BESS and Microgrid	Will be constructed to support and enhance reliability starting in the summer of 2022 and/or 2023 pursuant to the Microgrid rulemaking R.19-09-009. Lithium-iron phosphate technology is rated at 50.5 MWh with a maximum output of 10 MW for up to four hours.

18.1.3. Administration

Forecasting for labor and non-labor costs is based on a five-year average. Labor costs include administrative salaries, and non-labor costs include travel, supplies, consulting, and other miscellaneous administrative activities.

18.2. Capital Costs

SDG&E states it will use a general capital project budget rather than propose specific Generation Plant projects. SDG&E contends that projecting capital projects years in advance is difficult for various reasons, such as changes in costs and technology from planning to implementation. It further states that resources are reallocated to accommodate the new priorities as power plant needs may change, resulting in different or unexpected priorities.

Table 18.4
Capital Expenditures Summary of Costs

ELECTRIC GENERATION (In 2021 $ in Thousands)					
Generation Capital	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**	**Total Capital Costs (2022-2024)**
1. Capital Tools & Test Equipment	50	86	86	86	258
2. Palomar Energy Center	8,862	19,251	18,751	8,501	46,503
3. Desert Star Energy Center	9,879	6,864	6,864	6,864	20,592
4. Miramar Energy Facility	1,008	2,201	11,300	27,853	41,354
5. Cuyamaca Peak Energy Plant	281	495	495	495	1,485
6. Ramona Solar Plant	0	55	55	55	165
7. Palomar Hydrogen Systems	1,224	8,423	7,855	0	16,278
Total Capital	**21,304**	**37,375**	**45,406**	**43,854**	**126,635**

In addition to seeking a general budget for capital projects, SDG&E proposes a pilot project, Palomar Hydrogen Systems, to demonstrate multiple use cases of electrolytically produced hydrogen.[1213] As part of the Palomar Hydrogen Systems project, solar panels will be installed to generate carbon-free electricity to help produce clean hydrogen on-site through electrolysis.[1214]

SDG&E also seeks the Hybrid at Miramar Energy Facility costs. The project involves integrating a 10 MW/10 MWh Battery Energy Storage System at the two existing gas turbines.[1215]

Regarding costs related to Miguel Vanadium Redox Flow (Miguel VRF) BESS, SDG&E agrees with the Joint CCAs that CAISO net revenues pursuant to the Miguel VRF BESS, or any forthcoming distribution-related batteries, should offset any capital distribution-related expense, whether the capital-related costs are authorized in the GRC proceeding or elsewhere.[1216]

Additionally, SDG&E requests that the Commission authorize the Joint CCAs' recommendation to book CAISO-related costs and revenues related to all distribution-related batteries, present or future, to SDG&E's Electric Distribution Fixed Cost (EDFC) Balancing Account to properly offset any distribution-related capital costs by allowing SDG&E to amend its ERRA Balancing Account and EDFC Balancing Account preliminary statement.[1217]

[1213] Sempra Opening Brief at 316.

[1214] Sempra Opening Brief at 317.

[1215] Sempra Opening Brief at 321.

[1216] Sempra Opening Brief at 325.

[1217] Sempra Opening Brief at 325.

18.3. Summary of Comments

18.3.1. TURN's Forecast Methodology

TURN contends that SDG&E's capital and O&M costs for 2022 are significantly less than forecasted. It recommends that SDG&E's unadjusted baseline forecast for capital and O&M costs reflect six years of data.[1218]

According to TURN, SDG&E over-forecasts both capital and O&M costs, as shown below:

Table 18.5
Actual Capital Costs for Generation Plant from 2017-2022 ($000)[1219]

	2017	2018	2019	2020	2021	2022
Palomar	6,358	4,127	6,861	6,294	8,862	4,604
Desert Star	4,759	1,267	4,117	4,293	9,879	3,769
Miramar	918	1,174	1,117	6,779	1,009	161
Cuyamaca	837	219	41	1,097	281	1,208
Ramona Solar	23	115	7	131	-	-
Palomar Hydrogen System	-	-	(141)	-	1,224	6,022
Total	**12,895**	**6,902**	**12,002**	**18,594**	**21,255**	**15,764**

Table 18.6
Comparison of 2022 Forecast and Actual Capital Costs ($000)[1220]

	Actual	Forecast	Actual - Forecast	% Forecast Error
Cuyamaca	1,208	495	713	144%
Desert Star	3,769	6,864	(3,095)	-45%
Miramar	161	2,201	(2,040)	-93%
Palomar Hydrogen System	6,022	8,423	(2,401)	-29%
Palomar	4,604	19,251	(14,647)	-76%
Total	**15,763**	**37,234**	**(21,471)**	**-58%**

1218 TURN Ex-06-R at 11.

1219 TURN Ex-06-R at 13.

1220 TURN Ex-06-R at 13.

Table 18.7
Actual O&M Costs for Generation Plant from 2017–2022 ($000)[1221]

	2017	2018	2019	2020	2021	2022
Palomar	19,741	19,089	21,337	16,268	19,016	20,454
Desert Star	15,114	14,889	14,807	14,481	13,769	12,257
Miramar	1,955	2,118	1,430	2,335	1,980	2,216
Cuyamaca	797	705	787	1,127	1,114	1,714
Distributed Energy Facilities	98	228	142	173	429	550
Total	**37,705**	**37,029**	**38,503**	**34,384**	**36,308**	**37,191**

Table 18.8
Comparison of 2022 Forecast and Actual O&M ($000)[1222]

	Actual O&M	Forecast O&M	Actual - Forecast	% Forecast Error
Palomar	20,454	20,476	(22)	0%
Desert Star	12,257	15,112	(2,855)	-19%
Miramar	2,216	1,963	253	13%
Cuyamaca	1,714	906	808	89%
Distributed Energy Facilities	550	1,779	(1,229)	-69%
Total[1223]	**37,191**	**40,236**	**(3,045)**	**-8%**

18.3.2. Joint CCAs' Functionalization and Vintaging of Battery Assets

The Joint CCAs present three issues for resolution in this GRC:

a. Functionalization of cost and benefit associated with distribution-related battery energy storage. The Joint CCAs recommend that revenues generated from battery energy storage should be assigned to the distribution function,[1224] which means that bundled and unbundled customers

[1221] TURN Ex-06-R at 15.

[1222] TURN Ex-06-R at 15.

[1223] Does not include Generation – Plant – Admin costs.

[1224] In a cost-of-service study, "Functionalization" is the identification of each cost as one of the basic utility service "functions" (e.g., generation, transmission, distribution, and customer).

would bear the costs and benefit from the revenue generated by the asset.

b. The Joint CCAs argue that plans to upgrade Miramar Energy Facility with 20 MW of battery energy storage should be considered for establishing vintaged rates in future ERRA proceedings. The Joint CCAs recommend assigning a 2024 vintage to the Miramar 20 MW battery energy storage portion of the overall revenue requirement to avoid increasing Power Charge Indifference Adjustment (PCIA) rates for unbundled customers.

c. Utility-owned generation vintaging framework for future GRC: the Joint CCAs recommend that SDG&E separate and categorize any costs that should shift from historical vintage to recent vintage in its future GRC proceedings.

18.3.3. Intervenors' Positions on Specific O&M and Capital Expenditures

The tables below summarize the intervenors' recommended O&M and capital cost forecasts compared to SDG&E.[1225]

Table 19.9
Summary of Differences in O&M

Total O&M - Constant 2021 ($000)			
	2021 Base Year	2024 Test Year	Change
SDG&E	36,576	40,809	4,233
CAL ADVOCATES	36,576	38,929	2,353
TURN	34,560	37,335	2,775
CEJA	36,576	40,809	4,233
Joint CCAs	36,576	40,809	4,233

[1225] Sempra Opening Brief at 335.

Table 19.10
Summary of Differences in Capital

Total Capital - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	37,375	45,406	43,854	**126,635**	
CAL ADVOCATES	16,811	24,759	37,540	**79,110**	(47,525)
TURN	18,219	17,709	13,448	**49,376**	(77,259)
CEJA	37,375	40,606	43,854	**121,835**	(4,800)

18.3.4. TURN

TURN recommends a baseline capital expenditures forecast of $9.481 million instead of SDG&E's $14.127 million, a 30 percent reduction relative to SDG&E's proposed baseline.[1226] This adjustment is driven by including a six-year project cost in the forecast instead of a five-year historical cost and reducing non-labor costs by removing anomalous one-time project expenditures that TURN argues will not occur in 2022-2024.[1227]

TURN recommends a 5.5 percent reduction in baseline O&M costs from $36.572 million to $34.555 million. It recommends removing several broad cost categories from SDG&E's O&M baseline, which it argues appears infrequently or is high in some years relative to other years.[1228]

TURN argues that SDG&E's forecast of cybersecurity expenses for Palomar and Desert Star should be reduced as they are above the forecasted costs for 2022-2024 (i.e., $1 million in O&M and $4 million in capital costs) by the amount of

[1226] We understand TURN's use of the baseline terminology as a reference to the base year.

[1227] TURN Ex-06-R at 34.

[1228] TURN Ex-06-R at 26.

capital and O&M costs included in SDG&E's baseline (i.e., $293,000 for O&M and $537,000 for capital expenditures).[1229]

TURN recommends that the Commission reject the Flame Sheet Combustor in SDG&E's capital cost request in this proceeding. According to TURN, SDG&E provided no evidence that this project would reduce costs to ratepayers and no evidence that it would reduce NOx relative to the current technology in place at Palomar.[1230] TURN argues that there is no basis for assuming that any hydrogen will be used at the Palomar plant.

Regarding the Hybrid at Miramar Energy Facility, TURN opposes SDG&E's request and states that SDG&E is adding new generation outside the Commission's IRP process with no ratepayer benefits. TURN recommends that SDG&E file a stand-alone application if it chooses to pursue the project. TURN argues that cost estimates are based on a "term sheet" provided by a contractor, not an actual contract. TURN further argues that the Hybrid at Miramar Energy Facility should be treated like any other capital project and enter rate base only after it is used and useful.

For O&M costs, TURN states that SDG&E is proposing to recover O&M costs for its DEFs in this proceeding even though the costs of many of those facilities are reviewed in the ERRA as CAM resources. It argues that SDG&E has not provided cost-effectiveness for its DEF projects and only proposed associated capital costs for fewer projects.[1231] TURN contends that SDG&E's request is spread across two exhibits, making the proposal challenging to understand.[1232]

[1229] TURN Ex-06-R at 37-38.

[1230] TURN Ex-06-R at 42.

[1231] TURN Ex-06-R at 67-68.

[1232] TURN Ex-06-R at 60.

TURN states it is concerned about double-counting O&M costs in the GRC and ERRA proceedings. TURN recommends a reduction of $394,000 in the O&M request. TURN assumes that only 15 DEFs will be online by the end of 2024 instead of SDG&E's assumption of 20 DEFs.

18.3.5. Cal Advocates

Cal Advocates recommends the following:

a. Downward adjustment of $500,000 in non-labor O&M costs associated with Desert Star plant's industrial control systems (ICS) because SDG&E did not develop or implement a new ICS.

b. $856,000 for Distributed Energy Facilities labor O&M costs compared to SDG&E's forecast of $1.126 million, resulting in a $270,000 decrease due to a lack of support for SDG&E's overtime request and the unknown need for any additional overtime associated with the new positions.

c. Non-labor forecast of $530,000, a reduction of $120,000 compared to SDG&E's $650,000. Cal Advocates argues that SDG&E's forecast of $30,000 per asset is based on unknown O&M requirements, including supply chain challenges and rising prices of professional or technical services, and lacks support and documentation.

d. A decreased labor cost forecast for Plant Administration using a three-year average (2019-2021) to avoid fluctuating costs in prior years. Cal Advocates recommends $262,000 compared to SDG&E's forecast of $303,000, a difference of $41,000 for Plant Administration. Cal Advocates does not recommend a change in non-labor costs.

e. Downward adjustment for Palomar Non-Shared O&M, resulting in $19.796 million, including $5.373 million for Palomar labor and $14.423 million for Palomar non-labor. Cal Advocates does not oppose SDG&E's request for six FTE positions but opposes SDG&E's overtime estimates. Cal Advocates argues that SDG&E's estimates lack supporting studies and there is an unknown need for any additional overtime associated with the new positions. Cal Advocates also recommends reducing non-labor costs by $500,000 for ICS because SDG&E is not developing or implementing a new ICS. Cal Advocates recommends removing $270,000 for long-term service agreements associated with Palomar Hydrogen Systems.

f. Removing all forecasted costs in O&M and 2022, 2023, and 2024 Capital for Desert Star associated with ICS. Cal Advocates recommends $4.864 million for 2022, 2023, and 2024 capital costs for Desert Star.

g. For Miramar Energy Facility capital costs, Cal Advocates recommends using a four-year average (including 2017-2019 and 2021) to remove the anomalies of 2020 costs resulting from unplanned equipment failures. It recommends $1.0478 million for 2022, $9.995 million for 2023, and $25.526 million for 2024.

h. For the Hybrid at Miramar Energy Facility, it recommends $0.001 million for 2022, 2023, and 2024 regarding labor costs compared to SDG&E's request of $0.001 million for 2022, $153,000 for 2023, and $1.175 million for 2024 because no new employees are being hired for this project.

i. Regarding the Palomar Hydrogen System, Cal Advocates opposes the pilot program due to the lack of cost-effective benefits that this pilot would provide to SDG&E ratepayers consistent with the requirement of just and reasonable rates. It argues that SDG&E proposes replacing $40,000 in purchased hydrogen with $16.278 million in capital costs that provide minimal benefit to ratepayers.

j. For Palomar Energy Center capital costs, Cal Advocates recommends removing costs associated with the ICS, Flamesheet Combustor, and Infinite Cooling for 2022. This results in forecast capital expenditures of $10.251 million for 2022, $9.251 million for 2023, and $6.501 million for 2024.

18.3.6. CEJA

CEJA opposes the Palomar Hydrogen System proposed by SDG&E. CEJA argues that SDG&E can fuel hydrogen vehicles at the public station but has not shown that it needs to build its fueling infrastructure at Palomar. CEJA contends that building a hydrogen supply at $16 million cost for cooling Palomar electric generators is unreasonable when it can purchase hydrogen at $40,000 annually. CEJA argues that SDG&E will use fossil-fueled generators or grid electricity to power electrolyzers, producing more carbon-intensive hydrogen than the methane in fossil fuels that California's gas-fired generators currently use.

18.3.7. SDG&E Reply

SDG&E disagrees with TURN on using six-year data for forecasts and removing anomalies. It argues that the five-year average method accounts for fluctuations and provides a reasonable foundation for the 2022 through 2024 forecast. SDG&E disagrees with Cal Advocates and TURN on their recommendation to lower O&M and capital costs. It argues historical spending patterns show that power generation facilities are vulnerable to fluctuations in O&M expenses. SDG&E recommends adopting labor costs to support administrative and support functions for its distribution facilities.

SDG&E proposes that the Commission authorize new and emerging technologies, such as the Palomar Hydrogen System and the Hybrid at Miramar Energy Facility. As for the vintaging of the Hybrid at Miramar Energy Facility, SDG&E disagrees with the Joint CCAs' comments that adding battery energy storage represents a new commitment on behalf of SDG&E's bundled customers. It contends the battery energy storage is integrated into the existing facility and is not a separately metered facility.

Regarding the Joint CCAs' comments, SDG&E agrees to functionalize the distribution-related battery energy storage system's capital costs to the distribution function so that CAISO net revenues offset any capital distribution-related expense, whether the capital-related costs are authorized in the GRC proceeding or elsewhere.

SDG&E objects to the Joint CCAs' proposal to exclude PCIA vintaging of costs beyond the end-of-life for utility-owned generation (UOG) facilities or expansions. SDG&E argues that the proposed vintaging framework is inconsistent with Commission precedent and violates the mandate for statutory cost indifference. It argues that the Commission has not imposed arbitrary or automatic cutoff dates for the cost recovery of UOG resources. SDG&E argues that whether to modify the vintage of a UOG resource owned by an IOU must be considered on a case-by-case basis in utility-specific proceedings.

18.4. Discussion

SDG&E must adopt a more transparent and straightforward approach to presenting evidence. The complexity in Exhibits SDG&E-14-E and SDG&E-15-R-E, whether a deliberate strategy or a result of poor planning, posed significant challenges in the Commission's evaluation of this request. For instance, the lack of presenting historical cost data in its exhibits for the overall O&M costs compared to the Base Year and the absence of explicit project-specific cost information in these testimonies, but rather embedded in the workpapers, have made the evaluation process time-consuming and arduous. In some instances, they were made evident only through our review of data request responses.[1233] Furthermore, the information related to the project is segregated among different exhibits, lacking cost details in the project description. This requires the reviewer to manually gather cost data from various sections and

[1233] O&M costs of $0.085 million for hydrogen fleet became evident only in CEJA Ex-06, Attach. 2, Response to Data Request CEJA-SEU-005, Q.22(b) because SDG&E did not explicitly provide the cost in its exhibits and testimony.

workpapers, leading to a time-consuming and challenging evaluation process. This decision adopts specific reporting requirements for the next GRC cycle so that cost information is readily available for review and evaluation.

18.4.1. Forecasting Methodology – O&M and Capital Costs

In this GRC proceeding, SDG&E's witnesses forecasted the 2024 Test Year for O&M and capital costs for 2022 through 2024. To develop forecasts for Electric Generation capital and O&M costs, SDG&E used historical data available when filing its application (2017 through the 2021 Base Year) to inform its GRC request.[1234] Specifically, for DEF, forecasting for labor and non-labor was done using a 2021 Base Year method.[1235] We agree with SDG&E that, typically, historical averages are used when costs fluctuate over time to smooth the ups and downs of recorded data.[1236] Relying solely on past data is generally acceptable, but it is also reasonable to assess the differences between actual and estimated cost data, especially if the forecasted rates will be in effect over the next few years.

TURN recommends reducing O&M and capital costs by using a baseline that averages recorded costs over six years (2017-2022) rather than the five years proposed by SDG&E (2017-2021) and removing anomalous (non-recurring) projects occurring between 2017 and 2021. SDG&E disagrees with TURN's recommendation for Electric Generation costs but cites 2022 as a reference point to justify other cost increases.[1237]

[1234] Sempra Opening Brief at 12-13.

[1235] SDG&E Ex-14-E at DSB-13.

[1236] Sempra Opening Brief at 12.

[1237] Sempra Opening Brief at 111.

We agree with TURN and find it reasonable to consider the most recent actual data, if available because the purpose of rate setting in this GRC proceeding is to allow SDG&E to cover the expected costs when the rates take effect. If costs are overestimated, there will be a mismatch between the revenues generated and the actual costs. As a result, rates will either over- or under-recover costs. It is justified and reasonable to review the most recent actual cost data when reviewing historical averages for a future Test Year, which will provide valuable information about the trends in future costs and a reasonableness review of overestimated costs on a case-by-case basis.[1238]

The adjusted O&M costs reflected in the final calculation are shown in the Non-Shared O&M Costs – Additional Adjustments Section below.

The adjusted capital expenditure is included in the Generation Capital Costs Section below.

18.4.2. Non-Shared O&M Costs – Additional Adjustments

This Section reviews O&M costs for SDG&E's Generation Plant, DEF, and Plant Administration.

The Generation Plant O&M costs review includes the following facilities: Palomar, Desert Star, Miramar, and Cuyamaca. SDG&E calculated its O&M costs using the five-year average of historic expenditures (2017-2021), excluded one-time expenditures, and added incremental expenditures not included in the historical baseline.

[1238] The recent observation from the California State Auditor that "ratemaking based on forecasts may expose ratepayers to overspending and overestimated costs because the utilities control and produce the information used in the forecasting process" reminds us to review the actual spending versus forecasted amounts.

TURN's analysis shows that SDG&E's actual 2022 O&M expenditures were $37.191 million while the forecasted expenditures are $40.236 million; SDG&E overestimated by $3.045 million (8 percent of the forecast value). A seemingly modest 8 percent overestimation in the Base Year can have a material impact on the Test Year forecast and the revenue requirement calculations and affect the affordability of rates.

In addition to adjusting the forecast for historical spending as adopted in the preceding Section of this decision, we find TURN's analysis to remove one-time expenses from the baseline reasonable. TURN identified a series of O&M categories under Generation Plant with anomalous expenditure patterns that should be removed from the historical baseline.[1239] SDG&E argues that TURN has cherry picked specific material and service costs across all generating facilities and deemed anomalous any costs with fluctuations.[1240] We disagree with SDG&E because using the 5-year average method without accounting for one-time expenses and anomalous cost fluctuations will result in an overestimated and unrepresentative cost forecast, which is not a reasonable foundation for the forecast. Instead, TURN shows that categories used to ascertain whether individual expenses appeared anomalous were typically a single expense for a particular year.[1241] Therefore, for Generation Plant-related O&M costs, it is reasonable to use a baseline that averages recorded costs over six years (2017-2022) rather than the five years proposed by SDG&E (2017-2021) and remove anomalous (non-recurring) projects occurring between 2017 and 2021, as recommended by TURN.

1239 TURN Opening Brief at 161.

1240 Sempra Opening Brief at 354.

1241 TURN Opening Brief at 162.

Regarding O&M costs for DEF, SDG&E presented evidence and its arguments through multiple exhibits (SDG&E-14-R and SDG&E-15-R-2E). This complicated the review and tallying of data, requiring expertise to connect them. We appreciate the intervenors' analysis of reviewing the two exhibits in tandem and presenting their recommendations.

TURN recommends an O&M cost for DEF of $1.385 million, a reduction of $0.394 million from $1.779 million, to account for overestimated labor and non-labor costs.[1242] SDG&E assumes all 20 DEFs will operate for the whole 2024 Test Year. However, SDG&E's response to TURN's data request shows that five projects have an estimated in-service date of Q4 2024.[1243] We agree with TURN's recommendation to reduce estimated costs for commercially unavailable projects until Q4 2024. SDG&E may recover these costs in the subsequent GRC.

Regarding non-labor DEF costs, SDG&E forecasts a 30 percent increase in maintenance costs to support 20 assets totaling $650,000. TURN and Cal Advocates argue that SDG&E's forecast is based on undefined activities and general assumptions. We decline SDG&E's 30 percent upward adjustment to historical costs as it lacks specific justification and source materials. We agree with TURN's and Cal Advocates' recommendation and retain non-labor costs of $23,000 for each DEF asset.

Given the reduced facility count that we expect to be operational, it is reasonable to lower the associated labor forecast and FTE positions for DEF

[1242] TURN Opening Brief at 173.

[1243] TURN Ex-08 at 9-10. Per Data Request Number TURN-SEU-100, Response 8, the five projects that were removed include (1) AES BESS Borrego Springs, (2) AES HESS at Borrego Springs, (3) Butterfield Ranch WMP Microgrid, (4) Shelter Valley WMP Microgrid, and (5) Cameron Corners WMP Microgrid. SDG&E asserts that (1) and (2) may be operational in 2024, (3) and (4) will be operational in Q4 2024, and (5) will be operational in Q1 2024. Based on the CAISO list of generators, Cameron Corners WMP microgrid does not exist as of April 30, 2024.

related projects. We agree with TURN's recommendation to lower labor costs by $261,000 to $865,000 from $1.126 million.

For the Plant Administration-related O&M costs, Cal Advocates recommends $0.262 million, compared to SDG&E's forecast of $0.303 million, which is a difference of $0.041 million. Cal Advocates recommends removing 2017 and 2018 from the historical data and basing it on the forecast for 2019-2021, when the amount recorded fluctuated only by $0.002 million. Consistent with TURN's baseline calculations approach, we include the most current data from 2022 in Cal Advocates' recommended baseline calculation. The cost incurred in 2022 was $0.258 million. The Plant Administration expenses between 2019-2022 have been within a similar range. Therefore, it is reasonable to rely on the four-year average of 2019-2022 cost data for forecasting. Accordingly, the decision authorizes the Plant Administration cost of $0.260 million.

It is reasonable to adopt the following O&M costs for Electric Generation:

Table 19.11
O&M Costs for Electric Generation

		$ in Thousands		
Workpaper ID	**Cost Category**	**Labor**	**Non-Labor**	**Total**
1EG003	Palomar	5,620	13,647	19,267
1EG006	Desert Star	2,904	11,121	14,025
1EG002	Miramar	363	1,546	1,909
1EG007	Cuyamaca	248	699	947
	Generation Plant Subtotal	**9,135**	**27,013**	**36,148**
1EG004	Dist. Energy Facilities	865	520	1,385
1EG001	Plant Admin	254	6	260
	Total Electric Generation O&M	**10,254**	**27,539**	**37,793**

Cal Advocates recommended reducing cybersecurity and industrial control system costs. However, since we have already adjusted the forecast to include the 2022 actual cost data to approve the O&M costs, there is no need to further adjust the baseline costs by netting cybersecurity and industrial control system O&M costs against the total budget for the 2022-2024 forecasts.

SDG&E requested O&M cost recovery to support the construction of a hydrogen fueling pump for hydrogen-powered vehicles at Palomar Energy Center.[1244] We have decided to deny SDG&E's request to build a hydrogen fueling station, as stated in the following Section. Therefore, we will not provide additional O&M costs to support those activities. We agree with Cal Advocates and CEJA that SDG&E can fuel its vehicles at public stations using the $15,000 fuel cards provided by Toyota with each Mirai.[1245] These fuel cards would cover the fueling costs of the vehicles for the foreseeable future.

18.4.3. Generation Capital Costs

SDG&E uses a general capital project budget approach, which allows it to allocate/re-allocate funds between projects without providing a project-specific cost breakdown. This flexibility is generally acceptable and part of the Rate Case Plan, but it can be challenging because it makes it harder to verify if the overall budget accurately reflects the specific costs of each project. It also reduces accountability for spending decisions. Given the current need for affordable rates, reviewing and adjusting the forecasts for existing facilities compared to SDG&E's pattern of spending money in the past is reasonable, as TURN recommended.

[1244] SDG&E Ex-14-R-E at DSB-10.

[1245] Cal Advocates Opening Brief at 129; CEJA Opening Brief at 60.

SDG&E proposes that all capital expenditures from 2017-2021 will recur in 2022-2024. However, forecasted capital expenses must represent normal operations, not singular and unusual conditions, such as the major equipment failures resulting in cost fluctuations at the Miramar units, which we expect not to reoccur in this GRC cycle.[1246] If the capital expenses we authorize here are extraordinarily high or low, they could result in windfalls or losses that do not reflect the normal cost of service to customers. SDG&E's recorded 2022 capital expenditures for electric generation were 26 percent below 2021 and 15 percent below 2020.[1247] Actual 2022 expenditures were $15.849 million, 58 percent below forecasted, while the forecasted expenditures were $37.375 million.[1248] Overestimating by 58 percent is unreasonable, misrepresents the need, and could impact the ratemaking calculations in this GRC.

Additionally, we agree with TURN that anomalies such as projects that will not continue beyond 2017-2021 and one-time capital expenses should be removed. From TURN's Opening Brief, it appears that SDG&E agrees that recently completed capital projects identified by TURN are unlikely to recur or will not be performed in the current GRC cycle.[1249]

Therefore, SDG&E's baseline capital expenditure forecast for electric generation should be reduced to $9.48 million, a decrease of 30 percent or $4.65 million from its proposed historical baseline. This is based on a six-year average (2017-2022) and removes anomalous projects between 2017 and 2021.

[1246] Cal Advocates Opening Brief at 125; TURN Ex-06 at 30.

[1247] TURN Ex-06 at 13.

[1248] Sempra Opening Brief at xxi.

[1249] TURN Opening Brief at 158.

Next, we will discuss specific adjustments, such as enhancements and replacements requested by SDG&E at its generation plants.

18.4.4. Miramar Energy Facility

SDG&E has requested cost recovery for adding a 20 MW Battery Energy Storage System to the two existing gas turbines at its Miramar Energy Facility. After installing the battery storage system, the facility will operate as a hybrid gas-battery peaker, referred to as the Hybrid at Miramar.

Our review shows that while the total Miramar Energy Facility cost is available in Exhibit SDG&E-14-C, the upgrade cost for the Hybrid at Miramar is not evident. Sempra Utilities does not state the cost in its Opening Brief or Reply Brief. This is another instance where costs became apparent after we reviewed TURN's recommendations to remove $9.100 million in 2023 and $25.653 million in capital costs for the Hybrid at Miramar project.[1250]

The key questions are whether the Hybrid at Miramar upgrade is necessary for reliable facility operations and whether ratepayer funding should be authorized. For the reasons stated below, SDG&E has not met its burden of proof to demonstrate a strong need and measurable benefits at a reasonable cost to the ratepayers.

The Miramar Energy Facility's total nameplate capacity is 98 MW, but it has been derated to 89 MW. SDG&E assumes that after the investments, it can claim 98 megawatts of RA capacity in the future.[1251] However, SDG&E has not demonstrated a resource adequacy need that requires it to procure additional capacity, in the form of these battery storage units, in this GRC cycle. SDG&E

[1250] Joint Comparison Exhibit Chapter 11A5-b1 at 342.

[1251] Joint CCAs Opening Brief at 21; Transcript (Tr.) Volume 8, 1455: 17-19.

claims its project will reduce emissions and water usage by using batteries to decrease gas turbine operating hours. Opposing TURN's recommendation to file an IRP application to upgrade the facility, SDG&E states that the storage units will not operate under a separate CAISO meter.[1252] SDG&E also claims that it is not increasing capacity at the Miramar Energy Facility nor adding a new stand-alone utility-owned generating project that would contribute to the IRP targets.[1253] These statements are misleading because adding battery storage units will eventually increase capacity, allowing SDG&E to claim it has achieved its nameplate capacity, which comes from a tangible asset.

Furthermore, there is no contract, and the cost estimates are based on a term sheet from a single contractor without competitive bidding for the project.[1254] Based on TURN's data request, SDG&E's single pro forma financial analysis shows significant negative annual net benefits over the project's life. [1255] This implies that the project would not be cost-effective if costs increased or benefits decreased. In addition to cost ambiguity, the construction schedule, the impact of federal tax credit benefits on ratepayers, and the depreciation of the peaker plant are unclear.

While it is reasonable for a utility to seek cost recovery for a project in its GRC application, it must provide sufficient evidence to support its cost recovery requests. We do not find sufficient evidence to support adding a 20 MW battery energy storage system at the Miramar Energy Facility without a clear need and demonstration of measurable benefits. Therefore, we deny SDG&E's request to

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[1252] Sempra Opening Brief at 322.

[1253] SDG&E Ex-215 at FV-93.

[1254] TURN Opening Brief at 167.

[1255] TURN Opening Brief at 167.

recover capital expenses in this GRC cycle for the Hybrid at Miramar Energy Facility. If SDG&E plans to pursue the project, it may file a separate application with the Commission. We encourage SDG&E to include details on competitive solicitation to pursue competitive costs for ratepayers and clearly define the benefits of the asset to the grid and ratepayers.

We adopt TURN's recommendation and remove costs associated with constructing the battery energy storage system - Hybrid at Miramar. The adjustments include removing one-time anomalous projects from future forecast and adjusting baseline forecast to reflect 6 years of historic data. Accordingly, we only authorize $0.844 million in capital expenditure for 2022, $0.843 million in 2023, and $0.843 million in 2024 for the two existing gas turbines at SDG&E's Miramar Energy Facility.[1256]

The Joint CCAs requested that if the Commission approves the Hybrid at Miramar, it should find that the proposed enhancements constitute a significant overhaul of the facility made on behalf of bundled customers and require the upgrades to be assigned a 2024 vintage to determine PCIA rates in a future ERRA proceeding.[1257]

This decision denies the upgrades at the Miramar facility, so we are not considering cost allocation for vintaging purposes here. To the extent that SDG&E seeks to pursue this project in the future with a separate application, it must provide supporting evidence of need and measurable benefits. If the project is pursued as presented in this proceeding, the inclusion of additional energy

[1256] Joint Comparison Exhibit at 342. TURN recommends removing capital costs for the Hybrid at Miramar project of (the $ amounts are in $000) -$9,100 in 2023, -$25,653 in 2024, removing one-time/anomalous historic projects from future forecast (-($1,010+7) = -$1016,) in 2022/2023/2024), and adjusting the baseline forecast to reflect 6 years of historic data (-$340 in 2022/2023/2024).

[1257] Joint CCAs Ex-01 at 8.

production assets, such as a 20 MW Battery Energy Storage System, to the two existing gas turbines at SDG&E's Miramar Energy Facility[1258] would constitute a major upgrade to the existing facilities.[1259] A review and consideration of cost allocation for vintaging purposes would need to be addressed at that time. We, therefore, direct SDG&E to include information that would address such consideration in any application that it may file for further consideration of an upgrade for the Miramar facility. Pursuant to D.18-10-019, any future pursuit of this project should account for and include the information necessary to assess such consideration of different vintage treatments.

We decline Joint CCAs' proposal to add findings and conclusions regarding the potential re-vintaging of the underlying UOG for the Miramar investments.[1260] While the decision denies SDG&E's request for Miramar upgrades, it cannot speculate on the potential impact of future, hypothetical projects. Any such determination would require specific evidence and analysis in future proceedings.

We also deny Joint CCAs' request for SDG&E to provide data on asset life extensions or core function changes for UOG assets. This proceeding's scope does

[1258] SDG&E Ex-215 at 146. Adding batteries to each gas peaker plant will result in the peaker plants each reaching their nameplate capacity of 49 MW or a full combined interconnect capacity of 98 MW and will allow the plant to more optimally participate in the CAISO spinning reserve market. When the Hybrid at Miramar provides a spinning reserve, it can be done without using any fuel, making it a GHG-free resource, different from a gas peaker.

[1259] Tr. Volume 8 at 1476, lines 1-8: According to the witness's explanation of whether the upgrades are a significant overhaul to the facility, the witness downplayed the upgrades as efficiency enhancements. The witness's analogy comparing the Miramar gas unit upgrades to converting a gas car to a hybrid is misleading. While a gas car to a hybrid conversion offers significant efficiency gains in personal vehicles, adapting a gas-powered facility to a hybrid system is likely a much more complex undertaking. It may require substantial modifications across various aspects of the existing infrastructure, exceeding mere efficiency tweaks.

[1260] Joint CCAs Opening Comments Appendix A-3-A-6.

not include future facility vintaging. Any such issues related to the next GRC application or a standalone application for facility upgrade should be addressed at the time of determining the scope of issues in the relevant proceeding.

18.4.5. Palomar Energy Center – Capital Additions

SDG&E used a five-year average of recorded costs and adjusted for enhancements and/or replacements. For the Palomar Energy Center, SDG&E requests $19.251 million in 2022, $18.751 million in 2023, and $8.501 million in 2024 in capital costs.

Cal Advocates recommends the removal of costs associated with the industrial control systems (cybersecurity), Flamesheet Combustor, and Infinite Cooling for 2022, which results in forecast capital costs for the Palomar Energy Center at $10.251 million for 2022, $9.251 million for 2023, and $6.501 million for 2024. TURN recommends $11.758 million for 2022, $11.258 million for 2023, and $7.008 million for 2024 based on removing Flamesheet Combustor and cybersecurity costs, as well as adjusting the baseline using a six-year average capital expense and removing anomalies.

In addition to accepting TURN's recommendation to adjust the baseline usage for six-year data and removing anomalous expenditure, the decision considers the following adjustments:

Flamesheet Combustor

We agree with Cal Advocates and TURN and deny capital costs for installing a Flamesheet Combustor at Palomar Energy Center in this GRC. There is a lack of evidentiary support for the need and benefits of adding a Flamesheet Combustor. SDG&E intends to increase the amount of hydrogen used in the gas system at the Palomar Energy Center, which is expected to result in higher nitrogen oxide emissions. To mitigate the adverse impact on the environment, SDG&E plans to install a Flamesheet Combustor. It is a bit puzzling why SDG&E would first increase the potential for emissions before spending more money to lower those emissions.

Furthermore, SDG&E has not clearly stated the hydrogen fuel source nor demonstrated potential savings from reduced ammonia consumption.[1261]

We see no immediate need to incur costs because an existing selective catalytic reduction system meets the air permit limit of 2.0 ppm NOx out of the stack and can support up to 5 percent hydrogen.[1262] There is no substantial evidence that an additional $12 million should be spent to install a Flamesheet Combustor without a more developed plan for hydrogen mix in the fuel. Furthermore, SDG&E appears to be proceeding hastily without adequately considering the necessary steps.

Therefore, denying a $12 million adjustment ($6 million in 2022 and $6 million in 2023) for Flamesheet Combustor capital expenditures in this GRC cycle is reasonable.

If SDG&E plans to pursue a path towards 60 percent hydrogen in its natural gas fuel mix at Palomar Energy Center, it should provide evidence of upgrades that can be implemented within a defined timeframe at a known total cost. The project cost should be bundled with the hydrogen system costs so the Commission knows the cost of blending hydrogen in the fuel mix.

Industrial Control Systems (Cybersecurity)

Cal Advocates recommends removing $2 million.[1263] TURN recommends removing $0.254 million each year from 2022 through 2024. The intervenors

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[1261] TURN Opening Brief at 174-176; CA Ex-05 at 23-24.

[1262] TURN Opening Brief at 174; CA Ex-05 at 23.

[1263] Cal Advocates recommends removing $2 million each year for Palomar and Desert Star.

recommend the reduction because SDG&E's request for cybersecurity capital expenditures lacks evidence.

SDG&E states it is not asking for funds to develop and implement a new industrial control system at its generation facilities but is requesting maintenance funds to protect against potential cyber-attacks. It further argues that it cannot predict a capital expense because it does not know all the measures required to meet best practices. Requesting budget flexibility for critical needs is not the same as being opaque and ambiguous. Capitalizing software costs is an important budgeting and financial management practice, so it is concerning that SDG&E is requesting money for its capital expense planning process without conveying a clear idea about the required system upgrades to protect its facility from a potential cyber-attack in this GRC cycle.

We accept Cal Advocates' recommendation because SDG&E has not demonstrated the basis for arriving at a $2 million incremental capital expenditure forecast each year from 2022 to 2024. The cost recovery request lacks evidence proving that it is just and reasonable.

Infinite Cooling System

Cal Advocates recommends $0 for the Infinite Cooling system in 2022, 2023, and 2024. It opposes SDG&E's proposal of $1 million for 2022, $1.5 million for 2023, and $0 for 2024.

Cal Advocates has reasonably argued that installing an Infinite Cooling System is unnecessary, and SDG&E has not provided a cost-benefit analysis to justify using ratepayer funding for this project. Additionally, Cal Advocates has pointed out that the manufacturer had installed a unit on a 20 MW Cogeneration plant in 2018, but we do not have information on the lifespan and efficiency of the system on a larger 588 MW Palomar power plant. This argument by Cal Advocates holds further merit.

In its reply, SDG&E states that a cost-benefit analysis is not required for the Commission in GRCs to determine the reasonableness of a particular project.[1264]

We decline SDG&E's request because it has not shown why this project is just and reasonable for ratepayer funding. We also note that SDG&E is proposing multiple projects to cool generators at Palomar. In addition to the Infinite Cooling System, it requests costs for the Palomar Hydrogen System to cool the generators.

Regarding the Infinite Cooling System, while cost-benefit analysis is one yardstick to measure whether the costs are just and reasonable, in this instance, SDG&E lacks strong evidentiary support to show that adding the proprietary Infinite Cooling System at a $2.5 million capital cost is necessary to maintain adequate, efficient, just, and reasonable operations at the Palomar power plant. We appreciate that SDG&E is thinking of a potential water savings of up to 100 million gallons per year, but we decline to authorize this capital expenditure without knowing what efficiency can be achieved at the generation unit and how these costs are just and reasonable for ratepayers. Lacking strong evidentiary support, we decline the capital expenditure.

18.4.6. Palomar Hydrogen System

SDG&E requests $8.423 million for 2022, $7.855 million for 2023, and $0 for 2024 in capital expenditures for its Palomar Hydrogen System.[1265] This will be SDG&E's first pilot to demonstrate multiuse hydrogen scenarios, such as

[1264] Sempra Opening Brief at 359.

[1265] SDG&E Ex-14 at DSB 15.

blending for electric generation, hydrogen for generator cooling, and hydrogen for vehicle fueling.[1266]

Cal Advocates, TURN, CEJA, and EDF recommend denying the capital project. They argue that it is not an authorized pilot program and would not benefit ratepayers, resulting in increased emissions with hydrogen production. Intervenors object to SDG&E's proposal for ratepayer funding for electrolyzers as the Palomar Hydrogen pilot program would use grid electricity to generate hydrogen and offset it by purchasing RECs. They also object to constructing the hydrogen fueling station at the facility, stating that fuel cards provided by the manufacturer and public fueling stations in SDG&E's territory should be used instead of building its infrastructure.

We acknowledge the potential for hydrogen blended with natural gas combustion to support the transition to carbon-free electricity by lowering CO2 emissions from existing natural gas-powered generators over the next 20 years.[1267] It is also evident that the Palomar Hydrogen system is "behind the fence" with onsite hydrogen production before it is blended as the fuel mix, which makes it different from the pilot program approved in D.22-09-057.

However, based on our review of the evidence, we deny the Palomar Hydrogen pilot program. SDG&E may pursue building the hydrogen system at the Palomar Energy Center as a stand-alone application with more robust information, leveraging public funding sources and lowering ratepayer costs.

Our review shows that SDG&E's proposed Palomar Hydrogen pilot program does not have all the facts needed for this scale of a project. Without

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[1266] Sempra Opening Brief at 316-317.

[1267] D.22-09-057.

knowing the actual cost to ratepayers, we cannot accurately judge whether the costs and scale of this pilot are just and reasonable.

According to SDG&E, this "small" pilot's true and extremely significant value is in the impactful learnings SDG&E will achieve on managing hydrogen for multiple use cases at a generating asset.[1268] We disagree with SDG&E and find that such statements oversell the pilot program. This does not appear to be a small-scale pilot deployment. It may seem small in the one-two percent hydrogen production scale compared to the 588 MW power plant, but it is testing a novel technology that will cost $16 million in ratepayer funding. We do not know if the pilot facility has room for expansion due to space limitations and the decommissioning dates of its generation units, where this learning could be applied so that the pilot may be the project itself.[1269]

SDG&E did not discuss how its pilot program would provide unique insights that could not be obtained from the efforts of others. We agree with TURN that SDG&E's pilot may not provide meaningful data for deciding whether onsite hydrogen production is the best approach for fuel blending at its gas plants, as we will have nothing to compare it with. It is unclear whether SDG&E can compare its proposed pilot and other approaches, especially if the pilot is deploying "prepackaged, skid-mounted" electrolyzer units. Furthermore, we are not persuaded by SDG&E's claim that its pilots would be "more effective" than participating in an Electric Power Research Institute (EPRI) initiative, which would cost $500,000/year compared to millions in capital cost proposed by SDG&E.

[1268] SDG&E Ex-15 at FV-83.

[1269] Cal Advocates Opening Brief at 130; TURN Opening Brief at 184.

Generating hydrogen using solar energy and electricity from the grid does not fully account for the environmental impact of emissions when solar energy is unavailable. We agree with TURN that under Pub. Util. Code Section 398.4(k)(3) SDG&E may not make any clean energy or GHG claims for the hydrogen produced at Palomar using grid or fossil energy that only becomes "green" due to the separate purchase of unbundled RECs. SDG&E has not provided any information on federal incentives that the solar and hydrogen installations at the pilot site can leverage.

We are currently facing a unique situation where we must balance affordability in rates, achieve our decarbonization goals, and test technological advancements for regulated monopolies. To navigate this complex situation, we need to come up with creative solutions, such as leveraging public-private investments or federal funding. Currently, SDG&E earns a rate of return on its capital costs paid by the ratepayers. However, a triad partnership, which can include private investments from businesses interested in promoting and testing their technology, may provide a more reasonable and cost-effective approach for ratepayers. SDG&E should reconsider this proposal with a fresh perspective to take advantage of private institutions that want to test their technology and other public funding sources to help reduce costs to ratepayers. A public-private partnership or an additional funding stream may help move these capital-intensive pilot projects forward.

18.4.7. Functionalization of Distribution-Related Battery Revenues

The Joint CCAs have recommended that the Commission direct SDG&E to modify its accounting practice for battery-related revenues. Specifically, the Joint CCAs suggest that all costs and revenues related to the Miguel VRF BESS should be accounted for as a distribution function in the cost of service. SDG&E agrees with the Joint CCAs that the revenues generated by CAISO due to the Miguel VRF BESS or any other distribution-related batteries should offset any distribution-related capital expenses, whether authorized in the GRC proceeding or elsewhere.

To implement this change, SDG&E requests the Commission authorize it to book CAISO-related costs and revenues for all distribution-related batteries, present or future, to SDG&E's Electric Distribution Fixed Cost (EDFCA) Balancing Account. This will allow SDG&E to offset any distribution-related capital costs with the revenues appropriately. Accordingly, SDG&E requests permission to amend its ERRA BA and EDFCA BA preliminary statements.

Pursuant to Pub. Util. Code Section 365.2 and Section 366.3, it is reasonable to book both costs and revenues related to all distribution-related batteries to SDG&E's EDFCA Balancing Account.

Under the current scenario, the O&M costs are functionalized as distribution costs, but the CAISO revenues are assigned to the generation function, which results in the unbundled customers paying for all of the costs of the Miguel VRF BESS but not receiving all of the benefits from the revenues generated. This misalignment should be corrected. We find the recommendations reasonable because when costs and associated revenues from the distribution batteries are functionalized as a distribution cost, it will ensure that both bundled and unbundled customers pay the actual costs of these distribution assets and share equally in the benefits.

Therefore, SDG&E shall modify the ERRA BA and EDFCA BA preliminary statements to appropriately functionalize the distribution costs related to distributed-level battery assets.

18.4.8. Joint CCAs' Vintaging Framework for Use in Future GRC Proceedings

We decline to review a PCIA vintaging framework that impacts future cost allocation mechanisms in this GRC proceeding. We deny SDG&E's request to recover capital expenses in this GRC cycle for the Hybrid at Miramar Energy Facility. We have directed SDG&E to be prepared to address this issue, including providing sufficient information to develop a record and address stakeholder interests if it pursues a separate application for this project.

That said, this is an issue of concern that has been raised in multiple proceedings. Generally, matters that are of statewide relevance across IOU territories should be addressed in a statewide proceeding that applies to all relevant regulated IOUs, where a proper record can be developed and participation of all stakeholder interests can be considered, rather than in a utility-specific GRC proceeding. However, until such a proceeding is opened, SDG&E should carefully reconsider the merits of vintaging if it decides to file a separate application for a project such as the Miramar Energy Facility, where such a reconsideration might be warranted.

18.4.9. Capital Tools, Desert Star, Cuyamaca Peak Energy Plant, and Ramona Solar Plant

We have adjusted the baseline forecast for Capital Tools and Test Equipment to reflect six years of historical data. SDG&E overestimated its 2022 capital expenditure at $0.086 million, while the actual cost was $0.044 million. Therefore, it is reasonable to consider the actual costs from 2017 to 2022 in the forecast. As a result, we will use $0.079 million as the capital expenditure for Capital Tools and Test Equipment.

The adjustments adopted for capital costs of Desert Star, Cuyamaca Peak Energy, and Ramona Solar Plant facilities include TURN's recommended adjustment to the baseline forecast to reflect six years of historical data and remove one-time anomalous historical projects from future forecasts.[1270] Additionally, we accept TURN's plant-specific adjustment for Cuyamaca Peak Energy Plant to reflect an error correction in SDG&E's baseline calculation for South Grid Black Start from SDG&E Response to TURN Data Request 50, Question 8.[1271]

18.4.10. Summary: Electric Generation Capital Costs

The decision authorizes the following capital costs:

Table 18.12
Capital Costs Authorized ($000)

Generation Capital	2022	2023	2024	Total
1. Capital Tools & Test Equipment	79	79	79	237
2. Palomar Energy Center	10,012	9,511	5,260	24,783
3. Desert Star Energy Center	4,758	4,758	4,758	14,274
4. Miramar Energy Facility	844	843	843	2,530
5. Cuyamaca Peak Energy Plant	562	562	562	1,686
6. Ramona Solar Plant	46	46	46	138
7. Palomar Hydrogen Systems	0	0	0	0
Total	16,301	15,799	11,548	43,648

19. SDG&E Electric Distribution

19.1. Electric Distribution Capital Projects

SDG&E's Electric Distribution forecast for expense and capital expenditures is set forth in SDG&E's electric distribution capital testimony and workpapers.

1270 Joint Comparison Exhibit at 344-346.

1271 Joint Comparison Exhibit at 345.

The testimony and workpapers describe SDG&E's portfolio of projects, major cost drivers, and areas of new and expanded focus as SDG&E endeavors to meet California's climate goals, promote sustainability, and modernize the grid to support ongoing electrification.[1272] SDG&E's total forecasted costs for this activity include the categories described in the table below, which include $482.928 million in 2022, $590.426 million in 2023, and $497.537 million in 2024.[1273]

Table 19.1 Summary of Forecasts by Category, Electric Distribution (in 2021 $)

Categories of Management	Estimated 2022 ($000s)	Estimated 2023 ($000s)	Estimated 2024 ($000s)
A. Capacity/Expansion	23,793	21,442	17,977
B. Equip/Tools/Misc	2,542	2,542	2,542
C. Franchise	44,112	70,370	88,512
D. Mandated	31,943	33,761	33,761
E. Materials	28,827	30,255	31,755
F. New Business	69,603	60,381	58,435
G. Overhead Pools	169,428	196,603	152,003
H. Reliability/Improvements	77,681	130,398	68,343
I. Safety & Risk Management	22,310	32,343	33,025
J. DER Integration	0	0	0
K. Transmission/FERC Driven	12,689	12,331	11,185
Total Capital	**482,928**	**590,426**	**497,537**
Non-Collectible	438,049	532,595	425,949
Collectible	44,879	57,831	71,588

19.1.1. Franchise Projects

SDG&E's Franchise projects are required to perform municipal overhead to underground conversion work in accordance with SDG&E's franchise agreements.[1274] For all Franchise projects, SDG&E forecasts $44.112 million,

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[1272] SDG&E Ex-11-R-E; SDG&E Ex-211; SDG&E Ex-11-CWP-R.

[1273] Sempra Opening Brief at 363.

[1274] Sempra Opening Brief at 372.

$70.370 million, and $88.512 million for 2022, 2023, and 2024, respectively.[1275] They include Rule 20A conversion projects, Rule 20B conversion projects, and street and highway relocations.[1276]

19.1.1.1. Franchise Projects – Rule 20B Underground Conversions

This program includes the cost borne by ratepayers to convert existing electric overhead distribution lines to underground distribution lines upon customer request that meet the criteria of Rule 20B.[1277] For this program, SDG&E's forecasts for 2022, 2023, and 2024 are $405 thousand, $3.779 million, and $6.188 million, respectively. SDG&E bases this forecast on a zero-based forecast methodology due to variations in project costs and increases in the cost of labor and materials.[1278] SDG&E also requests authorization for a separate forecast for Rule 20B projects as for New Business projects for 2022, 2023, and 2024 in the amounts of $1.634 million, $1.648 million, and $1.663 million, respectively.[1279]

Cal Advocates recommends a reduction in SDG&E's forecast for Franchise Projects – Rule 20B Underground Conversions of $10.061 million for 2023 and $4.440 million for 2024.[1280] Cal Advocates states that this reduction is based on the use of the most recent data, which Cal Advocates contends allows for the most

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1275 SDG&E Ex-11-R-E at 47.

1276 Sempra Opening Brief at 372-373; SDG&E Ex-11-R-E.

1277 D.21-06-013.

1278 SDG&E Ex-11-R-E at 52-53.

1279 SDG&E Ex-11-R-E at 80-81.

1280 Cal Advocates Opening Brief at 142.

accurate revenue requirement.[1281] However, Cal Advocates' recommendation is for the entire Franchise capital category and not for this specific forecast.[1282]

In reply, SDG&E states that the Commission should not accept Cal Advocates' recommended reductions in the Franchise project forecast for the following three reasons: 1) the need for flexibility given the multiple project schedules;[1283] 2) the revenue proposed follows a consistent forecast methodology that accounts for potential project delays and accelerations; and 3) the Rate Case Plan prohibits SDG&E from updating its data and evidence in the manner Cal Advocates suggests, stating that "no bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed, except as provided [in Update Testimony]."[1284]

To avoid prejudicial project-selective updating without corresponding analysis of resultant impacts elsewhere and an unmanageable cycle of full-case updates, the Commission declines to make Cal Advocates' recommended reductions, finds SDG&E's Franchise projects forecast to be reasonable and consistent with past GRC precedent, and adopts a forecast for Rule 20B Franchise projects (Non-Collectible) for 2022, 2023, and 2024 of $0.405 million, $3.779 million, and $6.188 million, respectively.

19.1.1.2. Remaining Franchise Projects

No party disputed SDG&E's remaining Franchise project forecasts. Based on SDG&E's methodology and cost drivers in its supporting documents, the

[1281] Cal Advocates Opening Brief at 142.

[1282] CA Ex-06 at 12.

[1283] Sempra Opening Brief at 373.

[1284] Sempra Reply Brief at 273.

Commission finds the amounts in the table below to be reasonable and adopts them:

Table 19.2
Franchise – Project Costs ($000s)[1285]

Project	Workpaper Number/ Project Code	Party	2021 Adj Recorded	2022 Adj Forecast	2023 Adj Forecast	2024 Adj Forecast
Electric Dist. Street & Highway Locations	02050	Utility	$5,517	$6,358	$6,358	$6,358
Conversion of Overhead to Underground Rule 20A	002100	Utility	$12,281	$15,536	$15,536	$15,536
The City of San Diego Surcharge Program (20SD)	002130	Utility	$3,761	$19,022	$19,022	$19,022
Conversion from Overhead to Underground Rule 20B	20257	Utility	$4	$2,711	$25,293	$41,408
TL 681 Escondido Trails Customer Relocation	21125	Utility	-	$40	$211	-
Juniper Street Customer Relocation	21139	Utility	-	$40	$171	-
Utility Total Labor Costs			**$206**	**$440**	**$434**	**$430**
Utility Total Non-Labor Costs			**$21,357**	**$43,267**	**$66,157**	**$81,894**
Utility Total			**$21,563**	**$43,707**	**$66,591**	**$82,324**

19.1.2. Overhead Pools

Overhead Pools reflect the costs that originate from central activities, such as costs for engineering capacity studies, reliability analysis, and preliminary design work (among others), that are allocated to different capital projects. Overhead Pools include the following four workgroups: (a) Local Engineering –

1285 SDG&E Ex-11, Ch. V at 188.

Electric Distribution Pool; (b) Local Engineering – Substation Pool; (c) Department Overhead Pool; and (d) Contract Administration (CA) Pool – Electric. These four pools perform various functions performed by planners, designers, engineers, support personnel, managers, supervisors, dispatchers, field employees, clerical employees, and contract administrators.[1286] Many of these costs cannot be attributed to a single capital project and are therefore spread to projects that are ultimately constructed and placed into service, so they are referred to as "pooled costs."[1287]

SDG&E's initial forecast for the total amount of each pool was $169.428 million for 2022, $196.603 million for 2023, and $152.003 million for 2024.[1288] For each of the four overhead pools, SDG&E used a zero-based forecast method, instead of using historical data because the forecast is a function of the associated capital base. To determine the ratio between this capital base and associated overhead pools, SDG&E reviewed seven years of data to determine the ratio between the capital base and the associated pool and used that ratio to estimate the projected pool forecast for each year.[1289]

After discussions with Cal Advocates,[1290] SDG&E agrees to the calculation of its Overhead Pools forecasts using the electric distribution Capital Project Overhead Simulator Model (CPOSM) developed by SDG&E. SDG&E states that the use of this model will allow adjustments to be made to the cost contributions of projects to each pool and this Overhead Pool forecast as a function of the

[1286] SDG&E Ex-11-R-E at 82-83.

[1287] Sempra Opening Brief at 373.

[1288] SDG&E Ex-11-R-E at 82.

[1289] SDG&E Ex-11-R-E at 88-92.

[1290] Cal Advocates Opening Brief at 143-146.

change to the funding of the underlying individual capital projects approved by the Commission in this GRC.[1291]

Cal Advocates has identified 114 capital projects that impact the Overhead Pools forecast that require adjustments based on the CPOSM model. These projects are included in the engineering needs for new services, facilities relocations, overhead-to-underground conversions, capacity, and reliability projects.[1292] The specifics of these 114 projects are included in Cal Advocates' testimony.[1293] Cal Advocates used this information to propose funding reductions in forecasts for Overhead Residential New Business, Overhead Non-Residential New Business, Underground Residential New Business, Underground Non-Residential New Business, New Business Infrastructure, and Customer Requested Upgrades & Services.[1294] Cal Advocates' proposed reductions to the above forecasts to reduce the Overhead Pools forecast are shown in the table below.[1295] Table 19.3 illustrates the adjusted Overhead Pools forecasts in percentage changes by workgroup.[1296]

1291 Sempra Reply Brief at 263; Cal Advocates Opening Brief at 142-146.

1292 SDG&E Ex-11-R-E at 87-83.

1293 CA Ex-06, Appendix C at 2.

1294 -CA Ex-06 at C2.

1295 CA Ex-06 at 2.

1296 CA Ex-06 at 2.

Table 19.3
Impact on Electric Distribution Overhead Pools in Revised Testimony of Cal Advocates ($000)

	2022	2023	2024	Total	Change to the Overhead Pool Forecast
Department Overhead Pool	$18,549	$20,245	$20,842	**$59,636**	-2.24%
Contract Administration (CA) Pool – Electric	$24,142	$47,341	$43,740	**$115,223**	-0.41%
Local Engineering – Substation Pool	$5,100	$5,100	$4,100	**$14,300**	0.00%
Electric Distribution Pool	$118,118	$120,397	$79,778	**$318,293**	-2.66%
Total	$165,908	$193,084	$148,460	**$507,453**	-2.04%

As discussed below, SDG&E and Cal Advocates disagree over the ratemaking mechanism for tracking such costs. For the threshold for the Overhead Pools Balancing Account, SDG&E corrected its Overhead Pools forecast with respect to 13 projects Cal Advocates recommended be removed from the RO model. With the removal of those projects, SDG&E revised its Overhead Pools forecasts downward by a total of $5.806 million ($0.571 million in 2022, $2.625 million in 2023, and $2.611 million in 2024).[1297]

More importantly, D.19-09-051 ordered Sempra Utilities to establish a one-way balancing account to track the spending of authorized funding in the Overhead Pools to ensure that overhead costs for cancelled or postponed projects are not re-assigned to other areas.[1298] A one-way balancing account ensures that the utility refunds unspent budgeted amounts back to ratepayers and is unlike a two-way balancing account, which permits the utility to collect more or less than the authorized revenue requirement based on actual costs.[1299] In addition,

[1297] Sempra Reply Brief at 263.

[1298] D.19-09-051 at 287.

[1299] CPUC Standard Practice U-38-W at A16.

D.19-09-051 authorized Overhead Pools costs based on the amount of capital projects authorized in D.19-09-051.[1300] Sempra's 2023 Risk Spending Accountability Report 2022 and 2023 imputed authorized Overhead Pools amounts for 2022 and 2023 are $124.52 million and $127.904 million, respectively.[1301] Therefore, in consideration of the one-way balancing account treatment for Overhead Pools funding ordered in D.19-09-051, we adopt the amounts of $124.52 million for 2022 and $127.904 million for 2023 in lieu of Sempra's requested amounts. For 2024, we find Sempra's updated request of $149.389 million[1302] to be reasonable. The adoption of this forecast is supported by the maintenance of the Overhead Pools balancing account. To reduce the need for these types of enhanced calculations in future GRCs, we agree with Cal Advocates that SDG&E should develop a more comprehensive and accurate Overhead Pools model, and incorporate that improved model into future versions of the RO models.

19.1.2.1. Overhead Pools Balancing Account

In SDG&E's 2019 GRC, the Commission established a one-way balancing account for Overhead Pools funding to ensure that funds associated with engineering, reliability analysis, preliminary design work, and other work relating to specific capital projects that are cancelled or postponed are not reassigned to other areas.[1303] SDG&E recommends terminating this balancing account, or alternatively, converting it to a two-way balancing account[1304] based

[1300] D.19-09-051 at 287.

[1301] Sempra 2023 Risk Spending Accountability Report at A-237.

[1302] Sempra's Reply Brief at 264.

[1303] D.19-09-051 at 287.

[1304] Sempra Reply Brief at 264-265.

on the following arguments: 1) SDG&E has improved its Overhead Pools cost forecasting and has effectively managed its Overhead Pools expenses; 2) one-way balancing treatment of Overhead Pools constrains the planning and design process as it limits the amount of time engineers and designers can dedicate to developing project improvements and efficiencies prior to the construction phase; and 3) capping Overhead Pools costs with one-way balancing treatment fails to account for the growth in capital projects and does not permit SDG&E the resources that may be necessary to address new risk and reliability areas as they arise.[1305]

Cal Advocates states that the concerns that supported establishing the Overhead Pools Balancing Account (OPBA) remain valid. In support of its continued operation, it gives the example of the 13 recent projects that SDG&E agreed to remove from its previous Overhead Pools forecast. Cal Advocates argues that the necessity of this correction and variability in the use of pool expenses per capital base per year does not support a finding that such costs are being managed effectively.[1306]

SDG&E disputes Cal Advocates' interpretation of the above information in favor of continuing the Overhead Pools Balancing Account. However, the Commission finds that the circumstances of this case continue to support tracking costs in the OPBA as a one-way balancing account, not a two-way balancing account, especially since intervenors did not have an opportunity to comment on the alternative of a two-way account made in Sempra's reply brief.

1305 Sempra Opening Brief at 374-375.

1306 Cal Advocates Opening Brief at 148-149; SDG&E Ex-11-R-E at 86.

19.1.3. Reliability Improvements

SDG&E maintains and improves electrical distribution reliability through the proactive replacement of end-of-life substation distribution circuit breakers, along with the installation of additional Supervisory Control and Data Acquisition (SCADA) devices and other advanced technologies. With modern circuit breakers, additional fault indicating, sectionalizing, and circuit automation devices, the ability to restore customers' service improves and outage times can be reduced, and reliability improved.[1307] For total capital Reliability Improvements, SDG&E forecasts $77.681 million for 2022, $130.398 million for 2023, and $68.343 million for 2024.[1308]

19.1.3.1. North Harbor Underground Cable Replacement Program

SDG&E plans to install approximately 15,000 feet of new trench and 50,000 feet of cable along North Harbor Drive near the San Diego Airport to replace aging infrastructure supporting the San Diego Airport and to improve reliability[1309] according to the latest engineering standards. The new circuit will replace mixed cable types (including paper insulated, lead covered, vintage unjacketed, and jacketed cables), install new SCADA sectionalizing switches, and eliminate lead-poly cable splices. These improvements bolster each circuit's reliability by minimizing the restoration time to critical customers fed by this circuit and improve operational flexibility. The existing conduit also contains

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[1307] Sempra Opening Brief at 376.

[1308] SDG&E Ex-11-R-E at 92.

[1309] SDG&E Ex-11-R-E at 120.

asbestos and many of the existing 28 manholes and handholes do not have sufficient space to safely work in or expand.[1310]

For this project, SDG&E's forecast for 2022, 2023, and 2024 is $0, $23.281 million, and $7.761 million, respectively.[1311] SDG&E states that this forecast is zero-based because there are no applicable historical costs available. Instead, the forecast is based on cost estimates developed from the scope of work, including construction labor rates, material costs, contract pricing/quotes, and other project specific details. The cost is also impacted by challenges related to airport traffic, groundwater, and contaminated soil.[1312]

TURN recommends that the Commission reject the proposed project based on several arguments. First, SDG&E has not demonstrated that this program is needed for safety and reliability, partly based on its low RSE score.[1313] Second, SDG&E has not presented information on the reliability of the existing assets to be replaced. Instead, SDG&E highlights the impact of potential failure. Third, it is not clear that SDG&E has considered all potential alternatives for this project, such as the ability of microgrids to support grid resiliency and to support large critical load temporarily.[1314]

[1310] SDG&E Ex-11-R-E at 120.

[1311] SDG&E Ex-11 at 120.

[1312] SDG&E Ex-11-R-E at 121.

[1313] TURN Opening Brief at 189-191.

[1314] TURN Opening Brief at 191-192.

Cal Advocates recommends a revised forecast for this project of $21.304 million in 2024 and $0 in 2022 and 2023[1315] based on updated project completion dates.[1316]

In reply, SDG&E states that RSE calculations do not consider the economic impact of a prolonged outage for the San Diego Airport as well as the impacts such an outage could have on thousands of stranded travelers and other cascading impacts to all entities and patrons which leverage its services. SDG&E offered further that over the last several years the circuits associated with this project have had multiple extended outages where primary underground cable failure was determined to be the cause, and the restoration was delayed because of the lead cable, conduits which contained asbestos, and collapsed or blocked conduit, in addition to this site being in a high-traffic location.[1317]

The Commission finds the necessity of this project to be compelling without sufficient evidence of a viable alternative in the near future. Furthermore, the delay of the in-service date of the project does not support the recommendation to delay the project's funding. Accordingly, the Commission finds SDG&E's forecast for this program for 2022, 2023, and 2024 of $0, $23.281 million, and $7.761 million, respectively, to be reasonable and adopts it.

19.1.3.2. Distribution Substation Reliability Projects

SDG&E states that this program provides funding for reactive improvements to electrical distribution substation facilities.[1318] General project

1315 CA Ex-06 at 22, Table 06-1.

1316 CA Ex-06 at 21-25.

1317 Sempra Reply Brief at 266; SDG&E Ex-211 at 35.

1318 SDG&E Ex-11-R at 94.

categories include safety related improvements, replacement of failed/obsolete equipment, and capital additions typically under $500,000.[1319] SDG&E asserts that this program is required to maintain the reliability and integrity of distribution substations, with specific work required to meet safety requirements, replace obsolete or failed equipment, and make small capital additions based on requests from engineering, planning, operations, and maintenance groups.[1320]

SDG&E's forecasts for Distribution Substation Reliability Projects for 2022, 2023, and 2024 are $1.376 million, $1.376 million, and $1.376 million, respectively. SDG&E bases these forecasts on a three-year average of historical spending due to varying workload, though SDG&E notes that the need for this program has decreased in recent years.[1321]

UCAN recommends $0 for this program in 2024 because SDG&E did not provide enough information for the projects to be approved and its workpapers are deficient.[1322] In rebuttal, SDG&E alleges that UCAN provided no specific, substantive critique of the supporting evidence for this program[1323] and reiterates that it has met its burden to establish reasonableness for this program which can be unpredictable.[1324]

The Commission finds that SDG&E has met its burden that this forecast is reasonable. Some funding is required to maintain the reliability and integrity of distribution substations and a three-year average of historical spending is a

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[1319] SDG&E Ex-11-R at 94.

[1320] SDG&E Ex-11-R at 94.

[1321] SDG&E Ex-11-R at 94-95.

[1322] UCAN Ex-01-E at 278-279.

[1323] SDG&E Ex-211 at 36.

[1324] SDG&E Ex-211 at 36.

reasonable method of determining the amount. Accordingly, for Distribution Substation Reliability Projects, the Commission finds the amounts of $1.376 million each year for 2022, 2023, and 2024 to be reasonable and adopts them.

19.1.3.3. Planned Cable Replacements

SDG&E states that this program proactively replaces cable that has been identified to have a high failure rate based on electric reliability circuit analysis and cable failure data[1325] to mitigate future outages to major customers caused by cable failures.[1326] The forecasts for the Planned Cable Replacements program for 2022, 2023, and 2024 are $4.260 million, $3.485 million, and $3.431 million, respectively.[1327] For these forecasts, SDG&E states that it used a zero-based methodology because the use of historical total dollars spent is not applicable to this cost.[1328] Instead, SDG&E bases this forecast on cost estimates developed from the scope of work for the project which are based on construction labor rates, material costs, contract pricing/quotes, and other project specific details as applicable.[1329]

The Coalition of California Utility Employees (CUE) recommends a higher forecast of $6.862 million in 2024[1330] to replace more of this cable or at a faster rate. In support of that increase, CUE claims that: 1) unjacketed cable on the system is

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[1325] SDG&E Ex-11-R at 102.

[1326] In prior GRCs, SDG&E has used a single budget code to track both planned and reactive cable replacements. In this GRC, SDG&E is using a separate budget code to track these activity costs. SDG&E Ex-11-R at 102.

[1327] SDG&E Ex-11-R at 102.

[1328] SDG&E Ex-11-R dated August 16, 2022, Chapter V at OR-103.

[1329] SDG&E Ex-11-R dated August 16, 2022, Chapter V at OR-103.

[1330] CUE Testimony dated March 27, 2023, at 24.

past its intended service life;[1331] 2) an increased number of forecasted reactive replacements and unjacketed cable being beyond its service life means that there needs to be a plan to replace this cable type sooner rather than later and proposes doubling the amount replaced from 38 miles per year to 76 miles per year; and 3) SDG&E needs to have a broader long-term infrastructure replacement plan, including a detailed yearly plan to replace both unjacketed and jacketed cable.[1332] In rebuttal, SDG&E disagrees with CUE's proposed approach and describes its long-term plan as replacing cable that poses the greatest risk, replacing unjacketed cable by 2045,[1333] increasing the replacement rate as the age of unjacketed cable increases based on future risk assessments,[1334] while considering resource constraints.[1335] The Commission agrees that SDG&E's forecast based on its approach for this GRC is reasonable, as it balances the reliability risk with existing capacity to perform the work and other priorities. Such a balance must be considered with competing priorities as they evolve in each GRC. Accordingly, the Commission adopts the forecast for the Planned Cable Replacements program for 2022, 2023, and 2024 of $4.260 million, $3.485 million, and $3.431 million, respectively.[1336]

19.1.3.4. Cal Advocates Recommendations

For 15 of SDG&E's reliability improvement projects, Cal Advocates contends that uniformly shifting the construction starting point (by the amount of

[1331] CUE Testimony dated March 27, 2023, at 18-20.

[1332] CUE Testimony dated March 27, 2023, at 20-24.

[1333] SDG&E Ex-211 May 12, 2023, at OR-35-36.

[1334] SDG&E Ex-211 May 12, 2023, at OR-36.

[1335] SDG&E Ex-211 May 12, 2023, at OR-36.

[1336] SDG&E Ex-11-R at 102.

completion date delays) is a more accurate method of calculating yearly expenditure changes due to revisions in project completion dates. Cal Advocates did not recommend any adjustments to the total forecasted costs for each project presented by SDG&E. As a result, Cal Advocates recommends a total forecast for the Reliability/Improvements capital area that is lower than SDG&E's forecast by $13.476 million for 2022 and $57.071 million for 2023 but is $39.771 million higher for 2024.[1337]

In reply, SDG&E contends that Cal Advocates' recommendation would limit its flexibility in prioritizing work, which is beneficial to both SDG&E and its customers.[1338] Based on the above summary of the record and the arguments, the Commission finds insufficient information to shift SDG&E's schedule and associated funds and declines to follow Cal Advocates' recommendation.

19.1.3.5. Remaining Reliability Improvement Forecasts

No party disputes SDG&E's remaining reliability improvement programs. Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds SDG&E's forecasts for the following costs to be reasonable and adopts them:[1339]

[1337] Cal Advocates Opening Brief at 149-154.

[1338] Sempra Opening Brief at 376-378.

[1339] SDG&E Ex-11-R-E at 92-148.

Table 19.4
SDG&E's Cost Forecasts for Remaining Reliability Improvement Programs

Reliability Improvement ($ millions)	2022	2023	2024
Management of Overhead Distribution Service	8.117	8.117	8.117
Management of Underground Distribution Service	3.353	3.353	3.353
Replacement of Underground Cables	5.799	5.799	5.799
Capital Restoration of Service	9.522	9.522	9.522
Do Not Operate Energized (DNOE) Switch Replacement	3.898	9.327	5.782
Emergency Equipment Purchase	3.275	0.334	0.334
Supervisory Control and Data Acquisition (SCADA) Capacitors	0.983	0.984	0.984
Streamview 69/12 kV Substation Rebuild	6.013	18.613	0.159
Artesian 230kV Substation Expansion	0.036	0	0
Poway 69kV Substation Rebuild	1.517	0	0
San Marcos Substation 69kV Rebuild & 12kV Switchgear	0.093	3.755	0.101
Substation Modification to Support FLISR	0.887	0	0
Substation SCADA Expansion – Distribution	1.201	2.527	1.776
High Risk Switch Replacement	0.873	0.832	0.832
4kV Modernization	4.179	6.632	6.542
Urban Substation Rebuild	5.57	16.018	0
Torrey Pines 12kV Breaker Replacements	1.169	0	0
El Cajon 12kV Breaker Replacements	0.821	0.88	0
Kettner Substation 69/12kV Rebuild Project	1.376	0.619	0
Bernardo 12kV Breakers and Transformer Replacements	0	0	0.927
Miramar 12kV Replacements	0.072	1.218	0.099
Mission 12kV Replacements	2.066	0.556	0
Stuart 12kV Transformer Replacements	0	0.657	0.87
Coronado 69/12kV Transformer Replacement	0.526	0.976	0.695
La Jolla 69/12kV Transformer Replacement	1.258	1.763	0.108
Firmware Upgrade for Transformers	0.571	0	0
Non-HFTD Wireless Fault Indicators	0.023	1.243	1.243
Cristianitos Substation Remove From Service (RFS)	0.986	0	0
Distribution Circuit Reliability	3.454	4.124	4.124
Power Quality Program	2.3	2.3	2.3
Replace Substation Obsolete Equipment (Distribution)	2.107	2.107	2.107
Total	**72.045**	**102.256**	**55.774**

19.1.4. Capacity and Expansion Projects

Capacity projects typically consist of load transfers, reconductors, circuit extensions, new circuits, and substations to mitigate the capacity deficiency. The

Distribution Substation projects include the expansion of existing substations (e.g., substation bank additions) or the construction of new substations. Since the mix of optimum solutions to projected deficiencies can vary annually, distribution capacity expenditures for circuits and substations are managed and forecasted collectively.[1340] Through its annual Distribution Planning Process, SDG&E documents requests for new service ("known loads"), forecasts loads, and identifies the locations on SDG&E's distribution system where existing and planned distribution infrastructure needs to be upgraded in order to mitigate system overloads. SDG&E then determines the specific upgrades that will cost-effectively address the identified distribution needs.[1341] The disputed cost categories for such work are discussed below.

19.1.4.1. Planned Investments

The Planned Investments forecast includes small capacity-driven capital projects to address system needs identified through the annual distribution planning process. These projects are required to address primary distribution system overloads, voltage related issues, and meeting and maintaining current SDG&E design standards. They typically involve the reconstruction and extension of existing overhead and underground distribution facilities to relieve overloaded conductors and correct primary voltage problems.[1342]

For Planned Investments for 2022, 2023, and 2024, SDG&E forecasts $3.536 million, $3.536 million, and $3.536 million, respectively. This annual amount is $2.197 million over the adjusted recorded amount for 2021 of

[1340] SDG&E Ex-11-R-E at 28.

[1341] SDG&E Ex-11-R-E at 25-26.

[1342] SDG&E Ex-11-R-E at 37.

$1.339 million by over two times.[1343] To develop this forecast, SDG&E used a zero-based methodology using the scope of work for estimated future projects because it contends that historical data is inapplicable to future costs identified through the annual distribution planning process.

UCAN recommends reducing this forecast to zero because it contends that all forecasted projects are for the 2024-2027 period and outside the 2024 Test Year, and information relevant to this cost is not yet available from the Commission's Distribution Deferral Opportunity Report to support its forecast.[1344]

In rebuttal, SDG&E states that information for specific projects in this category will be documented in annual Grid Needs Assessment reports and screened for possible deferral to utility side of the meter resources and customer side of the meter resources through the distribution investment opportunities report. Finally, SDG&E states that its workpapers support funding needed for small capital projects to address system needs identified through the Distribution Planning Projects.[1345]

The Commission finds SDG&E's forecast to be reasonable in light of legislation requiring SDG&E to upgrade its electrical distribution systems so that customers can be energized without substantial delay. Such costs will include conducting advance planning, engineering, and construction of increased distribution system capacity.[1346] Accordingly, the Commission finds that the forecasted costs of $3.536 million for 2022, 2023, and 2024 are reasonable and adopts them. SDG&E shall report the number of Planned Investment Projects

1343 SDG&E Ex-11-CWP at 119 updated.

1344 UCAN Ex-2 at 273.

1345 SDG&E Ex-211 at 40-45.

1346 Pub. Util. Code Section 933 *et seq*.

started and completed annually since 2023 along with their unit costs in the next GRC.

19.1.4.2. Future Capacity Projects

Future capacity projects include large-scale distribution system capacity improvement projects exceeding $1 million scoped within the 2023 and 2024 distribution planning process (DPP).[1347] For this work, SDG&E requests $0 for 2022, $6.396 million for 2023, and $7.699 million for 2024.[1348] Without previous funding for such projects, SDG&E's forecast is based on aggregated load shape for analyzing the effects of new technologies for energy consumption behavior,[1349] such as electric vehicle charging facilities, the specific scope of estimated future projects,[1350] and unit costs of similar projects.[1351]

UCAN recommends zero funding for this category because it claims that developers already pay a large part of these costs and that SDG&E fails to account for customer cost contributions.[1352]

In rebuttal, SDG&E states that this work has no connection to Rule 15 line extensions. Instead, SDG&E states that the increase in this work is partly driven by customer requests to connect new loads such as electric vehicle charging facilities. Furthermore, according to SDG&E, without funding for these future

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[1347] SDG&E Ex-11 at 43-44; SDG&E Ex-11-CWP at 165.

[1348] SDG&E Ex-11-CWP at 160.

[1349] SDG&E Ex-211 at 40-42.

[1350] SDG&E Ex-11 at OR-43, 44.

[1351] SDG&E Ex-211 at 43.

[1352] UCAN Ex-01 at 274.

projects, the distribution grid will experience thermal and voltage violations as a result of load growth SDG&E has an obligation to serve.[1353]

The Commission finds SDG&E's forecast to be reasonable in light of legislation requiring SDG&E to upgrade its electrical distribution systems so that customers can be energized without substantial delay. Such costs will include conducting advance planning, engineering, and construction of increased distribution system capacity.[1354] Accordingly, the Commission finds SDG&E's forecast for future capacity projects in the amounts of $6.396 million for 2023 and $7.699 million for 2024 to be reasonable and adopts it.[1355] SDG&E shall report the number of future capacity projects started and completed annually since 2023 along with their unit costs in the next GRC.

19.1.4.3. Distribution System Capacity Improvement

This work includes feeder and branch reconductoring, installing switches, and other equipment as necessary to increase the tie capacity and to sectionalize the distribution system for capacity and operating concerns. Distribution system capacity improvements costs may also be used to install infrastructure for future circuit projects along with road improvements, transmission system upgrades, or other upgrade activities.[1356]

SDG&E requests $2.277 million each year for 2022, 2023, and 2024 while adjusted recorded amounts are $2.440 million for 2021[1357] and $1.730 million for

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[1353] SDG&E Ex-211 at 43.

[1354] Pub. Util. Code Section 933 *et seq*.

[1355] SDG&E Ex-11-CWP at 160.

[1356] SDG&E Ex-11 at 43-44.

[1357] SDG&E Ex-11-CWP at 170.

2022. The 2022 request is $547,000 higher than the 2022 recorded amount. SDG&E bases this forecast on the average cost of the last three years of historical data.[1358]

Cal Advocates recommends a total of $5.886 million for 2022-2024 for distribution system capacity improvement, which is $0.945 million less than SDG&E's $6.831 million total for these three years. Cal Advocates' forecast is also based on a three-year average but differs from SDG&E's by only considering non-collectible costs for those historical years and using a non-collectible three-year average of $1.962 million, which is $0.315 million lower than the three-year average proposed by SDG&E.[1359]

UCAN recommends reducing this forecast to zero in 2024 partly because SDG&E did not provide sufficient information regarding various details and failed to support the economic value of these investments.[1360]

The Commission finds that SDG&E's response to intervenors' arguments support the value of these investments, but the Commission finds Cal Advocates' recommended reduction based on the use of only non-collectible, ratepayer funded costs to be the most reasonable. Accordingly, the Commission adopts a non-collectible forecast for distribution system capacity improvement of $1.962 million for each of the years 2022, 2023, and 2024.

19.1.4.4. Remaining Capacity and Expansion Projects

No party disputes SDG&E's remaining capacity and expansion projects. Based on SDG&E's methodology and cost drivers in its supporting documents,

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1358 SDG&E Ex-11-CWP at 171.

1359 Cal Advocates Opening Brief at 155.

1360 UCAN Ex-01-E.

the Commission finds SDG&E's forecasts for the following costs to be reasonable and adopts them:[1361]

Table 19.5
SDG&E's Adopted Cost Forecasts

Capacity and Expansion Projects ($ millions)	2022	2023	2024
Field Shunt Capacitors	0.695	0.695	0.695
Reactive Small Capital Projects	1.258	1.258	1.258
Load Research/DLP Electric Metering Project	0.392	0	0
Distribution Capacitors	1.722	1.283	1.285
Chollas West: New 12kV Circuit C1047	1.452	0	0
Imperial Beach: New 12kV Circuit C724	0.653	0	0
Vine: New 12kV Circuit C1480	4.333	0.311	0
Carlton Hills: New 12kV Circuit C1191	0	3.226	0
Old Town: Reconductor 12kV Circuit C493	1.744	0	0
East Gate: New 12kV Circuit C1154	2.184	0	0
Creelman: Reconductor 12kV Circuit C235	0.081	0	0
Point Loma: Reconductor 12kV Circuit C50 & Capacitor	0.597	0	0
Vine: 12 kV Circuit C139 Cutover to C138	0.336	0	0
Border: New 12kV Circuit C1162	0.689	1.117	0
Sampson: New 12kV Twin Circuit C369	0.617	0.116	0
Total	**16.753**	**8.006**	**3.238**

19.1.5. Materials Forecasts

The materials category provides distribution transformers and regulators necessary to operate and maintain the electric distribution system and meters to measure service to electric distribution customers. This broad cost category includes more specific forecasts, including the cost of purchasing transformers, supplying other new and replacement equipment, and maintaining an inventory at each electric distribution service center. The expenditures are closely related to work being done in support of New Business, Mandated, Capacity, Reliability,

[1361] SDG&E Ex-11 at 25-45.

and Safety and Risk Management, as well as all other categories where transformers are installed.[1362]

19.1.5.1. Transformers

Underground and overhead service transformers provide service to SDG&E's electric distribution customers and convert high voltage to low voltage and vice versa. For this cost, SDG&E forecasts $24.025 million in 2022, $25.213 million in 2023, and $26.461 million in 2024.[1363] This includes purchasing 6,348 transformers in 2022, 6,665 in 2023, and 6,999 in 2024.[1364] Instead of an average of historical costs, SDG&E bases this forecast on the specific scope of individual projects.

Cal Advocates recommends a reduced forecast of $20.002 million for 2022, $21.231 million for 2023, and $22.295 million for 2024 for a total capital forecast of $63.528 million,[1365] which is 16.1 percent less than SDG&E's original aggregated materials request for transformers only. Cal Advocates estimated this reduction by calculating a unit cost based on data for the 2017-2021 period and multiplying it by the number of transformers SDG&E plans to replace for each forecasted.

CUE recommends increasing SDG&E's 2024 forecast by 8.3 percent by using a three-year average and increasing the transformer replacement rate. In addition, CUE recommends that SDG&E should be required to keep and provide records of related data, including the age of transformers in service and the number of new installations and replacements per year.[1366]

[1362] SDG&E Ex-11 at 43-44.

[1363] SDG&E Ex-11-R-E at 65.

[1364] SDG&E Ex-11-CWP at 317.

[1365] CA Ex-07 at 31.

[1366] CUE Ex-01 at 25, 26.

In rebuttal, SDG&E contends Cal Advocates' methodology underestimates this cost because SDG&E estimates that the current transformer market unit cost is over twice as much as the historical average cost for six different types of transformers sold by six different vendors. Furthermore, SDG&E states that the increased cost is driven by high demand in the industry, limitations in resources, disruptions in the supply chain, and lack of raw materials and skilled labor in the manufacturing sector along with a surge in demand driven by installation of vehicle charging infrastructure.[1367] SDG&E also opposes increasing its replacement rate, as CUE recommends, because its storage of transformers and replacement rate balances risk and resource availability.

The Commission finds that SDG&E has supported its forecast by the application of its methodology. In light of this evidence, the Commission finds SDG&E's transformer forecast to be reasonable and in the interest of complying with regulatory requirements that ensure that SDG&E is prepared to provide safe and reliable service. Accordingly, the Commission adopts SDG&E's transformer forecast of $24.025 million in 2022, $25.213 million in 2023, and $26.461 million in 2024. However, the Commission finds that better information would be helpful and requires that SDG&E provide information in its next GRC regarding the age of transformers in service, the number of new installations and replacements per year, and other reliability data that may impact transformer maintenance, including data required by D.16-01-008.

19.1.5.2. Meters and Regulators

This forecast includes the purchase of new watt-hour meters and regulators to service new electric distribution customers or to replace damaged or

[1367] SDG&E Ex-211 at 45-46.

malfunctioning meters. For electric meters and regulators, SDG&E's forecasts for 2022, 2023, and 2024 are $4.802 million, $5.042 million, and $5.294 million, respectively.[1368] SDG&E bases this forecast on estimates developed from the scope of work and recent construction labor rates, material costs, contract pricing/quotes, and other project specific details. SDG&E also projects a need for increases in meter and regulator replacements due to new business growth, which is undisputed.[1369] The Commission finds the methodology and resulting forecast above to be reasonable and adopts it.

19.1.6. New Business

Most new business costs arise directly from customer requests for new services, upgraded services, new distribution systems for commercial and residential developments, system modifications to accommodate new customer load, customer requested relocations, rearrangements, removals and the conversion of existing overhead lines to underground. These projects have a "collectible" component, where some funds are received from customers prior to construction through a mechanism called Contributions in Aid of Construction (CIAC).[1370] The following new business programs are disputed.

19.1.6.1. Overhead Residential New Business

This program includes expenditures for the non-collectible portion of expenses to be borne by ratepayers associated with the extension of new overhead electric distribution systems to new residential electric customers requesting service.[1371] SDG&E's forecasts for the Overhead Residential New Business

[1368] SDG&E Ex-11-R at 64.

[1369] SDG&E Ex-11 at 63-65.

[1370] SDG&E Ex-11 at 66.

[1371] SDG&E Ex-11-R, Ch. 5, Section F, at OR-68; Electric Tariff Rule 15.

program for 2022, 2023, and 2024 are $0.741 million, $0.748 million, and $0.754 million (in constant 2021 dollars), respectively.[1372] SDG&E states that it bases this forecast on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.[1373]

Cal Advocates recommends a three-year total forecast of $1.746 million, which is $0.497 million less than SDG&E's three-year total forecast.[1374] Cal Advocates bases its forecast on the non-collectible components only and argues that its forecast is more accurate because SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures, which have been historically 70 percent of capital expenditures.[1375]

In rebuttal, SDG&E states that the Cal Advocates forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1376] The Commission finds SDG&E's forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for Overhead Residential New Business above.

[1372] SDG&E Ex-11-R, Ch. 5, Section F, at OR-68.

[1373] SDG&E Ex-11-R at 67-68.

[1374] CA Ex-07 at 33.

[1375] Cal Advocates Opening Brief at 157-158.

[1376] SDG&E Ex-211 at 48.

19.1.6.2. Overhead Non-Residential New Business

This program includes expenditures for the non-collectible portion of expenses to be borne by ratepayers associated with the extension of new overhead electric distribution systems to non-residential electric customers requesting service.[1377] SDG&E's forecasts for the Overhead Non-Residential New Business program for 2022, 2023, and 2024 are $0.935 million, $0.943 million, and $0.951 million, respectively.[1378] SDG&E bases this forecast on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.[1379]

Cal Advocates recommends a three-year total forecast of $2.428 million, which is $0.401 million less than SDG&E's three-year total forecast.[1380] As with the overhead residential new business, Cal Advocates bases its forecast on the non-collectible components only and argues that its forecast is more accurate because SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures.[1381]

In rebuttal, SDG&E similarly states that Cal Advocates' forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1382] Accordingly, the Commission finds SDG&E's

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1377 SDG&E Ex-11-R, Ch. 5, Section F, at 69.

1378 SDG&E Ex-11-R, Ch. 5, Section F, at OR-69.

1379 SDG&E Ex-11-R at 70.

1380 CA Ex-07 at 34.

1381 Cal Advocates Opening Brief at 158-159.

1382 SDG&E Ex-211 at 48.

forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for Overhead Non-Residential New Business above.

19.1.6.3. Underground Residential and Non-Residential New Business

This program includes expenditures for the non-collectible portion of expenses to be borne by ratepayers associated with the extension of new underground electric distribution systems to new residential electric customers requesting service from SDG&E.[1383] SDG&E has a similar program for service to new non-residential electric customers.[1384]

SDG&E's forecasts for the Underground Residential New Business program for 2022, 2023, and 2024 are $6.487 million, $6.542 million, and $6.599 million, respectively,[1385] and its forecasts for the Underground Non-Residential New Business program for 2022, 2023, and 2024 are $6.569 million, $6.625 million, and $6.681 million, respectively.[1386] SDG&E bases these forecasts on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.[1387] Furthermore, SDG&E forecasts the requests for line extension work to increase due to Rule 15 because it requires all new non-residential developments to be served by underground electric systems.[1388]

1383 SDG&E Ex-11-R at 70.

1384 SDG&E Ex-11-R at 71.

1385 SDG&E Ex-11-R, Ch. 5, Section F, at OR-70.

1386 SDG&E Ex-11-R, Ch. 5, Section F, at OR-71.

1387 SDG&E Ex-11-R at 72.

1388 SDG&E Ex-11-R, Ch. 5, Section F, at OR-71–72.

Cal Advocates recommends a forecast of $17.045 million for underground residential new business,[1389] and a forecast of $17.261 million for underground non-residential new business.[1390] Cal Advocates bases its forecast on the non-collectible components only and argues that its forecast is more accurate because SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures.[1391]

In rebuttal, SDG&E similarly states that Cal Advocates' forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1392] Accordingly, the Commission finds SDG&E's forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for Underground Residential and Non-Residential New Business above.

19.1.6.4. New Business Infrastructure

This program includes expenditures for the non-collectible portion of expenses to be borne by ratepayers associated with: 1) Installation of new underground distribution systems in conjunction with the development of land and new streets; 2) Retrofitting the existing system to comply with current standards when required to serve new customers; 3) Installation of street light systems; 4) Modification of the existing electric system (reconductors, cutovers, load transfers, installing neutral wires) to meet capacity requirements when

[1389] CA Ex-07 at 35.

[1390] CA Ex-07 at 34.

[1391] CA Ex-07 at 35.

[1392] SDG&E Ex-211 at 50.

required by new customer projects; 5) Installation of new distribution systems to provide alternate service or special facilities under Electric Tariff Rule 2; and 6) Installation of electric distribution facilities in anticipation of future utility needs.[1393]

SDG&E's forecasts for the New Business Infrastructure program for 2022, 2023, and 2024 are $3.954 million, $3.988 million, and $4.022 million, respectively.[1394] SDG&E bases these forecasts on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.[1395] Factors for such growth were derived from the SDG&E Meterset forecast.[1396]

Cal Advocates recommends a forecast of $9.822 million, which is $2.142 million less than SDG&E's forecast.[1397] Cal Advocates bases this forecast on SDG&E's Meterset growth rates and a three-year historical average of non-collectible capital expenditures,[1398] and argues SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures.[1399]

In rebuttal, SDG&E similarly states that Cal Advocates' forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal

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1393 SDG&E Ex-11-CWP-R at 377.

1394 SDG&E Ex-11-R, Ch. 5, Section F, at OR-72.

1395 SDG&E Ex-11-R, Ch. 5, Section F, at OR-73.

1396 SDG&E Ex-11-CWP-R at 378.

1397 CA Ex-07 at 35.

1398 CA Ex-07 at 35.

1399 CA Ex-07 at 35.

testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1400] Accordingly, the Commission finds SDG&E's forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for New Business Infrastructure above.

19.1.6.5. Customer Requested Upgrades & Services

This work includes the expenses to be borne by ratepayers to replace, relocate, rearrange, or remove existing electric distribution facilities at the customer's request, including joint utility requests. This work also modifies the existing electric distribution system as required to meet the customer's capacity needs and upgrades in service and includes electric service replacements, rearrangements and the replacement of customer-owned distribution systems in mobile home parks.[1401]

SDG&E's non-collectible forecasts for the Customer Requested Upgrades & Services program for 2022, 2023, and 2024 are $9.906 million, $9.988 million, and $10.071 million, respectively.[1402] SDG&E bases these forecasts on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth. Factors for such growth were derived from the SDG&E Meterset forecast.[1403]

[1400] SDG&E Ex-211 at OR-51.

[1401] SDG&E Ex-11-R, Ch. 5, Section F, at OR-75.

[1402] SDG&E Ex-11-R, Ch. 5, Section F, at OR-75.

[1403] SDG&E Ex-11-R, Ch. 5, Section F, at OR-75.

Cal Advocates recommends a forecast of $21.197 million, which is $8.768 million less than SDG&E's forecast.[1404] Cal Advocates bases this forecast on SDG&E's Meterset growth rates and a three-year historical average of non-collectible capital expenditures, and argues SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures.[1405]

In rebuttal, SDG&E similarly states that Cal Advocates' forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1406] Accordingly, the Commission finds SDG&E's forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for Customer Requested Upgrades & Services above.

19.1.6.6. Rule 20C Underground Conversions

This work includes the portion of expenses to be borne by ratepayers to convert existing electric overhead distribution lines to underground distribution lines upon customer request for projects meeting the criteria for the Rule 20C program (not associated with Franchise).[1407]

SDG&E's non-collectible forecasts for the Conversion from Overhead to Underground Rule 20C program for 2022, 2023, and 2024 are $1.502 million,

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[1404] CA Ex-07 at 36.

[1405] CA Ex-07 at 36.

[1406] SDG&E Ex-211 at OR-51.

[1407] SDG&E Ex-11-R, Ch. 5, Section F, at OR-81.

$1.515 million, and $1.528 million, respectively.[1408] SDG&E bases these forecasts on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth. Factors for such growth were derived from the SDG&E Meterset forecast.[1409]

Cal Advocates recommends a three-year total forecast of $0.242 million, which is $4.303 million less than SDG&E's three-year total forecast.[1410] Cal Advocates bases this forecast on SDG&E's Meterset growth rates and a three-year historical average of non-collectible capital expenditures, and argues SDG&E's non-collectible forecasts do not align with the historical ratios of non-collectible costs to total capital expenditures.[1411]

In rebuttal, SDG&E states that Cal Advocates' forecast is inflated by the inclusion of collectible percentages that include indirect costs in addition to direct costs. Subsequently, SDG&E revised its collectible percentages in rebuttal testimony based on direct costs only, which it claims is aligned with its original forecast and methodology.[1412] Accordingly, the Commission finds SDG&E's forecast based on its revised data to be reasonable and adopts SDG&E's non-collectible forecasts for the 2022-2024 period for Rule 20C Underground Conversions.

1408 SDG&E Ex-11-R, Ch. 5, Section F, at OR-81.

1409 SDG&E Ex-11-R, Ch. 5, Section F, at OR-81.

1410 CA Ex-07 at 37.

1411 CA Ex-07 at 37.

1412 SDG&E Ex-211 at OR-54.

19.1.6.7. Rule 20B Overhead to Underground Conversions

This program funds the portion of non-collectible expenses to be borne by ratepayers to convert existing electric overhead distribution lines to underground distribution lines upon customer request. This program reflects SDG&E's portion of the costs for installing new underground facilities to replace existing overhead facilities for projects meeting the criteria for Rule 20B (not associated with Franchise projects). SDG&E is responsible for a portion of the costs associated with converting overhead distribution lines to underground distribution lines to comply with the applicable tariff. For this work, SDG&E's forecasts for 2022, 2023, and 2024 are $1.634 million, $1.648 million, and $1.663 million, respectively. SDG&E states that it bases this forecast on a three-year historical average of labor and material costs, which SDG&E states reflects
more recent years and ongoing increases in labor and material costs. Additionally, SDG&E states that the underlying cost driver for this work is
the amount of conversion work currently awaiting construction, changing trends toward the use of 20B conversions by municipalities and the forecasted level of new customer growth.[1413]

Cal Advocates applied the growth rates provided by SDG&E to the three-year historical average of non-collectible capital expenditures. Using this method, Cal Advocates calculated lower capital costs of $0.946 million for 2022, $0.955 million for 2023, and $0.963 million for 2024.[1414]

In its reply brief, Sempra Utilities did not contest or address Cal Advocates' recommended lower forecast. As a result, the Commission finds that Sempra

[1413] SDG&E Ex-11-R-E at 80-81.

[1414] Cal Advocates Opening Brief at 161.

Utilities has not met its burden of proof. Accordingly, the Commission finds Cal Advocates' forecast to be reasonable and adopts it.

19.1.6.8. Remaining New Business Programs

No party disputed SDG&E's remaining New Business Program forecasts. Based on SDG&E's methodology and cost drivers in its supporting documents the Commission finds the amounts in the table below to be reasonable and adopts them:

Table 19.6
Total Remaining New Business (In Thousands of 2021 Dollars)[1415]

Project	Workpaper Number / Project Code	2022	2023	2024 (TY)
Electric Distribution Easements	204	$2,263	$2,263	$2,263
New Service Installations	224	$6,566	$6,620	$6,675
Transformer & Meter Installations	235	$8,896	$8,981	$9,066
Total Remaining New Business		**$17,725**	**$17,864**	**$18,004**

19.1.7. Remaining Capital Programs

No party disputed SDG&E's remaining electric distribution capital expenditure forecasts, including for Mandated Programs, Equipment and Tools, and Transmission-Related FERC Driven Projects. Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the amounts in the table below to be reasonable and adopts them:

[1415] SDG&E Ex-11-R at 67, 74, 76-79.

Table 19.7
Remaining Electric Distribution (In Thousands of 2021 Dollars)

Categories	2022	2023	2024
Equip/Tools/Misc	2,542	2,542	2,542
Mandated	31,943	33,761	33,761
DER Integration	0	0	0
Safety & Risk Management	22,310	32,343	33,025
Transmission/FERC Driven	12,689	12,331	11,185
Total Remaining Capital	**69,484**	**80,977**	**80,513**

Electric distribution information technology projects are discussed in the Information Technology Section.

19.2. Electrical Distribution O&M

The O&M electric distribution costs are broken down into 17 primary cost categories, two of which comprise the majority (61.6%) of the overall forecast. The two major categories are Electric System Operations (31.3%) and Electric Regional Operations (30.2%).[1416] SDG&E's ED O&M forecasts are organized within the work categories listed in the table below.[1417]

[1416] Sempra Opening Brief at 382-383.

[1417] Sempra Opening Brief at 384.

Table 19.8
Non-Shared O&M Summary of Costs

ELECTRIC DISTRIBUTION (In 2021 $)			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Reliability and Capacity	2,312	2,461	149
B. Construction Management	4,056	4,043	-13
C. Electric Systems Operations	30,151	41,026	10,875
C. 1 ESO: GIS	922	922	0
D. ET&D: Operations Services	2,235	2,179	-56
E. ET&D: Substation C&O	6,786	5,809	-977
E. 1 ET&D: Substation C&O: Relay and SCADA	3,576	3,708	132
F. Distribution Design and Project Management	820	1,305	485
G. Electric Regional Operations	35,359	39,666	4,307
H. Skills & Compliance Training	2,839	3,483	644
I. Service Order Team (SOT)	4,061	4,069	8
J. Electric Engineering	2,085	2,192	107
K. Troubleshooting	9,634	9,634	0
L. Portfolio & Project Management	487	512	25
M. Compliance Management	3,061	7,274	4,213
N. Officer	1,286	1,286	0
O. Regional Public Affairs	1,160	1,388	228
Total Non-Shared Services	**110,830**	**130,956**	**20,126**

19.2.1. Reliability and Capacity

Reliability and Capacity activities provide administrative and technical support associated with managing constraints on the electric distribution system. Typical activities include forecasting, planning, designing, and responding to utilization of the electric distribution system to serve customers with safe and reliable electric energy.[1418]

SDG&E's forecast for Reliability and Capacity for 2024 is $2.461 million, which is an increase of 6.4 percent above the 2021 Base Year amount of $2.313 million. SDG&E bases this forecast on a three-year average of recorded data with the addition of the costs that SDG&E states are incremental, including DER interconnection workload demands and related compliance projects, annual Synergi software training, and engineering retention costs associated with generation interconnection projects that are offset by interconnection fees received as miscellaneous revenue.[1419] SDG&E also states that drivers of O&M costs include work associated with the capital IT enhancement project for Distribution Interconnection Information System (DIIS) - Rule 21 and NEM Enhancements.[1420] DIIS is also an internal workflow management processing tool. It automates many previously manual administrative, technical, and communication steps as a project moves through the muti-step interconnection process, leading to the execution of an interconnection agreement and the achievement of in-service for the generating or storage facility.

UCAN recommends denying $406,502 in O&M labor in Reliability and Capacity on the grounds that 1) the projects are "outmoded, inconsistent with the Commission's priorities, and appears unjustified;" and 2) they are obsolete. UCAN also recommends that SDG&E's request for the funding of IT capital projects Distribution Interconnection Information System (DIIS) 6.0 – Rule 21 and New Energy Metering Enhancements and DIIS – Rule 21 and New Energy

[1418] SDG&E Ex-12-R-E at 17.

[1419] SDG&E Ex-12-R-E at 19.

[1420] SDG&E Ex-12-R-E at 21.

Metering Enhancements be denied because "there are fewer proceedings now that involve interconnection requests, as related proceedings have been consolidated, and there is no evidence that interconnection requests are increasing, particularly in light of the expectation that solar PV incentives under NEM 3.0 will be decreasing."[1421]

In response, SDG&E argues in detail that its forecasted headcount is justified and required, and that UCAN fails to recognize the importance of expanding DIIS.[1422] The Commission agrees. DIIS is also an internal workflow management processing tool. It automates many previously manual administrative, technical, and communication steps as a project moves through the multi-step interconnection process, leading to the execution of an interconnection agreement and the achievement of in-service for the generating or storage facility. The Commission finds reliability and capacity software-related costs that UCAN questions to be reasonable because it is needed for work related to changes to NEM and other active regulatory proceedings, including the Rule 21, High DER, and Microgrid proceedings.[1423] Improving efficiency of the DER interconnection process to reduce the anecdotal backlog of customer connections through DIIS is a worthwhile endeavor. Accordingly, the Commission adopts SDG&E's forecasts for Reliability and Capacity for 2024 of $2.461 million.

19.2.2. Electric Systems Operations

The work of Electric Systems Operations supports the control centers and the software systems that maintain the continuous safe operation of the grid.[1424]

[1421] Sempra Opening Brief at 386.

[1422] Sempra Opening Brief at 387-389.

[1423] Sempra Opening Brief at 387-389.

[1424] SDG&E Ex-12, Ch. 12 at TS-25-TS-26.

This work includes the training of Distribution System Operators (DSOs), the use and support of technological systems that help supervise the grid, and SDG&E's storeroom for tracking and storing materials.[1425]

SDG&E's forecast for Electric Systems Operations (ESO) for 2024 is $41.025 million, compared to the 2021 Base Year amount of $30.150 million. SDG&E bases this forecast on cost drivers resulting in adjustments to 2021 recorded costs, including increased storeroom costs, DSO workforce development, SDG&E's grid modernization plan and emergency load curtailments, and skilled labor positions needed to maintain the SCADA system.[1426]

Cal Advocates recommends reducing this forecast for 2024 by $9.5 million based on using SDG&E's adjusted-recorded storeroom cost from 2021 to estimate future costs. In support of this recommendation, Cal Advocates contends that these forecasted costs are significantly higher in 2024 than in any of the last five years and SDG&E does not demonstrate that current storeroom expenditures are insufficient.[1427]

TURN supports adjusting SDG&E's storeroom costs by adjusting forecasted storeroom costs alongside any adjustments that the Commission makes to SDG&E's capital programs because SDG&E estimates storeroom costs as a percentage of capital costs.[1428]

1425 SDG&E Ex-12, Ch. 12 at TS-25-TS-26.

1426 SDG&E Ex-12 at 25-31.

1427 CA Ex-08 dated March 27, 2023 at 11, lines 6-11.

1428 TURN Ex-7 dated March 27, 2023 at 9, lines 3-15.

FEA recommends a $5.3 million[1429] reduction in forecasted storeroom costs based on the following arguments: 1) SDG&E inconsistently states that it bases this electric capital spending on electric, gas, and wildfire capital spending; and 2) actual costs from 2017-2021 do not demonstrate a relationship between storeroom costs and total electric capital spending. As a result, FEA recommends using the actual costs from 2022 to forecast costs for future years because they fell below SDG&E estimates.[1430]

In rebuttal, SDG&E claims the following: 1) its workpapers show "a strong correlation" between infrastructure construction costs and storeroom costs;[1431] 2) based on this correlation and the connection between storeroom and construction costs, SDG&E argues there is no need for specific inventory tracking or further detailed analyses to justify cost increases;[1432] and 3) SDG&E's actual costs fell below forecasts for 2022 due to a decrease in overall capital expenditures.[1433] As a result, SDG&E agrees with TURN that its storeroom costs should be adjusted once the Commission approves a final capital plan for SDG&E.[1434]

The Commission finds it reasonable to decrease SDG&E's storeroom costs based on the amount of related capital approved by the Commission.

SDG&E's request includes $34.6 million associated with the storeroom and is estimated at 2.56 percent of its 2024 capital request of $1.4 billion.[1435] Given that

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1429 FEA Ex-01 dated March 27, 2023 at 23-24.

1430 FEA Ex-01 dated March 27, 2023 at 21–22.

1431 SDG&E Ex-212 dated May, 2023 at TS-15.

1432 SDG&E Ex-212 dated May, 2023 at TS-15.

1433 SDG&E Ex-212 dated May, 2023 at TS-17.

1434 SDG&E Ex-212 dated May, 2023 at TS-17.

1435 SDG&E Ex-12, Supplemental Workpapers for Workpaper 1ED003.000 at 42.

the amount the Commission authorized is $922.048 million, the Commission reduces the ESO O&M forecast proportionally to 2.56%[1436] of its authorized $922.048 million capital forecast equal to $29.960 million, which is a reduction of $11.075 million from SDG&E's ESO 2024 forecast of $41.025 million.

19.2.3. Electric Regional Operations (ERO)

Electric Regional Operations (ERO) inspect and maintain the electric distribution system, restore service after outages, repair service problems, construct new electric infrastructure, schedule work, forecast costs, and address other customer issues.[1437] This work is by electric distribution crews, planners, schedulers, and support staff located in six districts. The ERO workforce conducts training required by various company organizational units, and reviews and updates standards and practices to address operational incident patterns.[1438]

SDG&E's 2024 forecast for Electric Regional Operations is $39.666 million, compared to the 2021 Base Year amount of $35.359 million. SDG&E developed this forecast using the Base Year plus the additional costs described in testimony.[1439] SDG&E contends that this method most accurately represents future costs because it accounts for the increased number of full-time employees in 2021 to meet company safety and compliance targets and to implement SDG&E's strategic staff plan.[1440] SDG&E claims that its 2024 forecast is based on incremental costs for Safety and Reliability, Corrosion Zone Enhancements, ERO Intelligent Image Processing, and Fleet Vehicles.

1436 SDG&E Ex-12 at 42.

1437 SDG&E Ex-12 at 48.

1438 SDG&E Ex-12-R-E at 47-51.

1439 SDG&E Ex-12-R-E at 47, 49-51; SDG&E Ex-12-CWP-R at 106.

1440 SDG&E Ex-12 at 50.

The most disputed issue in this forecast is SDG&E's claim that costs for an additional eight linemen and 24 line assistants are incremental to the Base Year forecast to meet 2024 workload and reliability demands per year.[1441] SDG&E's linemen and line assistants perform different duties. The ERO linemen work on poles up to 100 feet from buckets of aerial lift trucks to install equipment and make repairs. ERO line assistants operate tools and equipment and perform other related duties as assigned under direct supervision.[1442]

Cal Advocates recommends $36.004 million for Electric Regional Operations, which is $4.764 million lower than SDG&E's 2024 forecast of $40.768 million.[1443] Cal Advocates developed their recommendation based on using a 5-year average of SDG&E's recorded labor costs.[1444] Cal Advocates uses this average because it contends that SDG&E does not demonstrate that the staffing levels used to develop its 2024 forecast are more than the historical staffing levels or that replacing 20 linemen positions with 8 linemen and 24 line assistants will incrementally increase SDG&E's ERO costs.[1445] To consider whether SDG&E's forecasted costs have increased, Cal Advocates requested SDG&E's number of FTEs and their associated costs in previous years, but SDG&E objected by stating that such data didn't exist. Later in its response, it stated that it could not differentiate costs between linemen and assistants.

[1441] SDG&E Ex-12-R-E at 50; SDG&E Ex-212 at 21-26.

[1442] CA Ex-08 at 14.

[1443] CA Ex-08 at 12.

[1444] CA Ex-08 at 13.

[1445] Cal Advocates Opening Brief at 171.

In rebuttal testimony and briefing SDG&E provides the number of linemen employed during the period from 2017-2022.[1446] It shows that SDG&E employed 143 lineman in 2021 and 155 in 2022. SDG&E states further in rebuttal that SDG&E's 2022 ERO costs of $36.579[1447] million were lower than authorized due to the change in its work mix, which is dependent upon timing of maintenance intervals. This reduced maintenance allowed reallocation of linemen to complete more capital construction, resulting in a decrease in net O&M labor costs. All of this occurred with SDG&E continuing to aggressively hire 10 linemen and 21 line assistants within the year. SDG&E remains on-track with its aggressive hiring plan for linemen. Additionally, although SDG&E saw reductions in O&M costs in 2022, it expects maintenance intervals to increase in future years, causing costs to average to SDG&E's forecast over time. This expectation is based on maintenance interval inspections occurring on a non-uniform 10-year cycle.[1448]

FEA recommends a reduction close to Cal Advocates' based on a five-year average due to variability in actual spending being significantly below authorized levels in each of the five years (2017–2021).[1449]

TURN has similar questions as Cal Advocates and contends that SDG&E has not proven the case for additional linemen.[1450] As a result, TURN recommends the Commission adopt the 2021 recorded cost of $23.984 million for

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[1446] Cal Advocates Opening Brief at 171-172.

[1447] SDG&E Ex-12-WP-R-E at 104.

[1448] SDG&E Ex-212 at 24.

[1449] FEA Testimony, dated March 2023 at 16.

[1450] TURN Testimony -07 Jones, dated March 2023 at 10.

the Labor portion of the account, which yields a reduction of $3.738 million for a total 2024 ERO forecast of $35.928 million.[1451]

In reply, SDG&E argues in a conclusory fashion that the number of employees "are in fact forecasted as an incremental labor cost" and that SDG&E's base year forecast methodology inherently incorporates prior multi-year attrition due to the loss of linemen over time not being present in prior years' budgets.[1452] However, the Commission does not find that SDG&E met its burden to demonstrate the reasonableness of SDG&E's forecast. Providing the number of linemen and assistants its 2024 forecast is based upon[1453] is fundamental to demonstrating the reason for any increase in SDG&E's forecasted cost. Replacing full-time employees who left SDG&E with new employees, most of whom are a different job class with a lower hourly rate, does not necessarily increase total labor costs.

The work of ERO staff is undoubtedly important for electric system safety and reliability. SDG&E is obligated to hire staff needed to maintain a safe and reliable system. The burden is also on SDG&E to demonstrate that the costs to be borne by ratepayers are reasonable, which SDG&E has not met for ERO. In the absence of a thorough analysis of its 2024 forecast based on the most recent data,[1454] the Commission finds the most recent ERO total cost data from 2022 of $36.579 million to be the most reasonable and adopts it for this 2024 forecast. The parties also don't completely discuss the impact of a correction to SDG&E's ERO labor forecast that reduced the ERO labor forecast by $1.101 million to

[1451] TURN Testimony -07 Jones, dated March 2023 at 11.

[1452] Sempra Opening Brief at 396.

[1453] Sempra Reply Brief at 288-294.

[1454] SDG&E Ex-12-WP-R-E at 125.

$3.738 million.[1455] An adjustment for this error is not applicable since the 2024 forecast is not adopted. SDG&E shall provide the units of ERO labor and non-labor and unit costs provided in its supplemental workpapers in this GRC in its original testimony in the next GRC.

19.2.4. Skills and Compliance Training

The Skills and Compliance Training (SCT) organization is responsible for development and training of the electric distribution workforce.[1456] The workforce consists of 26 electric field personnel, non-electrical support personnel, and first line supervision.[1457]

SDG&E's 2024 forecast for Skills and Compliance Training is $3.483 million, compared to the 2021 Base Year amount of $2.839 million. SDG&E bases this forecast on the 2021 Base Year with additions for the industrial athletics program and the electrical hazard awareness program for municipalities. SDG&E contends that the 2021 Base Year provides an accurate representation of business needs due to recent organization growth and the increased cost of instructors to develop skilled labor.[1458]

Cal Advocates recommends a $644,000 reduction of this forecast to $2.839 million based on SDG&E's 2021 recorded adjusted expenses.[1459] In support of this reduction, Cal Advocates argues that SDG&E did not provide documentation demonstrating that its 2021 recorded adjusted expenses were

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1455 Response to data request TURN-SEU Ex-32-3b; TURN Ex-07 at 11; SDG&E Ex-12-WP-R-E at 125.

1456 SDG&E Ex-12-R-E at 51.

1457 SDG&E Ex-12-R-E at 51-52.

1458 SDG&E Ex-12-R-E at 55.

1459 CA Ex-08 at 19-20.

insufficient to address its 2024 activities for Skills and Compliance Training, citing that recorded adjusted non-labor expenses averaged $456,250 from 2017-2020 before increasing to $1.775 million in 2021.[1460] In further support, Cal Advocates contends that based on the difference between 2019 recorded and 2019 authorized expenses, SDG&E already has funding for the proposed positions without the need for incremental adjustments.[1461]

FEA recommends a $628,000 reduction to $2.855 million based on SDG&E's 2022 recorded expenses. FEA argues that actual costs were below authorized levels during each year for 2017-2021 and that 2022 actual spending was below forecast.[1462]

In rebuttal, SDG&E argues the following: 1) contractor-filled positions create an incremental non-labor cost that is in addition to existing costs to support "Building a Better Lineman" and Target Zero initiative goal of zero workplace safety incidents;[1463] and 2) FEA's use of 2022 actual costs only includes some of the expenses of the Industrial Athletic Trainer program and none of the expenses of the Hazard Awareness program.[1464] However, in its revised workpapers SDG&E reduced its 2024 forecast for its Industrial Athletics training program to $148,500 due to a change in its cost allocation.[1465]

A comparison of the parties' positions shows that Cal Advocates and FEA's proposals are similar in amount as 2022 actual costs differ from 2021 by $16,000

[1460] CA Ex-08 at 19-20.

[1461] CA Ex-08 at 19-20.

[1462] FEA Ex-01 at 32-35.

[1463] SDG&E Ex-212 at 29.

[1464] SDG&E Ex-212 at 29.

[1465] SDG&E Ex-12-R-E; SDG&E Ex-12 WP-R-E; SDG&E Ex-212 at 30.

(or 0.56%). SDG&E bases its upward adjustments on six additional positions at $165,000/contract (with 3 of these positions having a 30 percent cost allocation). These costs add up to the difference between SDG&E's proposal and Cal Advocates' recommendation. Analyzing historical costs for this issue is difficult given the changes in accounting. For example, SDG&E states that Cal Advocates has a flawed analysis partially because the tracking of costs has changed from the 2019 GRC to the 2024 GRC.[1466] Based on the above, the Commission finds insufficient evidence to support SDG&E's 2024 forecast considering the accounting changes, historical non-labor spending, and lack of detail on the necessity of the positions themselves. As a result, the Commission finds the recommendation to use the 2022 recorded expenses to be the most reasonable and adopts a 2024 forecast for Skills and Compliance Training of $2.855 million.

19.2.5. Compliance Management

The compliance management work focuses on ensuring that SDG&E maintains its compliance with internal and external regulations, policies, and procedures as they relate to operating and maintaining the electric distribution system in a safe, reliable, and efficient manner, and includes two main subsections. The Compliance Management Group (CMG) manages compliance with General Orders 95, 128, 165, and 166; complies with Safety Policy Division requests; and maintains responsibility for all joint utility processes related to Communication Infrastructure Providers, including new applications, and pole data records.[1467]

[1466] Sempra Reply Brief at 295.

[1467] SDG&E Ex-12-R-E at 67.

The Program Management Group is responsible for developing and centrally managing the inspections and other activities to comply with General Order 165, including developing policies and procedures, training field employees, statistical reporting and analysis, budgeting, and other similar program management-related activities. Other related inspection/maintenance programs overseen by the Program Management Group include Avian Protection Program management, Wood Pole Inspection Program, Graffiti Abatement and detailed inspections in the High Fire Threat District, and related corrections in the fire threat zones.[1468]

SDG&E's 2024 forecast for Compliance Management is $7.274 million, which is a 237 percent increase over the 2021 Base Year amount of $3.061 million. This forecast includes $875,000 for labor costs and $6.399 million of non-labor costs.[1469] SDG&E bases this forecast on the 2021 Base Year including incremental adjustments representing workload forecasts for compliance activities for work outside of the HFTD that vary over a 10-year cycle.[1470]

For non-labor costs, Cal Advocates recommends $3.94 million for SDG&E's Compliance Management activities in 2024, which is higher than SDG&E's recorded adjusted expenses in 2017-2021.[1471] Cal Advocates developed this forecast by removing costs associated with SDG&E's pole data points that Cal Advocates finds to be unsupported. In further support of Cal Advocates' recommended reduction, it contends that SDG&E does not provide cost estimates from contractors, a statement of work, or any calculations to support its estimates;

1468 SDG&E Ex-12-R-E at 68-69.

1469 Cal Advocates Opening Brief at 180 citing SDG&E Ex-12-WP-R-E at 201.

1470 SDG&E Ex-12-R-E at 68.

1471 CA Ex-08 at 29.

SDG&E includes an arbitrary licensing fee in only one year of the six years it forecasts costs for this activity without any evidence it will require a license; SDG&E also does not demonstrate that its pole attachment data points request is incremental to its existing funding levels.[1472] It is not clear how Cal Advocates specifically addresses SDG&E's 2024 Compliance Management labor costs.[1473] However, Cal Advocates recommends for SDG&E's Compliance Management O&M expenses $4.815 million total, which is $2.459 million less than SDG&E's 2024 forecast of $7.274 million. Cal Advocates states that this recommendation is based on removing costs associated with its pole attachment data points activity that are unsupported and do not have a clear scope of work.[1474]

FEA recommends a 2024 Compliance Management forecast of $2.175 million based on a five-year average of historical data for the 2018-2022 period.[1475] FEA uses this methodology due to several factors including the following: 1) an increase in pole attachment data was not well documented; and 2) SDG&E spent less than the authorized amounts during the last three years.[1476]

Considering all of the above, the Commission finds that SDG&E has not demonstrated support for the amount of the increase in 2024 Compliance Management Work SDG&E has forecasted. In addition, the above analysis does not consider the possible impact of the Commission's authorization to underground additional electric distribution lines. Such work may negatively impact two cost drivers for this forecast: surveying poles to comply with

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1472 Cal Advocates Opening Brief at 180-185.

1473 Cal Advocates Opening Brief at 179-180 citing to CA Ex-08 at 24.

1474 Cal Advocates Opening Brief at 180.

1475 FEA Ex-01 at 30.

1476 FEA Ex-01 at 28, 43.

D.21-10-019 and wood pole intrusive inspections. Instead, the Commission finds Cal Advocates' recommendation for a lower increase in SDG&E's Compliance Management O&M expenses of $4.815 million total based on supported future work to be the most reasonable and adopts it. This amount is higher than any of SDG&E's annual recorded adjusted Compliance Management expenses in 2017-2021.[1477]

19.2.6. Uncontested Electrical Distribution Non-Shared O&M Forecasts[1478]

No party disputes SDG&E's remaining 2024 electrical distribution O&M forecasts. Based on SDG&E's methodology and cost drivers in its supporting documents the Commission finds the 2024 O&M forecasts in the following categories to be reasonable and adopts them:[1479]

- Construction Management: $4.043 million;
- Geographical Information Systems: $0.922 million;
- Electric Transmission & Distribution: Operations Services: $2.179 million;
- Electric Transmission & Distribution: Substation Construction & Operations: $5.809 million;
- Distribution System Control & Protection: $3.708 million;
- Distribution Design and Project Management: $1.305 million;
- Service Order Team: $4.069 million;
- Electric Engineering: $2.192 million;
- Troubleshooting: $9.634 million;
- Portfolio & Project Management: $0.512 million;

1477 SDG&E Ex-WP-12-R-E at 199.

1478 Sempra Opening Brief at 384.

1479 SDG&E Ex-12-R-E.

- Officers and Administrative Assistants: $1.286 million; and
- Regional Public Affairs: $1.388 million.

19.2.7. Request for Regulatory Accounts (Litigated Project Costs Memorandum Account)

SDG&E requests approval of an LPCMA to record capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers (e.g., Contributions in Aid of Construction from a local governmental entity) instead of ratepayers, but later are deemed by a court to be non-collectible from third-party customers. SDG&E states that establishment of the LPCMA would allow the Companies the opportunity to litigate whether the third-party customer should bear the cost at issue, while preserving the ability to later seek recovery of the incremental capital-related costs from ratepayers associated with the project costs that can no longer be collected from a third-party customer if the litigation is unsuccessful.[1480]

Cal Advocates opposes the creation of the LPCMA because the occurrence of a court-ordered ruling that deems a Collectible project to be Non-Collectible would be an extremely rare event. The LPCMA also would not protect ratepayers from the opposite possibility of a Non-Collectible project being deemed a Collectible project because the LPCMA would not track the costs that ratepayers had incurred between the time a Non-Collectible capital project had been added to rate base and the time that a court ruled that the same project should be considered a Collectible project to return unused amounts to ratepayers. In addition, forecast ratemaking is not designed to be risk-free.[1481] Based on the

[1480] Sempra Opening Brief at 365.

[1481] Cal Advocates Opening Brief at 137-140.

above, the Commission finds insufficient uncertainty to support creation of an LPCMA and its authorization.

19.3. Wildfire Mitigation and Vegetation Management (WMVM)

Following catastrophic fires in 2007, SDG&E committed to developing a comprehensive wildfire mitigation strategy to reduce the risk of catastrophic wildfire resulting from electrical infrastructure. Since that time, SDG&E has established itself as an industry leader in wildfire mitigation initiatives that range from vegetation management to wildfire risk modeling.[1482] SDG&E's proposed wildfire mitigation investment strategy builds on wildfire mitigation work previously authorized by the Commission and Wildfire Mitigation Plans (WMP) approved by the Office of Energy Infrastructure Safety (Energy Safety) in accordance with wildfire mitigation statutes passed after 2007.

SB 901 (Stats. 2018, ch. 626) and AB 1054 (Stats. 2019, ch. 79) require each electric utility to reexamine their wildfire mitigation initiatives and to "construct, maintain, and operate their electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment" in accordance with required WMPs.[1483] As a component of their WMPs, state law requires electrical corporations to:

- Describe the measures taken, or planned to be taken, to reduce the need for and impact of Public Safety Power Shutoff (PSPS) events, including replacing, hardening, or undergrounding any portion of the circuit or of upstream transmission or distribution lines.[1484]

[1482] Sempra Opening Brief at 411-412, 416.

[1483] Pub. Util. Code Section 8386(a).

[1484] Pub. Util. Code Section 8386(c)(8).

- Describe the actions taken to "ensure [the electrical system] will achieve the highest level of safety, reliability, and resiliency, and to ensure that its system is prepared for a major event, including hardening and modernizing its infrastructure with improved engineering, system design, standards, equipment, and facilities, such as undergrounding, insulating of distribution wires, and replacing poles."[1485]
- Describe "where and how the electrical corporation considered undergrounding electrical distribution lines within those areas of its service territory identified to have the highest wildfire risk."[1486]
- Following the increased use of PSPS during high winds, Energy Safety requires SDG&E to quantify overall utility risk of PSPS and the reduction of that risk on an annual basis and provide three- and ten-year plans to reduce the "scale, scope, and frequency of PSPS events."[1487] The Commission requires electrical corporations to engage in additional efforts, including but not limited to system hardening, to reduce the need for and scope of de-energizations, and report on those efforts to the public.[1488] In response to the Legislature, the Commission also continues to explore the need for additional regulation of fast trip impacts.[1489]

SDG&E responded to the Legislature's requirements with large-scale infrastructure hardening efforts, including strategic undergrounding, use of

[1485] Pub. Util. Code Section 8386(c)(14).

[1486] Pub. Util. Code Section 8386(c)(15).

[1487] Office of Energy Infrastructure Safety, 2023-2025 Wildfire Mitigation Plan Technical Guidelines (December 6, 2022) at 63-65, 199.

[1488] D.20-05-051, *Decision Adopting Phase 2 Updated and Additional Guidelines for De-Energization of Electric Facilities to Mitigate Wildfire Risk* (issued June 5, 2020) at 71-72.

[1489] R.18-12-005, *Order Instituting Rulemaking to Examine Electric Utility De-Energization of Power Lines in Dangerous Conditions* (filed December 13, 2018); Sempra Opening Brief at 418.

covered conductor, expanded situational awareness, and increased inspections and asset management. These efforts have received approval during the WMP process as meeting the requirements laid out by SB 901 and AB 1054.[1490]

Although "SDG&E has not calculated the percentage of total High Fire Threat District (HFTD) wildfire risk mitigated thus far,"[1491] SDG&E's past wildfire mitigation work has made substantial progress towards the state's goal of reducing and eliminating the risk of catastrophic utility-related wildfires in California.[1492] As a result of hardening over 26 percent of SDG&E's electric distribution infrastructure in high-fire districts,[1493] SDG&E has fewer ignitions than its sister utilities. Since the Witch fire in 2007, these efforts have significantly reduced SDG&E's wildfire risk, and SDG&E's territory has experienced relatively fewer fires, and suffered relatively fewer fires per acre, than other areas of the state.[1494]

19.3.1. SDG&E's Forecasted 2024 WMVM Costs

For the proposed work in SDG&E's 2024 Wildfire Mitigation Plan (WMP), SDG&E forecasts O&M expenses of $184 million[1495] and capital expenditures of $518.5 million,[1496] which are categorized in the tables below.

[1490] Sempra Opening Brief at 418-419.

[1491] TURN Opening Brief at 205; TURN Ex-504; SDG&E Response to TURN Ex-SEU-015 Q 30.b.

[1492] Sempra Opening Brief at 411-412.

[1493] TURN Opening Brief at 205 citing to Hearing Transcript at 1776:7-10; SDG&E Ex-49 at 13-14.

[1494] TURN Opening Brief at 205-206; TURN Ex-08-E at 9-14.

[1495] SDG&E Ex-401 (Update Testimony) at 4-6 increased the TY24 WMVM O&M forecast from $169 million to $184 million.

[1496] SDG&E Ex-13-2R-E at JTW-93.

Table 19.9
SDG&E Estimated WMVM O&M Costs for 2024 Test Year

WMVM Category	2024 Test Year Estimated ($000s)
Emergency Planning & Preparedness	$16,236
Situational Awareness & Forecasting	$3,877
Grid Design & System Hardening	$25,399
Asset Management & Inspections	$15,375
Vegetation Management & Inspections	$15,167
Vegetation Management & Inspections – Tree Trimming Only	$69,913
Grid Operations & Operating Protocols	$14,769
Resource Allocation Methodology	$7,748
Risk Assessment & Mapping	$2,413
Data Governance	$1,650
Stakeholder Cooperation & Community Engagement	$11,565
WMVM Total O&M	**$184,111**

Table 19.10
SDG&E Estimated WMVM Capital Costs for 2024 Test Year

WMVM Category	($000s)
Risk Assessment & Mapping	$2,662
Situational Awareness & Forecasting	$1,864
Grid Design & System Hardening	$471,146
Asset Management & Inspections	$17,423
Grid Operations & Protocols	$8,100
Data Governance	$11,685
Emergency Planning & Preparedness	$2,496
Stakeholder Cooperation & Community Engagement	$3,131
Total Capital	**$518,507**

SDG&E bases its forecasted additional WMP costs on the factors discussed below.

19.3.2. Compliance with Approved Wildfire Mitigation Plans

As discussed above, SDG&E's WMP costs are partly driven by the statutory WMP requirements. More specifically, SDG&E states that its forecasted WMP work is consistent with Energy Safety's review of its statutory WMP for the 2023-2025 period.[1497] In its decision approving SDG&E's WMP, Energy Safety states that SDG&E has a relatively strong Wildfire Mitigation Plan, particularly in its vegetation management, situational awareness, emergency preparedness, and community outreach and engagement, knows its wildfire risk, and is focused on the highest risk circuits on its system.[1498] SDG&E further states that SDG&E is statutorily obligated to comply with its WMP initiatives, targets, and goals, and if SDG&E's wildfire mitigation activities go underfunded, SDG&E risks a finding that it has failed to substantially comply with its WMP, which can result in assessment of mandatory penalties by the Commission. However, SDG&E also recognizes that WMP approval is not synonymous with approval of associated costs—which are being addressed through the GRC process and other Commission proceedings.[1499]

Energy Safety decisions also do not address a utility's optimal portfolio of wildfire mitigations considering the affordability and reasonableness of rates. In evaluating a utility's WMP, Energy Safety considers the areas where the electrical corporation must improve, as well as the progress it plans to achieve in its areas of strength. In Energy Safety's approval of SDG&E's WMP, Energy Safety finds

[1497] Sempra Reply Brief at 304.

[1498] Sempra Reply Brief at 305, citing to Office of Energy Infrastructure Safety, Draft Decision on San Diego Gas & Electric Company's 2023-2025 WMP (August 30, 2023).

[1499] Sempra Reply Brief at 305.

SDG&E's WMP to be sufficient and expects it to complete mitigation initiatives as described. The approved WMP demonstrates adequate progress toward wildfire mitigation and shows areas where SDG&E must improve. The Energy Safety requirement of continuous improvement recognizes that SDG&E's and other utilities' wildfire risk assessment capabilities have not fully matured.

The risk that the Commission may find a utility has failed to comply with an approved WMP is more nuanced than SDG&E asserts. The Commission notes that SDG&E's current approved WMP may be modified based on this decision, as Energy Safety may authorize WMP changes to align the utility's WMP with a ratesetting proceeding.[1500] Sempra's and CUE's arguments that the Commission must adopt utility proposals that are based upon Sempra's WMP filings do not suspend the Commission's duty pursuant to Section 451 to ensure just and reasonable rates.[1501]

19.3.3. Wildfire Risk Analysis and Estimated Forecast Risk Reduction

SDG&E analyzes wildfire risk[1502] using its Wildfire Next Generation System Planning (WiNGS Planning) Model to better inform its investment strategies with

[1500] Office of Energy Infrastructure Safety Decision on Pacific Gas and Electric Company's Change Order Request in relation to its 2023-2025 Base Wildfire Mitigation Plan dated May 31, 2024 available at: https://energysafety.ca.gov/what-we-do/electrical-infrastructure-safety/wildfire-mitigation-and-safety/wildfire-mitigation-plans/2023-wildfire-mitigation-plans/.

[1501] Mussey Grade Road Alliance Reply Comments at 1-2.

[1502] These risks include: 1) the risk of catastrophic wildfire, especially those initiated by SDG&E equipment, resulting in fatalities, widespread property destruction, and multi-billion-dollar liability; 2) the risk of an asset failure, caused by degradation, age, operation outside of design criteria due to unexpected events or field conditions (e.g., force of nature) or an asset no longer complying with the latest engineering standards, which results in a safety or reliability incident; and 3) the risk of an incident, involving one or more on-duty employees, that causes serious injury or fatality (as defined by OSHA) to a company employee (SDG&E Ex-8 Incident Involving an Employee). Sempra Opening Brief at 414-415.

respect to grid hardening methods, including covered conductor and strategic undergrounding of electrical infrastructure.[1503] One common condition of SDG&E's service territory that is conducive to wildfires is the Santa Ana winds that have been directly linked to some of the largest and most destructive wildfires in Southern California. According to SDG&E, these winds, coupled with other weather conditions, dry fuels, and the cumulative impacts of climate change, result in an increased risk of catastrophic wildfires. Moreover, SDG&E's "fire season" continues to evolve—while the highest risk Santa Ana winds are still most prevalent during the late summer and early fall, wildfire conditions can be present almost year-round, and often well into the winter months.

According to SDG&E, approximately 64 percent of its service territory is within HFTDs, where there is an increased potential for wildfires.[1504] The HFTD consists of three areas: 1) High Hazard Zones near communities, roads, and utility lines, which are a direct threat to public safety;[1505] 2) Tier 2, "where there is an elevated risk for destructive utility-associated wildfires;" and 3) Tier 3, "where there is an extreme risk for destructive utility-associated wildfires." Although wildfire risk is not limited to the HFTD, the majority of the risk is associated with conditions present in Tier 2 and Tier 3 areas.[1506] SDG&E estimates that roughly 61.4 percent of the ignition consequences will occur in Tier 3, 36.2 percent in Tier 2, and only 2.4 percent in the non-HFTD.[1507] SDG&E states further that a

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[1503] Sempra Opening Brief at 425.

[1504] Sempra Opening Brief at 419.

[1505] *See* Fire-Threat Maps and Fire-Safety Rulemaking at: https://www.cpuc.ca.gov/industries-and-topics/wildfires/fire-threat-maps-and-fire-safety-rulemaking.

[1506] Sempra Opening Brief at 419.

[1507] Sempra Opening Brief at 420.

catastrophic fire that starts in the HFTD has the potential to spread outside the HFTD.

19.3.4. Cost-Effectiveness of Wildfire Mitigations

SDG&E's wildfire risk reduction versus cost data indicates that wildfire mitigation costs begin to increase exponentially at higher levels of risk reduction.[1508] Based on this analysis, SDG&E aims for an overall risk reduction target of 83 percent, which represents the highest risk reduction without exponential increases in costs. SDG&E estimates that it can achieve an 83 percent reduction in risk through 2031 by implementing the measures incorporated into its WMP.[1509] As of September 2022, 26 percent of SDG&E's overhead electric distribution infrastructure in the HFTD had undergone grid hardening.[1510]

SDG&E states further that it selects mitigations, such as undergrounding and covered conductor, using a similar analysis.[1511] SDG&E states that it uses its WiNGS Planning model to understand the RSE values of undergrounding and covered conductor to determine the optimal mitigation. Then if undergrounding presents a high enough RSE to meet both the overall risk mitigation target and circuit segment risk reduction, it finds it reasonable to underground the segment.[1512] SDG&E also states that it properly accounts for PSPS risk reduction in its calculation of global RSEs.[1513]

1508 Sempra Opening Brief at 432.

1509 SDG&E Ex-213-2R-E at 10:26-28.

1510 SDG&E Ex-49 at 4:13-14.

1511 Sempra Reply Brief at 306.

1512 Sempra Opening Brief at 433.

1513 Sempra Opening Brief at 434.

19.3.5. Wildfire Mitigation Capital Proposals

19.3.5.1. SDG&E's Grid Design and System Hardening Proposal

The tables below show SDG&E's forecast for electric distribution grid hardening to include plans to underground a total of 605 miles at approximately $1.6075 billion in forecasted capital expenditures (2024-2027) and to install a total of 180 miles of covered conductor for approximately $250.7 million in forecasted capital expenditures, or a combined total of 785 miles of grid hardening at a cost of $1.8583 billion.[1514] For 2024 and 2027, the amounts of $354.8 million and $537.3 million represent increases of 228 percent and 396 percent over the total 2021 undergrounding and covered conductor costs of $108.269 million.[1515] For Strategic Undergrounding alone, SDG&E forecasts $292.062 million in 2024, which is a 320 percent increase of $222.524 million over the 2021 Base Year amount of $69.538 million.[1516] For covered conductor alone, SDG&E forecasts $59.217 million in 2024, which is a 53 percent increase of $20.486 million over the 2021 Base Year amount of $38.731 million.[1517]

[1514] SDG&E Ex-13-2R-E Table JW-75 at 173; TURN Ex-08 at 4.

[1515] SDG&E Ex-12-2R-E at 61-62; $69.538 million in strategic underground plus $38.731 million in covered conductor costs = $108.269 million in 2021.

[1516] SDG&E Ex-13-2R-E at 107.

[1517] SDG&E Ex-13-2R-E at 106. In the last GRC for Test Year 2019, SDG&E's request for wildfire mitigation work was part of its request of $184.3 million in 2019 for its Safety and Risk Management Program (D.19-0-051 at 276 and 277), for which the Commission authorized $177.3 million (D.19-05-051 at 298).

Table 19.11
Undergrounding Miles and Costs: TURN vs. SDG&E[1518]

	2024	2025	2026	2027	Total
	Miles – Undergrounding				
TURN	35	35	35	35	**140**
SDG&E	125	150	160	170	**605**
	Costs – Undergrounding (Millions of 2021 Dollars)				
TURN	$82.6	$94.7	$95.5	$96.8	**$370**
SDG&E	$295.0	$405.8	$436.7	$470.1	**$1,607.5**

Table 19.12
Covered Conductor Miles and Costs: TURN vs. SDG&E[1519]

	2024	2025	2026	2027	Total
	Miles – Covered Conductor				
TURN	100	100	100	100	**400**
SDG&E	60	40	40	40	**180**
	Costs – Covered Conductor (Millions of 2021 Dollars)				
TURN	$71.9	$71.9	$71.9	$71.9	**$287.4**
SDG&E	$59.8	$60.4	$63.3	$67.2	**$250.7**

Table 19.13
All Hardening Miles and Costs: TURN vs. SDG&E[1520]

	2024	2025	2026	2027	Total
	Total Miles – Hardening (UG + CC)				
TURN	135	135	135	135	**540**
SDG&E	185	190	200	210	**785**
	Total Costs – Hardening (Millions of 2021 Dollars)				
TURN	$154.5	$166.5	$167.4	$168.6	**$657.0**
SDG&E	$354.8	$466.1	$500.1	$537.3	**$1,858.3**

SDG&E bases its proposed grid hardening and wildfire mitigation capital proposals – including its proposed balance of undergrounding electric lines and covered conductor – on its overall risk reduction approach, data-informed

1518 TURN Ex-08-E at 4, 41-44.

1519 TURN Ex-08-E at 4.

1520 TURN Ex-08-E at 43.

calculations of both global and segment-specific risk reduction, and cost calculations.[1521] This approach is programmed into SDG&E's WiNGS Planning model's analysis. According to SDG&E, this model is designed to identify and select undergrounding based on RSE logic. Although SDG&E states that its strategic undergrounding presents the maximum amount of wildfire and PSPS risk reduction, SDG&E states that its RSE logic is fundamentally rooted in the reduction of wildfire risk, rather than PSPS risk. If a segment meets the RSE for undergrounding—namely, if the wildfire risk reduction can be achieved for the right cost—WiNGS recommends undergrounding the segment.[1522]

SDG&E contends that its proposed mitigation portfolio of undergrounding and covered conductor is the most cost-effective for several reasons. First, SDG&E states that its proposal results in the most wildfire risk reduction per dollar.[1523] Second, SDG&E states that for lifecycle cost analysis, SDG&E considered the historical cost of vegetation management activities, inspections, and cost associated with PSPS events over the lifetime of the assets, and states that there is 20 percent cost savings over the lifetime of the segment when undergrounding the segment as compared to leaving it as overhead.[1524] Third, SDG&E states that its selection of wildfire mitigation also addresses cross-functional factors including asset management, emergency preparedness, and foundational technology systems.[1525]

[1521] Sempra Opening Brief at 434-435.

[1522] Sempra Opening Brief at 436.

[1523] Sempra Opening Brief at 437.

[1524] Sempra Opening Brief at 435.

[1525] Sempra Opening Brief at 415.

Finally, SDG&E states that although its grid hardening proposals are rooted in reduction of wildfire risk, undergrounding has the distinct advantage of resulting in the near elimination of PSPS impacts on customers, promoting reliability, resiliency, and safety for customers. In contrast, SDG&E states that covered conductor may lessen the impacts of PSPS during some wind events, but SDG&E must continue to consider PSPS as a wildfire mitigation for covered conductor circuits.[1526]

19.3.5.1.1. Significant Intervenor Approaches, Recommendations, and Contentions

Several parties, including TURN, Cal Advocates, MGRA, PCF, and SBUA, contest SDG&E's grid hardening forecast, proposing substantially fewer miles of undergrounding and covered conductor for less cost.[1527]

For 2024 through 2027, TURN recommends undergrounding 140 miles of line and installing 400 miles of covered conductor, totaling 540 miles of grid hardening for a total cost of $657 million. TURN summarizes its approach as providing 78 percent of the benefit of SDG&E's proposed hardening program at 35 percent of the costs for a savings of $1.2 billion for SDG&E's customers.[1528]

In support of its recommendation, TURN discusses several factors or arguments. First, TURN's recommendation targets the most expensive mitigation at only the highest risk circuits. In contrast, SDG&E acknowledges "undergrounding is… often the most expensive hardening alternative on a per-

[1526] Sempra Opening Brief at 438-440.

[1527] Sempra Opening Brief at 442-450; Sempra Reply Brief at 302-326.

[1528] TURN Reply Brief at 35-36.

mile basis."[1529] SDG&E proposes to spend 87 percent[1530] of its proposed $1.9 billion of grid hardening on undergrounding alone.[1531]

Second, TURN argues that SDG&E seems to have successfully mitigated wildfire risk and has a lower risk than other utilities, which may be due to its geography and previous wildfire mitigation efforts.[1532] This track record puts into question the need for the utility to change course now and propose heavy investment in the most expensive wildfire mitigation.[1533]

Third, SDG&E's geographically closest neighbor utility, SCE, has demonstrated successes with covered conductor. On its 4,400 miles of covered conductor, SCE has: 1) not had "a CPUC-reportable ignition from the drivers that covered conductor is expected to mitigate" "on segments where SCE has covered bare wire;" 2) increased "the estimated mitigation effectiveness for Wildfire Covered Conductor Program… from approximately 67 percent to 72 percent;" and 3) "experience[d] approximately 70 percent less faults than bare conductor when factoring in all subdrivers" on covered circuits.[1534]

1529 SDG&E Ex-13-2R-E at 135: 5-6.

1530 $1,607.5 million/$1,858.3 million x 100 = 87%.

1531 TURN Opening Brief at 199 citing to TURN Ex-08-E at 4, Table 1, 6:7.

1532 TURN Opening Brief at 205.

1533 TURN Opening Brief at 207.

1534 TURN Opening Brief at 208.

Fourth, TURN and MGRA[1535] argue that SDG&E's risk analysis has significant deficiencies, including:

1. By relying on only two tranches (Tier 2 and Tier 3)[1536] for its risk analysis, SDG&E masks variation in risk and cost-effectiveness of mitigations across different assets.[1537]
2. SDG&E's RSE Model scores do not support SDG&E's proposed budget for undergrounding work because SDG&E's RSE Model relies on limited tranches which, TURN argues, masks the significant differences in the cost-effectiveness of SDG&E's programs. In addition, TURN argues that, after the inputs to the RSE Model are corrected, undergrounding is shown to be less effective than most other wildfire mitigations proposed by the utility.[1538]
3. SDG&E overstates the annual wildfire risk for its territory in several ways. TURN bases its risk analysis on a 1/15 chance of a 200,000 acre fire based on the size of the Witch fire in 2007;[1539] whereas SDG&E uses a value of 500,000 acres that is based on statewide data and is not based on fires solely caused by utilities, and does not consider planned mitigations.[1540] SDG&E disputes TURN's methodology and use of its 200,000 acres burned figure.[1541]
4. SDG&E understates the cost of undergrounding in the RSE Model by relying on a unit cost for undergrounding based on an underground mile being equal to an overhead mile. The two are not equal because it takes an average of 1.2 miles of electrical line underground to cover one mile of overhead line. This is so because underground miles must

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[1535] MGRA Opening Brief at 40-60.

[1536] TURN Ex-08-E at 17:11-17:13.

[1537] TURN Opening Brief at 210.

[1538] TURN Opening Brief at 209.

[1539] TURN Opening Brief at 211-214; TURN Reply Brief at 47-48.

[1540] Sempra Opening Brief at 211.

[1541] SDG&E Opening Brief at 428-429.

go around impediments, whereas an overhead line can cross creeks, canyons, and other impediments. This leads to an inflated RSE Model value for undergrounding.[1542]

5. The RAMP Model RSE for undergrounding is inaccurately driven primarily by PSPS risk reduction.[1543] SDG&E disputes this and asserts that its approach is necessarily based on the requirements of the WMP and Energy Safety's WMP Guidelines.[1544]
6. The RSEs suggest that other mitigations are much more impactful on a per dollar basis than undergrounding.
7. SDG&E used a flawed decision tree for undergrounding and covered conductor that is biased towards undergrounding even if covered conductor is more cost-effective for that circuit segment. SDG&E's decision tree will select undergrounding even when covered conductor has a higher RSE on that circuit segment. TURN also notes that risk in SDG&E's HFTD is relatively concentrated. For example, the top 50 percent of wildfire risk is contained in over 657 miles, and the bottom 50 percent in over 2,840 miles.[1545] SDG&E has not stated how many miles in HFTD are already undergrounded.
8. SDG&E overstates the impact of its proposal for PSPS risk mitigation.
9. SDG&E understates the potential risk reduction benefits of covered conductor.
10. SDG&E incorporates assumptions that inaccurately reduce the cost-effectiveness of covered conductor. For example, SDG&E relies on a unit cost of $1 million per mile for covered conductor instead of the estimate of $800,000 per

[1542] TURN Opening Brief at 211-213.

[1543] TURN Opening Brief at 215-216.

[1544] SDG&E Opening Brief at 434.

[1545] TURN Opening Brief at 220-221; s*ee also* MGRA Opening Brief at 33-38.

> mile that TURN argues is more accurate.[1546] SDG&E disputes TURN's comparison with SCE for this argument by stating SCE and SDG&E have programmatic and operational differences that do not allow for a direct cost comparison from utility to utility.[1547]

SBUA argues that SDG&E should be required to fully evaluate prior to the next GRC the deployment of microgrids to cost effectively displace portions of the distribution grid that are at risk to wildfires, improve local reliability, and replace natural gas lines while reducing GHG emissions before Commission authorization of undergrounding or other grid hardening approaches. SBUA bases this recommendation on a lower estimated cost for remote grids and SDG&E's installations of microgrids to address wildfire risks such as in Borrego Springs.[1548]

PCF and SBUA each generally object to SDG&E's undergrounding proposals and propose alternatives including de-energization mitigated by alternative distribution sources of solar plus storage or microgrids.[1549] PCF recommends that deployment of solar plus battery systems in HFTDs should be adopted as an alternative to SDG&E'S undergrounding to cost-effectively reduce PSPS events and wildfire risks. PCF states that deploying customer-sited solar plus storage at all customer locations in the SDG&E Tier 3 HFTD would be a much more cost-effective solution to PSPS events than the high-cost grid hardening proposed by SDG&E.[1550]

1546 TURN Opening Brief at 226-230.

1547 SDG&E Reply Brief at 319-320.

1548 SBUA Opening Brief at 12-14.

1549 SBUA Ex-1 at 23.

1550 PCF Ex-1 at 1-4 and 15-16; PCF Opening Brief at 40-41; PCF Opening Comments at 7-9.

Finally, PCF argues that the Commission should not approve wildfire mitigation-related revenue requirements before the Commission has reviewed the costs to implement any of SDG&E's wildfire mitigation plans.[1551]

19.3.5.1.2. Discussion of Strategic Undergrounding and Covered Conductor Mileage and Cost Estimates

The parties addressing wildfire mitigation costs reasonably focus on the balance between the incremental cost of reducing wildfire risk and the affordability of SDG&E electricity rates. Each party claims to propose an optimal balance between these two factors. As part of this debate, each party also claims that its methodology is the most appropriate and the other parties' approaches are flawed.[1552] The Commission must also balance the increasing threat of climate change against the impact of increasing costs for work to mitigate wildfire risk.

In this GRC, the debate focuses more specifically on the optimal balance between the two leading wildfire mitigation strategies: undergrounding, which refers to reinstalling electric lines underground, and covered conductors, which protect electric lines left above ground. Covered conductors encompass installing standard electric line conductors with a 3-layer covering to prevent ignitions resulting from incidental contacts with other lines or objects. Other construction activities may also be required to accommodate covered conductors and comply with pole loading and clearance requirements.[1553]

Based on the assumptions and figures provided by SDG&E, covered conductors have a significant advantage in lower cost per unit compared to

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[1551] PCF Opening Comments at 9-14.

[1552] SDG&E Reply Brief at 306-315.

[1553] SDG&E Ex-13-2R-E at 109.

undergrounding. As a result, using 100 percent covered conductors would allow for more implementation of grid hardening and mitigation measures over the GRC period for a given budget. More implementation of grid-hardening would mean faster realization of wildfire risk reduction. All other things being equal, a faster realization of risk reduction is preferred over delaying the risk reduction. However, the competing goal of achieving the highest ultimate risk reduction must also be considered. Since covered conductors are only approximately 65 percent effective in mitigating ignitions compared to 98 percent for undergrounding,[1554] at a certain point in the future, after grid-hardening has reached a certain level, a grid-hardening strategy that relies mostly on covered conductors will not be as safe as one that primarily relies on undergrounding. This is the unavoidable safety versus rate affordability tradeoff that stakeholders in the GRC and the Commission must address.

Over the 2024-2027 period, SDG&E's proposed "least regrets" approach of 605 miles of undergrounding and 180 miles of covered conductor claims to balance strategic undergrounding with covered conductor installation and provide the best value by maximizing utility wildfire risk reduction and reducing PSPS impacts.[1555] For this approach, SDG&E proposes to increase the pace of undergrounding and spend three times as much on these two mitigations in 2024 and five times as much in 2027 than in 2021.

Considering all of the above, the Commission finds that SDG&E has not met its burden to demonstrate that its proposal is just and reasonable. The Commission does not find it reasonable for SDG&E to spend as much as it

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[1554] Sempra Opening Brief at 437.

[1555] Sempra Opening Brief at 432, 444; Sempra Reply Brief at 306.

proposes[1556] when its wildfire risk has decreased considerably in the last 15 years,[1557] and its rates have reached levels higher than other utilities in the state. This finding is supported by SDG&E's geography and wildfire mitigation work completed that contribute to decreased wildfire risk.

Furthermore, SDG&E's wildfire risk and the benefits of undergrounding may be even lower considering possible deficiencies in SDG&E's risk analysis discussed above, such as the limited number of tranches, an underestimation of the cost of undergrounding, an analytical bias toward undergrounding, and an underestimation of the risk reduction benefits of covered conductor. Given SDG&E's assessment of its wildfire risk, the Commission also does not find it reasonable to spend six times as much on undergrounding as on covered conductor in light of the cost-effectiveness of covered conductors.

Based on the above, the Commission finds a slower pace of undergrounding at a lower cost to be reasonable, and such a balance of additional investments in safety is provided by TURN's recommendation. TURN's proposed balance builds on SDG&E's track record by installing more covered conductor than SDG&E proposed and reserving less undergrounding for additional miles in the highest fire risk areas. Accordingly, the Commission adopts TURN's recommendations regarding capital costs for undergrounding and covered conductor for 2024. The decision does not adopt SDG&E's Post-Test Year attrition year mechanism. Instead, the decision adopts a 3 percent Post-Test Year escalation factor as explained in the Post-Test Year Ratemaking Section of the

[1556] TURN Opening Brief at 207-208.

[1557] TURN Opening Brief at 205-207.

decision, which will allow SDG&E to continue its wildfire mitigation activities at a reasonable pace.

This conclusion is supported by the Energy Safety decision approving SDG&E's 2023-2025 WMP in which Energy Safety finds that "SDG&E is often prioritizing undergrounding compared to other mitigations through its mitigation decision-making process and does not provide adequate justification for its undergrounding projects."[1558] SDG&E also does not demonstrate its analysis of risk drivers for a specific location, and instead appears to default to undergrounding during its selection process.[1559]

SDG&E opposes the use of microgrids as a wildfire risk reduction mechanism for a variety of reasons, including that they only serve as a PSPS mitigation, there are limitations on the number of customers they can serve and the power they can provide, and they are not a feasible option for continued usage across the entire fire season.[1560]

SDG&E also opposes consideration of the possibility of using solar plus storage (SPS) as an alternative to undergrounding because it is not cost-effective for a variety of reasons. PCF disputes this, but it is not clear how customers would buy their own SPS systems using their own funds, which is outside the scope of this proceeding and the Commission's jurisdiction.[1561] Without resolving this fundamental challenge, the Commission finds insufficient information to implement SPS at this time as a wildfire risk mitigation measure.

1558 TURN Reply Brief at 35 citing to the now-final Office of Energy Infrastructure Safety Decision on 2023-2025 SDG&E's Wildfire Mitigation Plan (dated October 2023) at 30.

1559 TURN Reply Brief at 35 citing to the now-final Office of Energy Infrastructure Safety Decision on 2023-2025 SDG&E's Wildfire Mitigation Plan (dated October 2023) at 30.

1560 Sempra Reply brief at 323-324.

1561 Sempra Opening Brief at 449.

However, the Commission recognizes that the wildfire risk mitigation measures discussed above may have merit as a method of mitigating the impact of PSPS events and provide an alternative to undergrounding in the future. As such, these measures should continue to be pursued where reasonable in other proceedings. The possible future feasibility of SPS and other remote grid alternatives[1562] also supports not approving the installation of undergrounding at the pace proposed by SDG&E.

In the next GRC, the Commission expects SDG&E to provide more information, as required by its WMP, including the number of miles of electrical lines it has undergrounded and installed with covered conductor in HFTDs, along with the number of miles of electrical lines it proposes to underground and install with covered conductor in HFTDs, and where. This information should improve planning designed to avoid leaving a gap in high-risk areas, paying to harden any areas twice, or otherwise contribute to delay, which the Commission expects the utility to avoid in this rate cycle as well. See, for example, SDG&E's overview in its 2023-2025 WMP of its key electrical equipment, including that it has undergrounded over 2,800 miles of its 11,252 miles of transmission and distribution line circuit.[1563] SDG&E shall also coordinate its risk analysis for its WMP with its RAMP to the extent possible.

19.3.5.2. Lightning Arrestors

This work category includes capital costs for lightning arrestor replacements and the installation of avian protection. SDG&E plans to build and place in service 5,544 lightning arrestors to protect electric power equipment from

[1562] D.23-11-069 at 243.

[1563] *See* SDG&E 2023-2025 Wildfire Mitigation Plan dated March 27, 2023 at 27.

exceeding thermal insulation ratings in the event of surge voltages due to lightning strikes or other faults.[1564]

SDG&E plans to protect 1,101 distribution poles with avian protection equipment by 2024. In compliance with federal and state laws, avian protection equipment prevents the electrocution of birds that may cause faults and damage to equipment that can lead to ignitions and impact reliability. The installation of avian protection covers is now performed in HFTDs with other projects to reduce project costs.[1565]

SDG&E forecasts $3.557 million for 2024. This forecast is zero-based or calculated based on the scope of work due to the lack of separate historical data prior to 2021. SDG&E plans to install 1,848 lightning arrestors in 2024, which is an increase of 36 over 2021 at an incremental cost of $0.391 million, and avian protection at 570 poles with an associated capital cost increase of $1.371 million.[1566]

Cal Advocates recommends a reduction to SDG&E's 2024 forecast for the Lightning Arrestor Removal/Replacement sub-program in 2021 dollars based on SDG&E's 2021 unit cost and the number of installations in high fire-threat areas only.[1567]

In its argument against Cal Advocates' recommended reduction, SDG&E does not explain the other factors SDG&E claims have resulted in cost increases that Cal Advocates should have considered,[1568] nor why SDG&E's forecast should

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[1564] SDG&E Ex-13-2R-E at 122.

[1565] SDG&E Ex-13-2R-E at 122.

[1566] SDG&E Ex-12-R-E at 122.

[1567] Cal Advocates Opening Brief at 195.

[1568] SDG&E Opening Brief at 450-451.

be higher than $3.2 million in 2024 ($0.357 million more). Accordingly, the Commission finds Cal Advocates' reduction of $0.357 million to be reasonable and adopts a capital forecast for SDG&E lightning arrestors, including an uncontested amount for avian protection equipment, of $3.2 million for 2024.

19.3.5.3. Uncontested Grid Design and System Hardening (GD&SH) Costs

No party disputed SDG&E's remaining 2024 capital GD&SH forecasts. Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the amounts in the following categories to be reasonable and adopts them:[1569]

- SCADA Capacitor Replacement: $1.427 million;
- Private Long-Term Evolution: $70.179 million;
- HFTD Transmission Fiber Optics: $7.700 million;
- Overhead System Traditional Hardening: $5.479 million;
- Expulsion Fuse Replacements: $0;
- Advanced Protection: $5.540 million;
- Microgrids: $2.4 million;
- Overhead Transmission Fire Hardening (Distribution Underbuild): $14.464 million;
- PSPS Sectionalizing Enhancements: $1.567 million;
- Cleveland National Forest Fire Hardening: $1.206 million; and
- High Risk Pole Replacement Program: $6.348 million.

19.3.5.4. Total Grid Design and System Hardening Capital Authorization

For GD&SH capital, SDG&E requested $471.146 million for 2024. The GD&SH capital reductions established above are $197.136 million for 2024. This

[1569] SDG&E Ex-13-2R-E at JTW-106-107.

results in a capital authorization for the GD&SH budget category of $274.010 million for 2024.

19.3.5.5. Uncontested Capital Wildfire Mitigation Forecasts

No party disputed SDG&E's remaining 2024 capital wildfire mitigation forecasts. Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the amounts in the following categories to be reasonable and adopts them:[1570]

- Risk Assessment and Mapping: $2.662 million;
- Situational Awareness and Forecasting: $1.864 million;
- Asset Management and Inspections: $17.423 million;
- Grid Operations and Protocols: $8.100 million;
- Data Governance: $11.685 million;
- Emergency Planning and Preparedness: $2.496 million; and
- Stakeholder Cooperation and Community Engagement: $3.131 million.

19.3.6. SDG&E's Wildfire Mitigation and Vegetation Management Non-Shared O&M Expenses

19.3.6.1. Cal Advocates Recommendations Regarding Various Programs

SDG&E requests $ 184.111million[1571] for 2024 O&M expenses associated with Wildfire Mitigation and Vegetation Management, which is $15.675 million greater than 2021 levels.[1572] This increase is driven by the implementation of new technologies and projects aimed at reducing wildfire risk, increases in labor costs,

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1570 SDG&E Ex 12-R-E at 3.

1571 SDG&E Ex. SDG&E-401 at 5-6.

1572 SDG&E Ex401 at5.

and increased grid hardening efforts. SDG&E used a base year forecast method to develop its Wildfire Mitigation and Vegetation Management O&M forecasts.[1573]

Cal Advocates recommends a 2024 WMVM O&M forecast of $162.468 million.[1574] Cal Advocates' recommended reductions are within the following categories: GD&SH, Vegetation Management and Inspections, and Vegetation Management and Inspections – Tree Trimming Only. Of these categories, SDG&E only specifically addressed the two categories below.

19.3.6.2. Standby Power Programs

SDG&E requests $10.350 million for O&M expenses associated with Standby Power Programs, which is $1.416 million greater than 2021 Base Year levels.[1575] Cal Advocates recommends an O&M forecast of $9.202 million, which is $1.148 million less than SDG&E's forecast. Cal Advocates bases its reduction on SDG&E's average unit costs for generators in Tier 3 and Tier 2 fire threat areas.[1576]

In response, SDG&E states that Cal Advocates ignores SDG&E's $1.416 million increase in Standby Power Programs due to its shift to sustainable power offerings such as batteries in lieu of traditional propane generators.[1577] Based on this additional cost, the Commission finds SDG&E's forecast for Standby Power Programs to be reasonable and denies Cal Advocates' recommended reduction for this program.

[1573] Cal Advocates Opening Brief at 185-186.

[1574] Cal Advocates Opening Brief at 186.

[1575] SDG&E Ex-13-2R-E at JTW-52.

[1576] CA Ex-07 at 14.

[1577] SDG&E Ex-213 at JTW-29.

19.3.6.3. Vegetation Management and Inspections (VM&I)

SDG&E's Vegetation Management program includes the activities of (1) pole brushing or clearing, (2) fuels management, and (3) tree planting for compliance, fire prevention, public safety, environmental enhancement and stewardship, and sustainability.[1578] SDG&E requests $15.167 million for 2024 O&M expenses associated with Vegetation Management, which represents a $4.802 million increase above its recorded O&M expenses for the 2021 Base Year.[1579]

Cal Advocates recommends a 2024 O&M forecast of $11.615 million, which is $2.686 million less than SDG&E's pre-Update Testimony forecast and $3.552 million less than SDG&E's post-Update Testimony forecast, based on recommended reductions to SDG&E's forecasts for the Fuels Management Program and Pole Brushing.[1580]

19.3.6.3.1. Fuels Management Program

The Fuels Management Program consists of three activities: fuels treatment, vegetation abatement, and fuels reduction grants. SDG&E requests $6.274 million for 2024 O&M expenses associated with the Fuels Management Program, which is $1.858 million more than its recorded O&M expenses in 2021.[1581] SDG&E states that it bases its forecast on the 2021 Base Year because of new initiatives and programs it has implemented due to the WMP, and these enhancements are not captured in historical costs. As an example, SDG&E describes an increased use of

[1578] SDG&E Ex-13-2R-E at 61, 66-67.

[1579] SDG&E Ex-13-2R-E at JTW-61; Sempra Opening Brief at 414.

[1580] CA Ex-07 at 15.

[1581] SDG&E Ex-13-2R-E at 67.

fuels reduction grants to promote community engagement and lead defensible space efforts. In addition, SDG&E estimates an increase in this category due to anticipated increases in contract labor costs to perform mechanical vegetation management in SDG&E rights-of-way.[1582]

For this category, Cal Advocates recommends a 2024 forecast of $5.246 million.[1583] Cal Advocates bases its recommendation on its calculation of an average cost for clearing structures in Tiers 2 and 3 in 2021 costs. Using this average, Cal Advocates estimates the total cost of clearing the number of structures SDG&E plans to clear in 2024 to be $5.246 million.[1584] Contrary to SDG&E's unquantified cost drivers, the Commission finds Cal Advocates' quantifiable methodology to be reasonable and adopts a 2024 O&M forecast for SDG&E for Fuels Management of $5.246 million.

19.3.6.3.2. Pole Brushing

Pole Brushing involves clearing flammable brush and vegetation away from distribution poles in accordance with California Public Resources Code Section 4292.[1585] SDG&E requests $7.893 million for 2024 O&M expenses associated with Pole Brushing, which is $2.337 million greater than its recorded O&M expenses for Base Year 2021.[1586] Cal Advocates recommends a 2024 forecast of $5.369 million.[1587]

[1582] Sempra Opening Brief at 452.

[1583] CA Ex-07 at 16.

[1584] Sempra Opening Brief at 189-190.

[1585] SDG&E Ex-13-2R-E at 61.

[1586] SDG&E Ex-12-2R-E at 67; Sempra Opening Brief at 414, 451-452; SCG Ex-401/SDGE Ex-401 at 5. SDG&E's Pole Brushing forecast was updated in Update Testimony SCG Ex-401/SDGE Ex-401.

[1587] CA Ex-07 at 16.

Cal Advocates bases its recommendation on its calculation of an average cost for brushing or clearing poles in Tiers 2 and 3 in 2021 costs. Using this average, Cal Advocates estimates the total cost of clearing the number of poles SDG&E plans to clear in 2024 to be $5.369 million.[1588] The Commission finds Cal Advocates' quantifiable methodology to be reasonable and adopts a 2024 O&M forecast for SDG&E for Pole Brushing of $5.369 million. In contrast, the Commission finds SDG&E's forecast to be less well-quantified and less supported.

19.3.6.3.3. Tree Planting

To compensate for the removal of problematic trees, SDG&E initiated a tree planting program in 2021 to build resilience to mitigate the impacts of climate change and to provide health benefits to the community. Tree planting can provide important resilience and health benefits to local communities. For this activity, SDG&E's 2024 forecast is $1 million, which is unopposed. The Commission finds this activity and forecast to be reasonable and adopts it.[1589]

19.3.6.3.4. VM&I Authorization

The total VM&I authorization is as follows:

Table 19.14: VM&I Costs Authorization

$5.246 million	Fuels Management
$5.369 million	Pole Brushing
$1.000 million	Tree Planting
$11.615 million	Subtotal
$0.866 million	Increased VM&I costs within Update Testimony[1590]
$12.481 million	**VM&I Authorization**

[1588] Cal Advocates Opening Brief at 190.

[1589] SDG&E Ex-13-2R-E at 66-67.

[1590] SDG&E Ex-401 at 5.

19.3.6.4. Vegetation Management and Inspections - Tree Trimming Only (VM&I – Tree Trimming Only)

As part of its Vegetation Management Program, SDG&E inspects, trims, and removes trees in high-fire threat and non-high-fire threat districts as part of SDG&E's Enhanced Vegetation Management (EVM) Program.[1591] Within the HFTDs, SDG&E's EVM Program also includes activities beyond those required by applicable General Orders and regulations by including additional tree inspections and enhanced post pruning clearances annually.[1592]

SDG&E requests $69.913 million for 2024 expenses associated with VM&I – Tree Trimming Only.[1593] For this cost, SDG&E's 2024 forecast is $17.718 million greater than its recorded O&M expenses for 2021. Cal Advocates recommends that the Commission authorize a forecast of $49.547 million, which is $6.075 million less than SDG&E's pre-Update Testimony forecast and $20.366 million less than SDG&E's post-Update Testimony forecast.[1594] The VM&I – Tree Trimming Only category is comprised of three sub-categories: Tree Trimming in HFTDs, EVM, and Tree Trimming in Non-HFTDs. Cal Advocates opposes SDG&E's forecasts for Tree Trimming in HFTDs and Tree Trimming in Non-HFTDs.[1595]

SDG&E requests $27.232 million for 2024 expenses associated with Tree Trimming in HFTDs. SDG&E's 2024 forecast is $1.888 million greater than its

[1591] SDG&E Ex-13-2R-E at 68-71.

[1592] SDG&E Ex-13-2R-E at 71.

[1593] SDG&E Ex-401 at 6.

[1594] CA Ex-07 at 17.

[1595] Cal Advocates Opening Brief at 190-191.

recorded expenses in 2021.[1596] Cal Advocates recommends a 2024 forecast of $26.612 million.[1597] Cal Advocates bases this reduction on the actual 2021 Tier 3 costs divided by the actual number of trees inspected in Tier 3 areas that year to derive a Tier 3 unit cost of $97. Cal Advocates used the same method to derive a Tier 2 unit cost of $97 as well. Using these unit costs and the number of trees SDG&E plans to inspect in Tier 3 and Tier 2 areas, Cal Advocates recommends a total cost for 2024 Tree Trimming in HFTDs of $26.612 million.[1598] Using the same methodology, Cal Advocates proposes an alternative forecast for 2024 Tree Trimming in Non-HFTDs of $12.700 million.[1599]

SDG&E contends that Cal Advocates errs in its calculation of Tree Trimming costs by understating the number of units in HFTDs and non-HFTDs and not considering inflationary and other pressures.[1600] However, it is not clear how such inflationary pressures are not accounted for in the O&M attrition mechanism. Nevertheless, SDG&E calculated a reduction in its tree trimming forecast based on corrected unit counts for the HFTDs and non-HFTDs. Applying Cal Advocates' unit cost methodology to the corrected unit counts results in 2024 forecasts of $26.612 million for Tree Trimming in HFTDs[1601] and $15.269 million for Tree Trimming in Non-HFTDs. The Commission finds this amount to be reasonable and adopts the following 2024 forecasts: Vegetation Management and Inspections – Tree Trimming Only in HFTDs of $26.612 million and in Non-

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[1596] SDG&E Ex-13-2R-E at JTW-72.

[1597] CA Ex-07 at 17.

[1598] Cal Advocates Opening Brief at 191.

[1599] Cal Advocates Opening Brief at 192.

[1600] Sempra Opening Brief at 451-152.

[1601] Cal Advocates Opening Brief at 191.

HFTDs of $15.269 million. In addition, the Commission finds SDG&E's undisputed 2024 EVM program forecast of $10.235 million to be reasonable and adopts it.[1602]

19.3.6.4.1. VM&I - Tree Trimming Only Authorization

The total VM&I– Tree Trimming Only authorization is as follows:

Table 19.15: Total VM&I - Tree Trimming Only Authorization

$26.612 million	Tree Trimming in HFTDs
$15.269 million	Tree Trimming in Non-HFTDs
$10.235 million	EVM
$52.116 million	Subtotal
$14.291 million	Increased VM&I – Tree Trimming Only costs within Update Testimony[1603]
$66.407 million	**Total VM&I -Tree Trimming Only Authorization**

19.3.6.5. Uncontested O&M Wildfire Mitigation and Vegetation Management Forecasts

Based on SDG&E's methodology and cost drivers in its supporting documents, the Commission finds the uncontested amounts in the following categories to be reasonable and adopts them:

Table 19.16
Uncontested Amounts

WMVM Category	2024 Test Year Request ($ millions)
Emergency Planning & Preparedness	$16.236
Situational Awareness & Forecasting	$3.877
Grid Design & System Hardening	$25.399
Asset Management & Inspections	$15.375
Grid Operations & Operating Protocols	$14.769
Resource Allocation Methodology	$7.748
Risk Assessment & Mapping	$2.413

[1602] SDG&E Ex-13-2R-E at 72-73.

[1603] SDG&E Ex-401 at 5.

WMVM Category	2024 Test Year Request ($ millions)
Data Governance	$1.650
Stakeholder Cooperation & Community Engagement	$11.565

19.3.7. Summary – Wildfire Mitigation and Vegetation Management Costs

The tables below summarize Wildfire Mitigation and Vegetation Management O&M and capital authorizations for Test Year 2024:

Table 19.17

WMVM O&M for Test Year 2024	Proposed Decision ($ million)
Fuels Management	$5.246
VM&I - Pole Brushing	$5.369
VM&I - Tree Planting	$1.00
Increased VM&I costs	$0.866
VM&I – Tree Trimming Only Vegetation Management & Inspections in HTFDs	$26.612
VM&I – Tree Trimming Only Vegetation Management & Inspections in Non-HTFDs	$15.269
VM&I – Tree Trimming Only – EVM	$10.235
Increased VM&I costs Tree Trimming only	$14.291
Emergency Planning & Preparedness	$16.236
Situational Awareness & Forecasting	$3.877
Grid Design & System Hardening	$25.399
Asset Management & Inspections	$15.375
Grid Operations & Operating Protocols	$14.769
Resource Allocation Methodology	$7.748
Risk Assessment & Mapping	$2.413
Data Governance	$1.650
Stakeholder Cooperation & Community Engagement	$11.565
Total	**$177.920**

Table 19.18

WMVM Capital Costs for 2024 Test Year	Proposed Decision ($ million)
Undergrounding and Covered Conductor	$154.500
SCADA Capacitor Replacement	$1.427
Private Long Term Evolution	$70.179
HFTD Transmission Fiber Optics	$7.700
OH System Traditional Hardening	$5.479
Expulsion Fuse Replacements	$0.00
Advanced Protection	$5.540
Lightning Arrestor	$3.200
Microgrids	$2.400
Overhead Transmission Fire Hardening	$14.464
PSPS sectionalizing Enhancement	$1.567
Cleveland National Forest Fire Hardening	$1.206
High Risk Pole Replacement Program	$6.348
Risk Assessment & Mapping	$2.662
Situational awareness Forecasting	$1.864
Asset Management & Inspections	$17.423
Grid Operations & Protocols	$8.100
Data Governance	$11.685
Emergency Planning & Preparedness	$2.496
Stakeholder Cooperation & Community Engagement	$3.131
Total	**$321.371**

19.3.8. Regulatory Accounts

19.3.8.1. Proposed Balancing Account for Wildfire Mitigation Activities

Wildfire mitigation costs are tracked in the wildfire mitigation memorandum account and are subject to reasonableness review. SDG&E proposes that such costs be recorded in a two-way balancing account instead to promote the flexibility necessary to allow SDG&E to respond to evolving wildfire risks and regulatory requirements while also providing insight and transparency into incremental costs.[1604]

Cal Advocates opposes reducing the level of review and oversight of this memorandum account by converting it to a balancing account. Cal Advocates asserts that such a balancing account would not provide the same level of regulatory oversight. Cal Advocates contends that maintaining such review is needed due to the substantial and variable costs of WMP activities.[1605]

TURN also recommends no change to this memorandum account.[1606] The Commission agrees with Cal Advocates' and TURN's arguments against converting this account. Given SDG&E's relatively high rates, the Commission declines to reduce the review of wildfire mitigation costs by converting this memorandum account to a balancing account.

19.3.8.2. Activities Included in SDG&E's Vegetation Management Balancing Account

SDG&E currently records tree trimming costs in a Tree Trimming Balancing Account (TTBA). SDG&E proposes that the Commission authorize SDG&E to expand this account into a Vegetation Management Balancing Account (VMBA) to efficiently incorporate all vegetation management activities, including pole brushing, fuels management, and the 10,000 Trees program.[1607] SDG&E makes this request because vegetation management expenditures are important for

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[1604] Sempra Opening Brief at 423-425.

[1605] CA Ex-07 at 26.

[1606] TURN Opening Brief at 438-439.

[1607] Sempra Opening Brief at 452.

mitigating wildfire risk, and such costs are uncertain and outside of SDG&E's control.[1608]

TURN recommends that the Commission modify treatment of SDG&E's vegetation management activities into a one-way balancing account. In addition, TURN contends that "if the Commission believes that vegetation management activities warrant providing SDG&E with an opportunity to recover above-authorized spending on these programs, it should create a companion Vegetation Management Memorandum Account (VMMA) for recording above-authorized spending, subject to later review in a reasonableness review application."[1609]

To limit spending, TURN argues that the Commission should deny SDG&E's request for a rate recovery of up to an additional 35 percent above the amounts authorized as reasonable in this GRC via a Tier 3 Advice Letter."[1610] TURN highlights that "without a meaningful evidence-based reasonableness review, no one knows whether the above-authorized costs were reasonable and appropriate for ratepayers to bear" and that the "current approach has led to very substantial amounts of utility spending that fall above the GRC-authorized amount but below the threshold requiring reasonableness review in an application proceeding."[1611] Here, we agree with TURN and authorize the VMBA as a one-way balancing account covering all vegetation management activities subject to a limit on spending set at SDG&E's forecasted amount. We do not allow SDG&E's requested 35% additional balancing account buffer. We also authorize the VMMA as a companion memorandum account for SDG&E to record amounts

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[1608] Sempra Opening Brief at 452-454.

[1609] TURN Ex-15 at 19.

[1610] TURN Ex-15 at 19-20.

[1611] TURN Ex-15 at 16.

spent in excess of the amount authorized in the balancing account, subject to reasonableness review in a later application.

19.3.9. Post-Test Year Wildfire Mitigation Costs

SDG&E requests a post-test year capital exception for wildfire mitigation, requesting $518.507 million in capital for 2024, $557.181 million in capital for 2025, $580.546 million in capital for 2026, and $603.911 million in capital for 2027.[1612] SDG&E has failed to provide sufficient evidence to demonstrate the reasonablness of this request. Accordingly, this request for a post-test year capital exception is denied. Capital authorizations for the post-test years are determined in the Post-Test Year Section. An exception is made for the covered conductor and undergrounding budget category for the post-test years, in the total amounts of $166.5 million for 2025, $167.4 million for 2026, and $168.6 million for 2027.[1613]

1612 Ex. SDG&E Ex-13-2R-E at JTW-170.

1613 Ex. TURN-08 at 4-5.

Table 19.19
2024 Test Year O&M for WMVM ($ millions):

	WMVM Category	Final 2024 Test Year Request	2024 Test Year Reduction Herein	2024 Test Year Authorization Herein
1	Emergency Planning & Preparedness	$16.236	0	**$16.236**
2	Situational Awareness & Forecasting	$3.877	0	**$3.877**
3	Grid Design & System Hardening	$25.399	0	**$25.399**
4	Asset Management & Inspections	$15.375	0	**$15.375**
5	Vegetation Management & Inspections	$15.167	$2.686	**$12.481**
6	VM&I - Tree Trimming Only	$69.913	$3.506	**$66.407**
7	Grid Operations & Operating Protocols	$14.769	0	**$14.769**
8	Resource Allocation Methodology	$7.748	0	**$7.748**
9	Risk Assessment & Mapping	$2.413	0	**$2.413**
10	Data Governance	$1.650	0	**$1.650**
11	Stakeholder Cooperation & Community Engagement	$11.565	0	**$11.565**
	WMVM Total O&M	**$184.111**	**$6.192**	**$177.920**

20. SoCalGas's Customer Service- Customer Information System Replacement Program

20.1. SoCalGas's Position Summary

SoCalGas requests a forecast of $20.247 million for 2024 Test Year O&M Non-Shared services activities for SoCalGas's Customer Information System (CIS) Replacement Program. SoCalGas further requests a capital forecast of $4.913 million, $2.723 million, $93.250 million, $74.133 million, and $46.637 million for capital expenditures in years 2022, 2023, 2024, 2025, and 2026, respectively, which totals to $221.655 million in capital costs for SoCalGas's CIS Replacement

Program. Out of the total capital cost, SoCalGas requests $120.77 million of capital cost recovery to be included within the Post Test Year Ratemaking.[1614]

SoCalGas's legacy CIS has been operating for over 30 years and is based on technology that is approaching 40 years old.[1615] SoCalGas states that its CIS handles essential tasks such as billing, customer service, and data management. However, the system's age makes it challenging to maintain and prevents the utility from keeping up with new industry demands and customer preferences. SoCalGas plans to transition from the outdated CIS to a modernized platform to address these challenges. This new system is designed to enhance the overall customer experience and optimize operational processes and ensure adherence to developing regulations.

SoCalGas and its consultant (Accenture) have developed a CIS Implementation Plan and a CIS Replacement cost forecast. The plan and cost forecast outline the program phases and durations, determine the internal and external resources required for those phases, and calculate all costs required to achieve CIS replacement as defined in the CIS Solution Plan and Organizational Change Management Plan. The CIS Implementation Plan outlines six phases over several months, starting with the Plan/Analyze Phase and ending with the system stabilization phase. SoCalGas forecasts O&M expenses at $80.988 million for these phases from 2024-2027. It is seeking one quarter of the O&M expense, $20.247 million, as the 2024 Test Year cost estimate.

20.2. Party Positions

Cal Advocates and TURN-SCGC oppose SoCalGas's cost request proposals.

[1614] Sempra Opening Brief at 456.

[1615] SCG Ex-13 at EDG-1; Sempra Opening Brief at 457.

For O&M costs, Cal Advocates raises its concern about including SoCalGas's requested costs for ratepayer funding, given the uncertainty associated with the project's expected completion date.[1616] Cal Advocates proposes a 2024 Test Year forecast of $9.975 million, which is $10.27 million less than SoCalGas's request of $20.247 million.[1617] Cal Advocates opposes SoCalGas's normalization mechanism, which averages the total project cost for years 2024-2027 of $80.988 million over four years, thereby requesting $20.247 million in the 2024 Test Year.[1618] Cal Advocates argues that this methodology overstated O&M costs for the 2024 Test Year because it includes activities for several CIS program phases estimated to be completed in years beyond the 2024 Test Year.[1619] While it does not oppose the project or the total cost estimates, it contends that absent ratepayer benefits, there is no justification for approving ratepayer funding of new projects.[1620] Cal Advocates recommends SoCalGas create a memorandum account to track and record costs associated with SoCalGas's CIS Replacement O&M expenses.[1621] Cal Advocates opposes the inclusion of capital-related exceptions associated with the CIS Replacement Program.[1622]

Disagreeing with Cal Advocates, SoCalGas argues that spreading project costs evenly across a rate case cycle normalizes the O&M costs, which is standard

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1616 Cal Advocates Opening Brief at 198-199, 355-356.

1617 Cal Advocates Opening Brief at 197.

1618 Cal Advocates Opening Brief at 198.

1619 Cal Advocates Opening Brief at 197.

1620 Cal Advocates Opening Brief at 200.

1621 CA Ex-10 at 1.

1622 CA Ex-20 at 20.

practice when expenses fluctuate yearly.[1623] SoCalGas contends that Cal Advocates' proposal funds only the first phase of the project, whereas the forecasted costs for the CIS Replacement project are anticipated to be incurred over the entire rate case cycle.[1624] SoCalGas admits that the CIS Replacement program will not result in immediate savings because it will not be fully operational and stabilized until 2026 and it will continue using the old system until then.[1625] Regarding the cost-benefit analysis, SoCalGas outlines key factors justifying the CIS Replacement project. However, SoCalGas asserts that it is premature to include potential benefits to ratepayers in the 2024 Test Year GRC forecast, as any such benefits are anticipated to occur after the system is stabilized.[1626] SoCalGas disagrees with Cal Advocates' memorandum account recommendation and proposes a two-way balancing account and a cost recovery mechanism.

Regarding capital expenditures, Cal Advocates and TURN-SCGC oppose the inclusion of capital-related exceptions associated with the CIS Replacement Program.[1627]

20.3. Discussion

The evidence shows that the current CIS system is outdated, inefficient, and unable to meet SoCalGas's evolving technology and business needs to serve its customers. It is essential to consider technology obsolescence and the consequences of delaying CIS replacement while balancing Cal Advocates'

[1623] SCG Ex-13 at EDG-4; Sempra Opening Brief at 458.

[1624] Sempra Opening Brief at 458.

[1625] SCG Ex-13 at EDG-5.

[1626] SCG Ex-13 at EDG-5.

[1627] Cal Advocates Opening Brief at 354-356; TURN-SCGC Opening Brief at 107.

concerns about cost recovery and ratepayer impact in this GRC cycle. No party has opposed the project, but the disputes center around cost recovery.

SoCalGas's normalization approach and Cal Advocates' proposed methodology offer different perspectives for cost recovery. SoCalGas's approach provides a more immediate recognition of significant costs, while Cal Advocates' methodology allows for a more gradual recovery based on actual work completed. Upon reviewing 2022 recorded cost data, we find that SoCalGas has booked only $2.159 million, whereas it argues that $20.247 million reflects its yearly O&M expenses.[1628] Given this large discrepancy in projected and actual costs for the project in 2022, we agree with Cal Advocates to adopt a more balanced approach to SoCalGas's forecasted 2024 Test Year O&M costs for this GRC cycle and adopt $10 million as the 2024 Test Year O&M cost estimate.[1629]

The CIS Replacement of a 30-year-old system currently in service is a significant customer-facing organizational change. We find merit in Cal Advocates' and TURN-SCGC's assertion that the projected timeline could be after this rate case cycle.[1630] Given that SoCalGas is also implementing the SAP Transformation project within this rate cycle, it is reasonable to expect that some project timelines might be extended. Spreading cost recovery over time rather than burdening the ratepayers with inflated costs in this rate case cycle makes it more appropriate to authorize $10 million in 2024 Test Year O&M.

We decline to implement any regulatory cost recovery mechanism Cal Advocates or SoCalGas suggested in this rate case cycle. We expect some existing

[1628] SCG Ex-302.

[1629] Cal Advocates recommended $9.98 million, but we have rounded it up to $10 million for accounting ease.

[1630] SCG Ex-13 at EDG-20.

CIS activities to become redundant as the CIS is phased in, so approving a regulatory account facilitates cost recovery of the additional costs into rates without the transparency of a detailed review.

Instead, SoCalGas may submit a separate application if it expects costs to exceed what is authorized in this decision .

In its comments on the proposed decision, SoCalGas recommends that the Commission adopt $20.247 million for CIS Replacement and establish a memorandum account to track costs in excess of the authorized amount for potential future recovery.[1631] It further states that the proposed decision makes legal and factual errors by not providing a cost-tracking mechanism for the one-time program implementation costs for CIS Replacement.[1632]

As discussed above, we disagree with SoCalGas's assertion that the proposed decision contains legal and factual errors. Cal Advocates' methodology for forecasting costs is reasonable and adopted in this decision. The decision considered the trend of actual costs incurred in 2022 as opposed to the overestimated forecast and avoids unnecessary burdens on ratepayers.

While we acknowledge the principle against retroactive ratemaking, the proposed decision does not constitute such a practice. The Commission authorizes a specific amount for the CIS Replacement project based on the available information and forecasts. This authorization provides SoCalGas with the necessary funding to proceed with the project.

Establishing a memorandum account could lead to future rate increases, which may not be justified if the actual costs are lower than anticipated. It is

[1631] Sempra Opening Comments Appendix A at 17.

[1632] Sempra Opening Comments at 18.

important to balance the need for adequate funding for utility projects with the principle of fair and equitable ratemaking. In this case, the Commission's decision strikes a reasonable balance by authorizing a specific amount and avoiding the potential for retroactive ratemaking. Regarding capital costs, SoCalGas requests to capitalize and amortize capital expenditures totaling $221.655 million for the CIS Replacement Program beginning in 2024. It also requests a PTY exception for 2025-2026. No party protested capital cost estimates, but TURN-SCGC and Cal Advocates object to the post-Test Year exception.[1633]

We find it reasonable to adopt a capital cost cap of $221.655 million to complete the project. However, we decline SoCalGas's request to capitalize and amortize capital expenditures before the project is in service because the CIS Replacement project will not be in service until 2026 or later. Accordingly, we decline the post-Test Year exception. SoCalGas shall record capital costs in the company's Construction Work in Progress accounts (CWIP) and not include them in the rate base until the project is completed. When the project is operational, capital costs will transfer from CWIP to the appropriate Plant in Service accounts and be included in the rate base.

Within 30 days of the new CIS entering into service, SoCalGas shall file a Tier 2 Advice Letter to incorporate the capital revenue requirement (including depreciation, taxes, and return). based on actual capital additions not to exceed the capital cost forecast authorized in this decision, into customers' rates as part of SoCalGas's next scheduled rate update following the project's completion and in-service date.

[1633] CA Ex-20 at 20; TURN-SCGC Ex-07 at 11.

21. SoCalGas's Customer Services Field and Advanced Meter Operations

For Customer Services Field & Advanced Meter Operations (CSF&AMO), SoCalGas seeks $211.3 million for O&M expenses in the 2024 Test Year, which is composed of Non-Shared O&M expense of $209.71 million, an increase of $31.17 million over its 2021 adjusted-recorded expenses of $178.54 million, and $1.6 million for Shared service activities.[1634] SoCalGas used a base-year forecasting methodology to forecast CSF&AMO's 2024 Test Year O&M.[1635]

CSF&AMO provides services such as completing work orders, investigating causes of high gas bills, responding to emergencies, and maintaining company assets.[1636] CSF&AMO also inspects meter assemblies for corrosion, resolves access issues, and supports SoCalGas's sustainability strategy by transitioning to clean energy and reducing GHG emissions.[1637] CSF&AMO also supports SoCalGas's ability to detect methane leaks faster, increase safety, reduce methane emissions, and help mitigate GHG emissions from homes and businesses for SoCalGas's and SDG&E's Customer Service Field business organization.[1638]

A cost breakdown of SoCalGas's O&M cost request is as follows.

[1634] Sempra Opening Brief at 466; SCG Ex-14-R at DJR-15.

[1635] Sempra Opening Brief at 469.

[1636] Sempra Opening Brief at 466.

[1637] Sempra Opening Brief at 466.

[1638] Sempra Opening Brief at 466-467; SCG Ex-17-R at DJR-iv-v.

Table 21.1 SoCalGas O&M Cost Request for CSF & AMO
($000)

Cost Categories	BY 2021	TY 2024	Change
Non-Shared			
Customer Services Field (CSF)			
Operations	106,124	129,221	23,097
Supervision	12,007	12,104	97
Support	12,706	14,385	1,679
Dispatch	14,066	14,091	25
Meter Set Assembly Inspection (MSA)	25,320	25,710	391
CSF Subtotal	**170,223**	**195,511**	**25,289**
Advanced Meter Operations (AMO)	8,323	14,202	5,879
CSF&AMO Total	**178,546**	**209,713**	**31,168**
Shared			
Staff Manager	1,393	1,617[1639]	224

SoCalGas's IT capital expenditure requests for CSF&AMO and TURN's position are reviewed under this decision's IT capital costs Section.

21.1. Party Positions

Cal Advocates and TURN objected to SoCalGas's O&M expense forecast.

[1639] SCG Ex-14 at DJR-3; although Field Staff Manager is primarily centralized in SoCalGas's headquarters, it is a Shared Service because it also supports SoCalGas's and SDG&E's CSF organizations.

21.1.1. Cal Advocates

Cal Advocates' 2024 Test Year estimate for CSF&AMO O&M cost category is $200.305 million, $9.408 million lower than SoCalGas's forecast and $21.8 million above the 2021 figure.[1640]

Cal Advocates does not oppose SoCalGas's Test Year forecasts for Supervision, Support, Dispatch, and Meter Set Assembly (MSA) Inspection Program, which total $66.29 million. However, Cal Advocates opposes SoCalGas's Test Year forecast for CSF - Operations.[1641]

For CSF—Operations, Cal Advocates recommends $124.401 million for the 2024 Test Year, $4.82 million lower than SoCalGas's funding request.[1642] Cal Advocates states that SoCalGas's 2024 Test Year expenses are overstated, arguing that SoCalGas relied on Base Year 2021 cost. Cal Advocates recommends using 2019 recorded expenses as the basis for the Test Year forecast because recorded expenses for labor and non-labor are comparable to prior and recent years. It further argues that it did not use 2020 or 2021 adjusted-recorded data as work order volumes decreased during those years due to the COVID-19 pandemic measures in place at the time. In calculating its 2024 Test Year estimate, Cal Advocates included an upward adjustment of $23.097 million associated with mitigation activities for training, Personal Protective Equipment (PPE), safety-related orders, and order volume.

For AMO, SoCalGas forecasts $14.201 million ($5.610 million labor and $8.591 million non-labor) expenses. Cal Advocates does not oppose the labor

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[1640] Cal Advocates Opening Brief at 201.

[1641] Cal Advocates Opening Brief at 201.

[1642] Cal Advocates Opening Brief at 201-202.

expense but recommends $4.004 million for non-labor expenses.[1643] Cal Advocates argues that SoCalGas's forecast for non-labor expenses is not adequately justified because it is a sizable increase over the recent recorded figures.[1644] Cal Advocates recommends using SoCalGas's recorded, but not adjusted, 2021 expenses of $4.004 million to estimate non-labor expense. It recommends relying on recorded expenses as the basis for its forecast to account for some of the variability in different recorded years. Cal Advocates further states that it did not use the 2021 adjusted-recorded amount because it includes corrections of mischarges transferred to different cost centers and COVID-19-related costs.

21.1.2. TURN

TURN opposes SoCalGas's base-year forecasting methodology and recommends a five-year historical average forecast methodology instead.[1645] It recommends $180.881 million for CSF&AMO.[1646]

TURN states that SoCalGas has not met its burden of proof under the preponderance of evidence standard.[1647]

TURN argues that SoCalGas profited from reduced costs during the COVID-19 lockdown. It contends that SoCalGas cannot keep the profits and exclude those years from the calculation; SoCalGas must either return the savings or include those years in the average.[1648]

1643 Cal Advocates Opening Brief at 202-203.

1644 Cal Advocates Opening Brief at 202-203.

1645 TURN Opening Brief at 243.

1646 TURN Opening Brief at 243.

1647 TURN Reply Brief at 54.

1648 TURN Opening Brief at 240.

For CSF-Operations, TURN argues that SoCalGas forecasted high order volumes in select categories without reasonable support, even though the volume has not increased.[1649] It references line-item work orders from the forecast, arguing that the 2024 forecast is higher than pre-pandemic volumes, and the recorded data does not show an increasing trend.[1650]

TURN contends that SoCalGas requests a 20.3 percent increase in CSF-Operations Non-Labor costs from $6.4 million to $7.7 million without providing a supporting explanation for this increase other than stating that the funds will be used for PPE and safety-related field orders.[1651] It further argues that SoCalGas's analysis, with low RSE values and not being cost-effective at reducing risk, has a substantial increase in cost.[1652]

For CSF&AMO's Advanced Meter Infrastructure (AMI)-related costs, which increased 23.3 percent, TURN argues that the introduction of AMI was supposed to result in savings and not add costs.[1653]

21.1.3. SoCalGas Response

In response to TURN's argument about shareholders benefitting from reduced O&M expenses, SoCalGas argues that TURN misunderstands the principle of cost-of-service ratemaking. It states that GRC-authorized O&M

[1649] TURN Opening Brief at 240.

[1650] TURN Opening Brief at 241; the work orders listed by TURN include: Change of Account – Hang Tag, CSO-CSO, Tag Meter Work (Capital) Meter Set Turn On, Meter Work (Capital) Meter Set Left Off, Meter Work (Capital) Meter Set (PSI), AMM CSO, Read/Verify – Verify – Soft Close, Food Industry – CSO, and Advanced Meter – MTU Change.

[1651] TURN Opening Brief at 241.

[1652] TURN Opening Brief at 242.

[1653] TURN Opening Brief at 242.

funding can also be reprioritized to fund other company activities unless they are required to be tracked separately.[1654]

SoCalGas argues that it considered base-year forecasting over a multi-year average due to changes in activities since the 2021 Base Year and then added incremental activity costs. It argues that TURN did not consider current information or future activities and did not discuss SoCalGas's incremental requests.

Regarding forecasting higher work order volumes and AMI costs, SoCalGas argues that it first determined whether COVID-19 impacted orders.[1655] If impacted, SoCalGas used 2019 order volumes to forecast a post-pandemic environment in the 2024 Test Year forecast.[1656] If not impacted, it used the 2021 Base Year. For AMI costs, SoCalGas states that it does not anticipate any further reduction in AMI-impacted order volumes since its implementation in 2019.[1657]

SoCalGas contends that CSF&AMO's programs should not receive inadequate funding based solely on RSEs, as that would not fully account for the qualitative value/benefit of, and need for, these programs.[1658]

In response to Cal Advocates' comments, SoCalGas states that Cal Advocates does not dispute SoCalGas's incremental funding request of "$23.097 million for PPE, Field Employee Skills Training, Safety Related Field Orders, and Order Volume."[1659] Regarding Cal Advocates' opposition to the

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[1654] Sempra Reply Brief at 338.

[1655] Sempra Reply Brief at 339-340.

[1656] Sempra Reply Brief at 340.

[1657] Sempra Reply Brief at 340.

[1658] Sempra Reply Brief at 341.

[1659] Sempra Reply Brief at 342.

Customer Service Field Operations and AMI non-labor forecast, SoCalGas argues that Cal Advocates does not provide justification for using 2019 recorded data as its base year for forecasting.[1660] Regarding AMO non-labor costs, SoCalGas argues that its funding request for the Meter Transmission Unit (MTU) warranty cost should be approved because it is necessary as a bridge until SoCalGas undertakes a full replacement of the MTUs beginning in the 2028 Test Year GRC cycle.[1661]

21.2. Discussion

This section reviews SoCalGas's total cost request of $209.713 million for CSF&AMO.

Pursuant to Pub. Util. Code Section 451, all charges demanded or received by any public utility shall be just and reasonable.

The forecast for CSF&AMO presents a unique challenge for a combination of reasons: how to account for pre- and post-pandemic processes, the benefits of installing AMI right before the pandemic, and unknown future cost trends.

SoCalGas's 2024 Test Year forecast methodology for CSF is not just and reasonable for the following reasons: 1) overreliance on a single post-pandemic year, 2021, to predict 2024 Test Year costs is not representative of historical expenses and may not accurately reflect future cost trends;[1662] and 2) SoCalGas fails to provide supporting evidence to justify its claim that there will be no further reduction in AMI-impacted order volume while assuming that AMI costs will remain constant. This contradicts the general understanding that AMI implementation leads to long-term cost savings.

1660 Sempra Reply Brief at 342.

1661 Sempra Opening Brief at 480-481 and Reply Brief at 346.

1662 Sempra Opening Brief at 469.

For CSF Operations, Cal Advocates does not oppose SoCalGas's $23.097 million incremental cost for PPE, Field Employee Skills Training, Safety-Related Field Orders, and Order Volume. According to Cal Advocates, its 2024 Test Year estimate includes substantial incremental funding of $23.097 million for these cost categories.[1663]

While Cal Advocates and TURN recommended relying on the 2019 base year and a five-year historical average, respectively, for CSF cost estimates, SoCalGas undertook a detailed forecasting methodology process that considered different permutations and combinations of data from 2019 and 2021.

Neither approach alone provides the most equitable forecast for utility and ratepayers for CSF costs estimates for the 2024 Test Year. SoCalGas's reliance on costs from 2019 and 2021 as a starting point overlooks the significance of pre-pandemic years in predicting future cost trends. [1664] We disagree with SoCalGas's assertion, as certain pre-2019 work activities will continue into the Test Year and beyond. While TURN's argument is reasonable, it omits 2017 historical costs, which are included in other historical cost forecasts within this GRC.

It is generally agreed that a larger sample size of historical data captures a wider range of conditions and allows for more accurate and reasonable predictions. Given the uncertainty of future cost trends, relying solely on data from 2019 and 2021 may introduce biases and distort the true cost trends. A longer timeframe helps to smooth out these fluctuations and mitigate biases. There is no assurance that data from 2019 or 2021 accurately reflects future service trends, especially since customer needs evolved due to pre- and post- COVID-19

[1663] Cal Advocates Opening Brief at 202.

[1664] Sempra Reply Brief at 340.

pandemic conditions. Consequently, a CSF forecast based on the past six years of historical data offers a more reasonable 2024 Test Year forecast for operations. This six-year period encompasses pre-pandemic, pandemic, and post-pandemic trends, providing a more comprehensive understanding of the factors influencing costs.

Regarding incremental work order volumes, we agree with TURN that SoCalGas's request lacks sufficient support. Given that AMI is now in use, it is reasonable to expect a lower volume of work orders requiring service calls. We disagree with SoCalGas's assumptions that AMI work orders are expected to remain the same and that its projected volumes are increasing. SoCalGas states that AMI greatly decreased certain types of fielded orders, as did the COVID-19 pandemic in 2020 and 2021, which shows that we should normalize the forecasted increasing trend. Unless we see future trends and the reason for the increase in work order volumes, it is reasonable to normalize them based on average data, including the full years of 2017 through 2022. The data also captures externalities such as changes in evolving consumer behavior post-pandemic that may be reflected in the volume of work orders.

TURN argued, specifically on a work order named Change of Account - Hang Tag,[1665] that SoCalGas has not justified a large volume increase. We agree with TURN that SoCalGas's justification for the increase lacks sufficient evidence. Moreover, relying simply on the 2021 Base Year and not on pre-pandemic work order volumes for this activity introduces biases in favor of higher cost estimates. For brevity, we will not go into every account.

[1665] Change of Account - Hang Tag is related to hanging a tag on the premises indicating the gas has been left on and informing a new customer to contact the utility to establish service in their name.

After reviewing the evidence, we find that using a six-year historical average will reduce bias. This forecast also includes the incremental cost of $23.097 million for PPE, Field Employee Skills Training, Safety-Related Field Orders, and Order Volume.

For the MSA Inspection costs, we authorize $25.710 million, as the program is required by the U.S. Department of Transportation regulation regarding inspections of above-ground piping facilities for atmospheric corrosion.[1666] MSAs and exposed above ground piping must be inspected no less than once every three calendar years and at intervals not exceeding 39 months.[1667]

The following table shows the incurred historical costs and average cost estimated adopted in this decision, including MSA costs proposed by SoCalGas:[1668]

Table 21.2
Incurred Historical Costs and Average Cost Estimated Adopted in this Decision (in $000)

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**SoCalGas**	**PD**
Description							**2024 Request**	**Authorized**
Customers Services Field								
Operations	128,273	121,097	125,857	109,211[1669]	106,124	108,704	129,221	112,894
Supervision	11,859	12,462	12,371	11,843	12,007	11,697	12,104	12,040
Support	12,698	10,702	10,838	11,522	12,706	14,628	14,385	12,182
Dispatch	11,635	11,546	13,446	13,231	14,066	13,577	14,091	12,917
MSA Inspections	14,148	14,264	19,551	24,517	25,320	22,968	25,710	25,710
CS Field Total	**178,613**	**170,071**	**182,063**	**170,324**	**170,223**	**171,574**	**195,511**	**175,743**

1666 49 C.F.R. Section 192.481.

1667 SCG Ex-14-R at 29.

1668 SCG Ex-14-WP-R at 7.

1669 There is a small discrepancy between SoCalGas's August 2022 filing and its Revised May 2023 filing Ex-14-WP-R-E at 7, resulting in a slightly changed six-year average for this category.

As discussed under the IT Section of the decision, we agree with TURN's recommendation about PACER WFM system and find it reasonable to reduce the 2024 Test Year O&M forecast for CSF Operations by the estimated savings (a fourth of the projected benefit or $3.65 million) while allowing the utility to pursue the project.[1670]

Regarding AMO costs, Cal Advocates recommended a 2024 Test Year forecast of $9.614 million, $4.588 million less than SoCalGas's request of $14.202 million. Cal Advocates opposes only the non-labor cost increase and argues that SoCalGas did not adequately justify it and that the forecast is a sizable increase over the recently recorded costs. Cal Advocates recommends non-labor AMO costs based on 2021 historical cost. TURN utilized a four-year historical average to determine a labor and non-labor 2024 Test Year forecast of $8.025 million.

Our review shows that SoCalGas submitted two supplemental workpapers to analyze the impact of MTU warranty enhancements. Workpaper 1A[1671] discusses the analysis of meter failure rates, while Workpaper 1B[1672] analyzes scenarios and financial impacts if SoCalGas does not obtain the MTU warranty. The risk of MTU failures will shift from the vendor to the customers if SoCalGas is not approved for $4.4 million in incremental funding. Based on the failure rate analysis, SoCalGas found it more cost-effective to purchase the additional warranty for Years 16–18, which fall within this GRC cycle. SoCalGas plans to

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[1670] TURN Opening Brief at 247.

[1671] SCG Ex-14-WP-2FC006 CSF Advanced Meter Operations Supplemental Workpaper 1A: Decision Analysis.

[1672] SCG Ex-14-WP-2FC006 CSF Advanced Meter 7 Operations Supplemental Workpaper 1B: Warranty Enhancement Requirements.

replace MTUs after Year 18, beginning in 2030.[1673] While details of the replacement program will be addressed in future regulatory filings, we find it reasonable to authorize funds to extend the warranty until then.

This incremental cost request is new and cannot be captured in historical cost trends. Accordingly, we accept SoCalGas's request and authorize $14.202 million in 2024 Test Year AMO costs.

SoCalGas also requests the closure of the AMI Balancing Account (AMIBA) Escalated Jurisdictions Cost Subaccount.[1674] SoCalGas proposes amortizing the balance as of December 31, 2023, in customer gas transportation rates. Once amortized through the 2024 Test Year GRC cycle, SoCalGas will transfer any residual balance to the CFCA and eliminate the entire AMIBA, as all subaccounts will be fully amortized.[1675] Pursuant to D.19-09-051, SoCalGas discontinued recording AMI costs in the AMIBA, wherein post-deployment costs were incorporated in the Customer Services Field & Meter Reading forecast. However, the disposition of the balance in the AMIBA Escalated Jurisdictions Cost Subaccount was deferred to the next GRC proceeding.[1676] The total O&M expenses recorded to the AMIBA Escalated Jurisdictions Cost Subaccount through March 31, 2022, is $732,624 (undercollected), and SoCalGas is seeking recovery for this amount. These costs represent meter reading costs associated with escalated jurisdictions[1677] and are reasonable.[1678] Accordingly, we authorize

[1673] SCG Ex-14-R at DJR 34-35.

[1674] SCG Ex-38 at 13.

[1675] SCG Ex-38-R at 13.

[1676] SCG Ex-14-R at-DJR-41-42.

[1677] The Escalated Jurisdictions Cost Subaccount was created to record meter reading costs associated with escalated jurisdictions until the AMI network could be completed.

[1678] SCG Ex-14-R at-DJR-41-42.

SoCalGas to amortize the balance as of December 31, 2023 in customer gas transportation rates and, at the end of the amortization period, eliminate the entire AMIBA as all subaccounts will be fully amortized.

Regarding Shared costs, no intervenor opposed SoCalGas's 2024 Test Year cost estimates. Accordingly, we find it reasonable to authorize $1.617 million.

In summary, this decision approves the following 2024 Test Year CSF&AMO costs:

Table 21.3
CSF&AMO O&M Non-Shared and Shared Costs ($000)

Cost Categories	BY 2021	SoCalGas 2024 TY	PD
Non-Shared			
Customer Services Field – CSF			
Operations	106,124	129,221	112,894
Supervision	12,007	12,104	12,040
Support	12,706	14,385	12,182
Dispatch	14,066	14,091	12,917
Meter Set Assembly Inspection (MSA)	25,320	25,710	25,710
CSF – Total	170,223	195,511	175,743
Advanced Meter Operations (AMO)	8,323	14,202	14,202
Shared			
Staff Manager	1,393	1,617	1,617

22. SDG&E's Customer Services – Field Operations

This Section of the decision addresses O&M costs related to SDG&E's Customer Services Field Operations (CS-Field Operations). SDG&E's IT capital costs are discussed under the SDG&E IT capital cost Section of this decision.

22.1. SDG&E's Position Summary – O&M Costs

SDG&E seeks $40.452 million for O&M costs in the 2024 Test Year, an increase of $7.110 million from $33.342 million from the 2021 Base Year to support the Shared and Non-Shared activities within CS-Field Operations.[1679] SDG&E used a base year forecast methodology for CS-Field Operations.[1680] SDG&E contends that the base year forecast represents an appropriate starting point for calculating 2024 Test Year operations and maintenance expenses for the department's activities.

Examples of the types of services offered by the CS-Field Operations cost centers include completing customer and company-generated work orders, which include requests to establish/remove gas and electric service, light gas pilots, check gas appliances, shut off and restore gas service for fumigation, investigating the potential causes of high gas bills, responding to emergency incidents, investigating potential gas leaks, monitoring meter and regulator changes, conducting other meter work necessary to maintain company infrastructure, and collecting customer payments for delinquent bills.[1681] Approximately $11.387 million of total 2024 O&M costs are RAMP-related costs.

[1679] Sempra Opening Brief at 483.

[1680] Sempra Opening Brief at 484.

[1681] Sempra Opening Brief at 483.

Table 22.1
Summary of Total CS – Field Operations O&M Costs
(In 2021 $000s)[1682]

	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	33,342	40,452	7,110
Total Shared Services (Incurred)	0	0	0
Total O&M	**33,342**	**40,452**	**7,110**

Table 22.2
SDG&E's CS-Field Operations Non-Shared O&M Costs
(In 2021 $000s)[1683]

Customer Services - Field Operations	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
Customer Field Operations	16,085	16,884	799
Customer Field Operations Supervision	1,272	1,468	196
Work Management	3,346	3,534	188
Customer Field Operations Support	3,576	5,279	1,703
Smart Meter Operations	9,063	13,287	4,224
Total	**33,342**	**40,452**	**7,110**

Cal Advocates, TURN, UCAN, and Joint CCAs[1684] oppose SDG&E's CS-Field Operations cost forecasts.

[1682] Sempra Opening Brief at 483.

[1683] SDG&E Ex-17-R at DHT-7.

[1684] The Joint CCAs' comments were on the CS-Field Operations Smart Meter 2.0 IT Capital Project, which is addressed under the discussion of the IT capital costs of this decision.

22.2. Summary of Party Positions

Table 22.3
Comparison of SDG&E and Intervenors 2024 Test Year Non-Shared Services CS-Field Operation O&M Expenses[1685]

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	33,342	40,452	7,110
Cal Advocates	33,342	37,210	3,868
Joint CCAs	33,342	40,337	6,995
TURN	33,342	34,233	891
UCAN	33,342	36,722	3,380

Cal Advocates does not oppose SDG&E's forecasts for Customer Field Operations of $16.769 million,[1686] Customer Field Operations Supervision of $1.468 million, and Work Management of $3.534 million.[1687] Cal Advocates disagrees with SDG&E's test-year forecast for Customer Field Operations Support of $5.279 million and Smart Meter Operations of $13.287 million.[1688]

For Customer Field Operations Support, Cal Advocates argues that SDG&E's request for incremental funding of $1.704 million over 2021 expense levels is not supported.[1689] Cal Advocates recommends $4.181 million ($3.466 million labor and $0.715 million non-labor) for the Test Year instead of SDG&E's forecast of $5.279 million ($3.742 million labor and $1.537 million non-

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1685 Sempra Opening Brief at 485.

1686 SDG&E revised its forecast from $16.769 million to $16.884 million in Update Testimony filed on July 2023. SCG Ex-401 / SDG&E Ex-401 at 3, 4, B-37.

1687 Cal Advocates Opening Brief at 205.

1688 Cal Advocates Opening Brief at 205.

1689 Cal Advocates Opening Brief at 205.

labor). Cal Advocates' forecast is based on 2022 labor expense of $3.466 million and 2021 adjusted-recorded for non-labor expense of $0.715 million. Cal Advocates also recommends a normalized adjustment of $0.857 million to 2020 non-labor expense of Customer Field Operations Support.[1690]

Cal Advocates disagrees with SDG&E's Smart Meter Operations costs and recommends $11.259 million for 2024 Test Year ($9.884 million for labor and $1.375 million for non-labor expenses). Cal Advocates does not oppose SDG&E's funding request for labor of $9.884 million for the Test Year. Cal Advocates argues that SDG&E's forecast test-year non-labor increase is over five times higher than recorded 2021 expenses. Cal Advocates recommends $1.375 million for non-labor expenses for 2024 Test Year associated with the capital project Smart Meter 2.0.[1691]

TURN proposes a reduction of $6.104 million for 2024 Test Year CS-Field Operations O&M Costs.[1692] TURN recommends that the Commission deny SDG&E's request for incremental positions. TURN also opposes the O&M costs related to Field Service Delivery and O&M projects. TURN recommends using recorded historical costs to consider the cost during the COVID-19 pandemic, arguing that SDG&E retained cost as earnings for shareholders during these years.[1693] TURN contends that SDG&E should have been performing the activities under CS-Field Operations for many years and questions why SDG&E cannot perform the function within the existing funding level.[1694]

[1690] Cal Advocates Opening Brief at 205-206.

[1691] Cal Advocates Opening Brief at 207.

[1692] TURN Opening Brief at 251.

[1693] TURN Opening Brief at 248.

[1694] TURN Opening Brief at 249.

UCAN recommends that SDG&E's Smart Meter 2.0 total O&M forecast of $4.421 million and its Customer Field Operations Support request for Field Service Delivery O&M 2024 Test Year forecast of $1.490 million be denied in their entirety.[1695]

22.3. SDG&E's Reply

SDG&E disagrees with Cal Advocates and TURN regarding their forecasting methodology.[1696] SDG&E recommends that the Commission disregard Cal Advocates' inconsistent, selective, and arbitrary methodology to lower forecasts for CS-Field Operations including Smart Meter Operations. SDG&E argues that it consistently applied its base year forecasting methodology.[1697] Regarding Cal Advocates' cost normalization based on removing Field Service Delivery costs, SDG&E argues that Field Service Delivery efforts will accelerate and continue during program implementation.[1698] It argues that TURN's assumption disregards business changes that require more resources to lead customer-facing teams and develop training materials.

SDG&E disagrees with UCAN's lower cost estimates for Field Service Delivery. It argues that UCAN's proposal would force SDG&E to deploy and maintain an obsolete technology.[1699]

[1695] UCAN Ex-01-E at 13, 294, 300.

[1696] Sempra Opening Brief at 488-489.

[1697] Sempra Opening Brief at 488.

[1698] Sempra Opening Brief at 489

[1699] Sempra Opening Brief at 450.

22.4. Discussion

We find a six-year historical average (including 2022 incurred costs) reasonable for forecasting the 2024 Test Year forecast for all cost categories under CS-Field Operations. The Commission's decision is explained below.

We agree with TURN, Cal Advocates, and UCAN that the incremental cost request for additional costs lacks sufficient justification besides SDG&E's reliance on 2021 Base Year to estimate the 2024 Test Year costs. For example, SDG&E forecasts 11 new employee positions under its CS-Field Operations department, relying solely on 2021 Base Year operations.[1700] However, CS-Field Operations is not a new department within the organization, and as TURN argues, SDG&E should have been performing these tasks for many years, so using historical forecasts to forecast future costs is reasonable.

SDG&E's base-year forecasting methodology ignores pre-pandemic costs and is not just and reasonable because it creates an upward bias. Even if we remove the Smart Meter 2.0-related O&M costs because we deny revenue requirements for this project in this rate case cycle, the overall costs will still be upwardly biased due to relying solely on the 2021 Base Year.

A six-year historical average (2017-2022 incurred costs) addresses pre- and post-pandemic cost shifts and consumer behaviors, which should be reflected in SDG&E's work order volumes. As explained in the above section on SoCalGas's CSF&AMO, relying solely on the post-pandemic year 2021 to forecast 2024 costs is not representative of pre-pandemic expenses, some of which will continue into future years and may introduce biases. The same reasoning and logic apply here, as both utilities' Customer Service business units are well-established

[1700] SDG&E Ex-17-WP-R at 3.

organizations, and for cost forecasts, a six-year historical cost forecast is reasonable.

Regarding incremental cost adjustments, we decline to authorize Smart Meter 2.0 costs from Customer Smart Meter Operations because we have authorized a memorandum account to record Smart Meter 2.0-related costs.[1701] While we decline Smart Meter 2.0 IT capital project costs and we have denied related IT O&M costs,[1702] we find that some Smart Meter 2.0 costs are included in the $7.110 million incremental costs. However, averaging out the cost categories under Customer Field Operations adequately addresses those incremental cost forecasts, eliminating the need for further reduction for the Smart Meter 2.0 project.[1703]

Given our reliance on a six-year historical average instead of a base-year forecast, we agree with Cal Advocates that SDG&E's 2020 expense of $0.857 million is a one-time expense related to pre-foundational consulting work for the Field Service Delivery Project.[1704] We agree to normalize the 2024 Test Year non-labor expense to accurately estimate it. Therefore, we reduce the 2020 O&M expense by $0.857 million.

[1701] *See* SDG&E Ex-25 IT capital costs under the IT Section of this decision.

[1702] A total of $4.421 million in incremental costs was requested for Smart Meter 2.0. $2.176 million was denied for IT O&M in Information Technology. $0.120 million for Marketing Communications, Research and Analytics in Customer Services – Information is not denied because a settlement is adopted for CSIN.

[1703] $2.035 million was requested for Smart Meter Operations and $0.090 million was requested for Customer Field Operations for costs related to Smart Meter 2.0. Although Smart Meter 2.0 costs are being denied, O&M for these two areas are not reduced by these amounts because there is already an O&M reduction from taking a six-year average.

[1704] Cal Advocates Opening Brief at 205-206.

This decision authorizes $31.835 million for the 2024 Test Year as shown below:

Table 22.4
SDG&E's CS-Field Operations 2024 Test Year Costs

Description	2017	2018	2019	2020	2021	2022 Actual	SDG&E 2024	PD: six year average
CSF Operations	15,404	15,372	15,459	16,180	16,085	16,923	16,884	15,904
CSF Supervision	1,138	1,052	1,153	1,171	1,272	1,318	1,468	1,184
Work Management	4,129	3,144	3,119	2,881	3,346	3,066	3,534	3,281
Field Ops Support	2,548	2,605	2,984	3,154[1705]	3,576	3,818	5,279	3,114
Smart Meter Ops.	8,102	7,548	7,332	8,568	9,063	9,499	13,287	8,352
Total	**31,320**	**29,721**	**30,048**	**31,954**	**33,342**	**34,624**	**40,452**	**31,835**

23. Customer Services Office Operations

This Section reviews Customer Services Office Operations for SoCalGas and SDG&E.

The Customer Services Office Operations include delivering safe, convenient, responsive, efficient, and personalized customer service through the Customer Contact Center (CCC) Operations, Branch Offices and Authorized Payment Locations, Billing Services, Credit and Collections, Operations Strategy and Compliance and related supporting functions, including CCC Support, Remittance Processing, Postage, and Customer Services Office Operations-Operations Technology and Support.

23.1. SoCalGas's Customer Services Office Operations

SoCalGas seeks $89.574 million for O&M costs in the 2024 Test Year to support the Shared and Non-Shared services activities within Customer Services

[1705] Normalized to remove a one-time expense of $0.857 million as recommended by Cal Advocates.

Office Operations.[1706] SoCalGas used an adjusted-recorded forecast for 2021 as the basis for its labor and non-labor forecast for the 2024 Test Year.[1707] Incremental funding requests were then added to the Base Year to determine a total funding request. The breakdown of costs is shown below:

Table 23.1
SoCalGas's Shared and Non-Shared Customer Services Office Operations (in $000)

Project	2021 Adj-Recorded	2024 Test Year Forecast	Change
CCC Operations	24,726	26,828	2,102
CCC Support	8,676	8,991	315
Branch Offices	9,649	12,246	2,597
Billing Services	5,057	5,178	121
Measurement Data Operations	1,150	1,098	(52)
Credit & Collections	4,784	5,934	1,150
Credit and Collections Postage	251	874	623
Remittance Processing	5,959	7,083	1,124
Remittance Processing Postage	12,760	10,598	(2,162)
CS - Other Ops & Technology	6,106	6,188	82
Non-Shared Total (A)	**79,118**	**85,018**	**5,900**
Payment Processing	3,848	4,058	210
Manager of Remittance Processing	498	498	-
Shared Total (B)	**4,346**	**4,556**	**210**
Total O&M Costs (A+B)	**83,464**	**89,574**	**6,110**

[1706] Sempra Opening Brief at 498.

[1707] Sempra Opening Brief at 501.

SoCalGas also requests IT capital expenditures of $14.520 million in 2022, $20.657 million in 2023, and $15.763 million in 2024. These costs are reviewed under SoCalGas's IT capital cost Section of this decision.

23.1.1. Party Positions

Cal Advocates does not oppose SoCalGas's Non-Shared and Shared O&M expenses.[1708]

For Non-Shared and Shared O&M expenses, TURN and CommLegal oppose SoCalGas's cost estimates, as shown below:

Table 23.2
TURN's and CommLegal's Opposition to
SoCalGas's Cost Estimates ($000)

	SoCalGas	CommLegal	TURN
Branch Offices	12,246	12,211	10,912
Credit & Collections	5,934	5,934	5,462
Remittance Processing	7,083	5,802	7,083
Other Ops & Technology	6,188	5,926	6,188
Payment Processing	4,058	3,848	4,058
CCC Operations	26,828	26,828	24,428

TURN opposes Branch Offices and Credit and Collections cost estimates. It also opposes the CCC Technology Modernization Project and states that if the Commission approves the proposed project, it should, at a minimum, account for the projected O&M savings in 2026 and 2027 by proportionally reducing the 2024 forecast by 1/4 of the projected benefit, or $2.4 million.[1709]

[1708] Cal Advocates Opening Brief at 214.

[1709] TURN Opening Brief at 270.

For Branch Offices cost estimates, TURN recommends using a five-year historical average and approving $10.912 million instead of SoCalGas's request of $12.246 million.[1710] TURN proposes that the Commission reject SoCalGas's $2.52 million incremental costs, which SoCalGas claims are for "31 FTEs to return to normal staffing levels and operations after temporary branch office closures due to the COVID-19 pandemic."[1711] TURN recommends a reduction of $1.334 million (labor and non-labor) to SoCalGas's forecast based on its use of a five-year average. TURN contends that SoCalGas retained authorized O&M funds during the COVID-19 pandemic years, but the costs were lower in those years. TURN argues that SoCalGas concedes that branch office transaction volumes have declined and will likely continue to decline as customers conduct more online and self-serve transactions.[1712] TURN argues that SoCalGas's 2022 recorded costs demonstrate that it over-forecasted the 2022 O&M cost – the recorded was $9.807 million compared to $12.169 million authorized, 24.1 percent more than the actual.[1713] TURN further argues that, since SoCalGas stated during the evidentiary hearings that it is planning to close branch offices, it would be unreasonable to approve a 26.9 percent increase in funding for SoCalGas's requested staffing level that is unlikely ever to occur.[1714]

Regarding Credit and Collections, TURN recommends $5.462 million, instead of $5.934 million. TURN disagrees with SoCalGas's assertion that adjustments are required due to reduced staffing and collection activities during

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[1710] TURN Opening Brief at 266.

[1711] TURN Opening Brief at 264.

[1712] TURN Opening Brief at 264.

[1713] TURN Opening Brief at 265.

[1714] TURN Opening Brief at 265.

the pandemic, which it now wants to compensate for by hiring more staff. It further argues that SoCalGas had not started its collection activity. TURN argues that SoCalGas profited from reduced O&M costs during the pandemic and cannot now disregard those years for forecasting purposes. TURN notes that SoCalGas also significantly over-forecasted the 2022 O&M cost – the recorded was $4.916 million, which is 12 percent less than the estimated cost of $5.6 million. TURN recommends a reduction of $0.472 million for Credit and Collections based on using a five-year historical average methodology.

CommLegal makes several recommendations that would reduce SoCalGas's total request by $1.788 million to $87.786 million:

- For branch offices, CommLegal recommends a $35,430 reduction to the forecast for costs related to payment entry processing units because it argues that SoCalGas has provided no evidence that it appropriately evaluated the pricing proposal for units it claims to have received.[1715] In its reply brief, CommLegal states that SoCalGas did not provide information on its banking partners in the rebuttal and data request responses.[1716]
- CommLegal recommends significantly reducing Remittance Processing Costs by $1.281 million, including rejecting requests for additional FTEs and non-labor O&M costs.[1717] It argues that SoCalGas's Remittance Processing department historically had 22.2–24.8 FTEs from 2017 to 2021 and SoCalGas has not provided evidence that the department was understaffed or had anything but normal levels of vacancies due to "natural fluctuations."
- Regarding Other Operations and Technology, CommLegal recommends a reduction of $262,000 because it argues that

[1715] CommLegal Opening Brief at 37-40.

[1716] CommLegal Reply Brief at 2.

[1717] CommLegal Opening Brief at 40.

there is insufficient evidence to warrant doubling the size of the group overseeing regulatory processes and financial performance measurement.[1718] CommLegal argues that, of 14 additional FTEs SoCalGas is requesting for Office Operations and Technology in 2024, three FTEs are for positions in the Financial Analyst Group to provide support "in regulatory processes and financial performance measurement."[1719]

- Regarding Payment Processing, CommLegal recommends a reduction of $210,000 because SoCalGas fails to substantiate its requested increase in FTEs.[1720]
- CommLegal recommends SoCalGas review demographic data and provide in-house language support for prevalent language groups.[1721]

SBUA argues that SoCalGas has offered insufficient evidence that its requests for increases in customer support and associated services are merited. Instead, a budget decrease in these elements is merited. SBUA recommends that any additional funds be spent collecting and analyzing customer satisfaction and needs data.[1722] SBUA asserts that SoCalGas's request for increased funding for customer support is based on vague claims and unsubstantiated workload forecasts. It argues that SoCalGas has not considered evolving customer preferences and challenges the cost requests while pointing out a significant decline in emergency calls and safety-related orders.[1723] SBUA does not propose cost estimates in its opening brief.

1718 CommLegal Opening Brief at 47-50.

1719 CommLegal Opening Brief at 47.

1720 CommLegal Opening Brief at 50-53.

1721 CommLegal Opening Brief at 28.

1722 SBUA Opening Brief at 17.

1723 SBUA Opening Brief at 14-17.

23.1.2. SoCalGas's Reply

For Branch Offices, SoCalGas argues that TURN's use of a five-year average is unreasonable and should be rejected. It argues that TURN's reduction of $1.334 million to SoCalGas's forecast ignores the fact that 2022 actuals were not available for forecasting purposes at the time of testimony.[1724] SoCalGas contends that the Commission should reject TURN's argument that "PG&E has already proposed to permanently close all of its Branch Offices, which is further evidence that increased funding… is not necessary." It argues that TURN's argument is irrelevant and out of the scope of the GRC, as branch office closure has yet to be decided. SoCalGas states that it is evaluating the closure of branch offices, but the analysis is incomplete.[1725]

For enhancing language support, SoCalGas argues that CommLegal's proposal incorrectly attempts to expand the Commission's "prevalent" language standard to call centers based on a Commission directive for PSPS events.

Disagreeing with CommLegal's recommendation to reduce the forecast for Branch Offices payment entry processing units, SoCalGas argues that it chose units based on its banking partner and operational needs for 43 branch offices.[1726]

For Remittance Processing, SoCalGas disagrees with CommLegal's recommendation to reject $610,000 in non-labor expenses for identifying and correcting accessibility issues on bills per the Joint Accessibility Proposal adopted in D.19-09-051.[1727] SoCalGas also disagrees with CommLegal's recommendation to reject the incremental $671,000 requested for 7.5 FTEs. SoCalGas states that it

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[1724] Sempra Opening Brief at 505.

[1725] Sempra Opening Brief at 506-508.

[1726] Sempra Opening Brief at 507.

[1727] Sempra Opening Brief at 508.

provided details, including market-based analysis it used to determine comparable pay for specific job titles to support the increased workload.[1728] SoCalGas argues that it has met its compliance goal under the Joint Accessibility Proposal with the Center for Accessible Technology, and it intends to further enhance the accessibility for disabled customers.[1729, 1730]

For Operations and Technology support, SoCalGas opposes CommLegal's argument to reduce the labor forecast by $262,000, which it contends funds a full-year analyst and two Senior Business Analysts. It argues that CommLegal's recommendation is based on its erroneous assumption that SoCalGas's labor costs for new positions are unnecessary because the group did not exist before 2019 and that there is no indication that SoCalGas was unable to meet its regulatory and financial commitments prior to 2019. SoCalGas argues that it has provided detailed testimony regarding justifications for incremental labor requests, including staff needed to comply with regulatory RAMP and RSAR reporting.[1731]

23.1.3. Discussion

We find TURN's and CommLegal's analysis on SoCalGas's Customer Services Office Operations cost estimates reasonable and reduce SoCalGas's request by $5.732 million to $83.842 million for the 2024 Test Year forecast.

We accept the following reductions:

- TURN:
  - Reduction of $1.334 million for Branch Offices and $0.472 million for Credit & Collections; and

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[1728] Sempra Opening Brief at 509.

[1729] Sempra Opening Brief at 509.

[1730] Sempra Reply Brief at 371.

[1731] Sempra Opening Brief at 515.

    - CCC Operations reduction of $2.4 million to reflect benefits from CCC Technology Modernization Project.[1732]
- CommLegal:
    - Payment entry processing units (Branch Offices) of $0.035 million;
    - Remittance Processing Non-Labor of $0.610 million;
    - Remittance Processing Labor of $0.671 million; and
    - Payment Processing of $0.210 million.

We explain our decision below.

During the evidentiary hearings, it was disclosed that SoCalGas is indeed considering closing all its branch offices.[1733] Although the status of the branch office closure is uncertain, we concur with TURN's assertion that allowing cost increases while the utility plans to cease these business operations is unreasonable. The closure of branch offices would have significant impacts on both labor and non-labor expenses. Given the uncertainty surrounding the future of its branch office operations, we find it unreasonable to burden ratepayers with a 26.9 percent cost increase to maintain the branch office for normal staff levels. We agree with TURN that the most appropriate forecast would be a historical average, and we adopt a 2024 forecast of $10.912 million for branch offices, which is a reduction of $1.334 million.

For Credit and Collections, we agree with TURN's arguments and also find the overestimated 2022 forecast unreasonable. Therefore, we deny the incremental cost increase and adopt TURN's recommendation of $5.462 million, instead of

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[1732] TURN Ex-09-2R at 15. TURN recommends the Commission deny SoCalGas's capital project for the CCC Technology Modernization project.

[1733] Tr. Vol. 12:2230:4 – 2231:14.

SoCalGas's $5.934 million, as the 2024 Test Year O&M costs for Credit and Collections, a reduction of $0.472 million. CommLegal's analysis regarding the pricing of payment entry processing units is reasonable, especially in light of the information regarding a potential closure of branch offices. Requiring new printers and scanner units for all 43 branches is a non-recurring expense. SoCalGas has not demonstrated the special banker needs that require them to buy these new units and why ratepayers should bear the extra cost of these scanners and printers when scanning checks and payment options have been simplified by most banks. We do not find ratepayer benefit in allowing the replacement of 180 payment entry processing scanners and printers for $1,300 each.[1734] Based on CommLegal's analysis, we reduced the cost forecast for payment entry processing units by $140,000, which, normalized over four years, results in an annual reduction of $35,000.[1735]

Regarding Remittance Processing, SoCalGas requested $610,000 in non-labor to address accessibility issues pursuant to D.19-09-051 and $671,000 in labor for an incremental 7.5 FTEs. CommLegal discovered that SoCalGas spent $1.774 million in 2021, with SoCalGas claiming that it spent $1.513 million as capital spending. The disconnect lies in SoCalGas's claim to enhance accessibility, while we are unsure whether it overspent or underspent the authorized amount for accessibility. We also note that SoCalGas's memorandum of understanding with the Center for Accessible Technology expired in December 2023.[1736] We agree with CommLegal's argument to reduce labor costs and incremental staffing costs because historically, SoCalGas had 22.2 – 24.8 FTEs from 2017 to 2021, and

[1734] CommLegal Opening Brief at 37-39.

[1735] CommLegal Opening Brief at 3.

[1736] Sempra Reply Brief at 371-372.

there is no evidence the department was understaffed or had normal vacancies due to natural fluctuations. The lack of a detailed cost breakdown and timeline also leaves us with insufficient justification for additional funding. Therefore, we deny $610,000 in non-labor cost forecast and $671,000 in labor cost forecast.

Regarding labor costs for Customer Service Office Operations – Operations and Technology, we decline to adopt CommLegal's reduction of $262,000. SoCalGas has demonstrated the need for additional FTEs including financial analysts to support its tasks to comply with additional regulatory requirements related to RAMP and RSAR reporting, which has gradually increased since 2019.

For Payment processing, we agree with CommLegal that SoCalGas's failure to provide evidence quantifying the amount of additional work it claims will result from "increased complexity" does not justify increased labor expenses. SoCalGas has not demonstrated that the 2021 FTE count is insufficient to manage electronic payments. Therefore, we deny SoCalGas's request for an incremental $210,000 increase in labor costs for 2.5 additional FTEs.

We observe that SoCalGas's FTE requirement for Customer Service Office Operations increased from 582 FTEs in 2021 to 671 FTE positions in 2024.[1737] On the one hand, SoCalGas may close its branch offices, but on the other hand, it is projecting to grow Branch Office FTE positions from 92 in 2021 to 123 in 2024.[1738] The uncertainty of these branch offices' futures does not support SoCalGas's request for incremental staff positions that burden ratepayers with incremental costs.

[1737] SCG Ex-15-WP-E at 3.

[1738] SCG Ex-15-WP-E at 3.

We decline CommLegal's recommendation that SoCalGas evaluate demographic data and support the most "prevalent languages" spoken in SoCalGas's service territory. CommLegal's claim is not supported by any specific recommendations. Moreover, SoCalGas has demonstrated that it complies with directives in D.20-03-004 and D.21-06-034 on the language selection process.

We agree with TURN that SoCalGas did not account for any operational savings resulting from the Customer Contact Center Technology Modernization Project, as discussed in the IT Section of this decision. As a result, the O&M expenses will be reduced by a fourth of the projected benefit, or $2.4 million.

In summary, we authorize $83.842 million for 2024 Test Year cost estimates.

The following contested costs for SoCalGas's Customer Services Office Operations are adopted ($000):

Table 23.3
Contested Costs for SoCalGas's Customer Services Office Operations

($000s)	SoCalGas Requested	Adopted	Difference
Branch Offices	12,246	10,877	(1,369)
Credit & Collections	5,934	5,462	(472)
Remittance Processing	7,083	5,802	(1,281)
Other Office Operations & Technology	6,188	6,188	0
Payment Processing	4,058	3,848	(210)
CCC Operations	26,828	24,428	(2,400)
Total	**62,337**	**56,605**	**(5,732)**

The following O&M requests were uncontested and are adopted:

Table 23.4
Uncontested Costs for
SoCalGas's Customer Services Office Operations (in $000)

	SoCalGas Requested	Adopted
CCC Support	8,991	8,991
Billing Services	5,178	5,178
Credit and Collections Postage	874	874
Remittance Processing Postage	10,598	10,598
Measurement Data Ops	1,098	1,098
Manager of Remittance Processing	498	498
Total	**27,237**	**27,237**

23.2. SDG&E's Customer Services Office Operations

SDG&E requests $37.922 million for O&M costs in the 2024 Test Year to support the Non-Shared services activities within Customer Services Office Operations.[1739] It uses a base year forecasting methodology for its 2024 Test Year Forecast.

SDG&E is not requesting any costs for Shared Services.

Table 23.5
Customer Services Office Operations – O&M Costs ($000s)[1740]

Project	2021 Adjusted-Recorded	2024 Test Year Forecast	Change
Billing	6,504	6,601	97
Credit and Collections	2,017	2,096	79
Safety – Meter Revenue Protection	338	338	0
Remittance Processing	761	678	-83
Postage	3,810	4,005	195
Branch Offices and Authorized Payment Locations	1,358	1,517	159
Customer Contact Center Operations	11,851	13,740	1,889
Customer Contact Center Support	3,750	4,030	280
Customer Operations Compliance and Strategy	4,417	4,917	500
Total Non-Shared O&M Costs	**34,806**	**37,922**	**3,116**

1739 Sempra Opening Brief at 520.

1740 SDG&E Ex-18-R at SFB-5 Table SFB-3; SDG&E Ex-18-R WP at 1-4.

SDG&E's Customer Services Office Operations costs are affected by the following: customer growth impacts from the full-year effect of vacant positions, customer transition to Community Choice Aggregation, enhancements and upgrades to the systems used in Customer Care Centers, and Customer Information System replacement benefits.[1741]

SDG&E's Supplemental Testimony Exhibit SDG&E-18-S states that any rate increase proposed in this GRC will have little to no impact on customer disconnections for non-payment in accordance with SB 598 (Stats. 2017, ch. 362).[1742, 1743]

SDG&E also requests IT capital expenditures of $19.233 million in 2022, $31.353 million in 2023, and $33.557 million in 2024.[1744] These costs are discussed under the IT capital cost Section of this decision.

On July 22, 2024, the Commission's Energy Division approved SDG&E's Advice Letter 4447-E-A/3304-G-A, submitted on June 7, 2024, pursuant to D.22-06-008.[1745] Effective July 8, 2024, SDG&E received Commission approval to close four branch offices in Chula Vista, Market Creek, El Cajon, and Escondido. According to SDG&E, the payments at these branch offices have been declining in recent years and continue to decline while operating costs have been increasing. For example, SDG&E notes that in 2023, 137,000 transactions were made for all four branch offices combined, compared to 522,000 in 2019. SDG&E indicated the

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[1741] Sempra Opening Brief at 520-536.

[1742] SDG&E Ex-18-S at SFB-1.

[1743] SDG&E Ex-18-S at SFB-10.

[1744] Sempra Opening Brief at 520-521.

[1745] The Commission takes official notice of the disposition letter issued on July 22, 2024 regarding SDG&E Advice Letter 4447-E-A/3304-G-A Requesting Approval for Closure of Four Remaining Branch Offices pursuant to Decision 22-06-008.

remaining four branch closures would result in an annual operating cost savings of approximately $1 million.

23.2.1. Party Positions

Cal Advocates does not oppose SDG&E's cost estimates. The table below reflects CommLegal's and TURN's opposition to SDG&E's O&M cost requests.

Table 23.6
CommLegal's and TURN's Opposition to
SDG&E's O&M Cost Requests ($000s)

	SoCalGas	CommLegal	TURN
Branch Offices and Authorized Payment Locations	1,517	922	1,517
Customer Contact Center Operations	13,740	11,262	10,941
Customer Operations Compliance and Strategy	4,917	4,641	4,917
Customer Contact Center Support	4,030	4,030	3,787
Postage[1746]	4,005	3,418[1747]	4,005

TURN recommends a 2024 forecast of $34.47 million,[1748] including the following reductions:

Customer Contact Center Operations and Support: TURN recommends a 2024 forecast of $10.941 million, a reduction of $2.799 million for Customer Contact Center Operations. TURN argues that an increased cost forecast to hire staff to support higher call volumes failed to demonstrate why transitioning to CCAs will not result in reduced call volumes to the Customer Contact Center.

[1746] SDG&E postage expense was revised in SCG Ex-401/SDG&E Ex-401 Update Filing at 17.

[1747] CommLegal's recommendation is based on SDG&E's forecast before SCG Ex-401/SDG&E Ex-401 Update Testimony.

[1748] TURN's recommendation was based on figures before the update filing. Taking SCG Ex-401/SDG&E Ex-401 changes into account, TURN's reductions would result in a total forecast of $34.880 million.

TURN contends that unless SDG&E proposes to return the savings it achieved in O&M costs due to the pandemic to ratepayers, recorded costs during those years must be used for forecasting. TURN recommends a five-year historical average (2018-2022) to estimate the 2024 Test Year forecast for Customer Contact Center Operations and deny incremental costs for Customer Contact Center Support.[1749]

TURN recommends that SDG&E's request for additional analysts related to the Contact Center of the Future capital project of $243,000 should be denied.[1750] TURN opposes the capital project and recommends that corresponding O&M costs be denied.

CommLegal opposes the following costs:

- Postage cost: CommLegal states that due to a Group Mail error, SDG&E's postage costs are overestimated, whereas historically, they have decreased from 2017 to 2020. CommLegal discovered that postage costs increased in 2021 due to implementing the new CIS. CommLegal further states that SDG&E was responsible for the initial April 2021 CIS implementation error as well as the incomplete correction in September 2022 and that SDG&E will have had over two and a half years to correct the issue before 2024. It argues that it is unreasonable to force ratepayers to fund the ongoing costs due to this error. CommLegal recommends that the Commission deny all costs related to SDG&E's Group Mail error and reduce the 2024 request by $179,343, amounting to $3,418,000 for postage costs.[1751]
- Branch Offices: CommLegal argues that SDG&E's Branch Office FTE count has been decreasing as more customers transition to automated transaction channels, SDG&E recently closed one-third of their Branch Offices, and SDG&E has not met its burden of proof to demonstrate that

[1749] TURN Opening Brief at 273-274.

[1750] TURN Opening Brief at 277.

[1751] CommLegal Opening Brief at 11.

it is reasonable to maintain the 14.2 FTE level from 2021. Based on its recommendation to reduce FTE positions, CommLegal recommends a reduction of $593,634.[1752]

- Customer Contact Center Operations: CommLegal argues that SDG&E fails to demonstrate that 31.9 additional FTEs are necessary to meet any assumed workload increase. It contends that SDG&E increases FTE positions by claiming the need to cover external call center work and vacancies due to CIS training. CommLegal argues that SDG&E lacks justification because the external call center it maintained while CIS was implemented was temporary, and SDG&E has not maintained quantification of vacancies. It further argues that call-handle times are expected to decrease; therefore, additional FTEs are unnecessary. CommLegal recommends rejecting SDG&E's request for 31.9 additional FTEs and reducing its 2024 labor forecast by $2,024,000.[1753]
- Customer Operations Compliance and Strategy: CommLegal disagrees with SDG&E's request for $3,752,000 in labor costs, a 30 percent increase ($876,000) over 2021 costs due to an additional 8.2 FTEs, an increase from 23.2 to 31.4 FTEs, and $220,000 for non-labor costs "related to managing defects and minor enhancements to SDG&E's Consent to Share application" for non-labor costs. CommLegal argues that SDG&E provided contradictory evidence in its rebuttal and data request responses on the reasons and timeline for vacant positions.[1754] Regarding non-labor costs, CommLegal argues that SDG&E's costs related to "managing defects and minor enhancements" should reduce over time as the IT application is improved.[1755] CommLegal recommends reducing the 2024

[1752] CommLegal Opening Brief at 14.

[1753] CommLegal Opening Brief at 18.

[1754] CommLegal Opening Brief at 24-25.

[1755] CommLegal Opening Brief at 26.

Test Year forecast labor costs by $56,000 and non-labor costs by $220,000.[1756]

- In-house language support: CommLegal asserts that SDG&E is inconsistent and provides contradictory excuses to justify not having in-house language support for the most common languages spoken in its service territory. It recommends that the Commission hold SDG&E accountable for its claimed efforts to provide in-house language support for the most prevalent languages spoken in its territory.[1757]

23.2.2. SDG&E Reply

SDG&E argued that the Commission should disregard CommLegal's comments regarding lowering its cost requests for Branch Offices.[1758]

SDG&E disagrees with TURN's use of a five-year historical average for Customer Contact Center Operations. It argues that the 2021 Base Year performance results were preferred over historical averages because changes in customer preferences for communication channels (phone, web, email, chat, mobile) and self-service channel improvements (IVR, web, and mobile) have impacted Energy Service Specialist calls in the last five years.[1759] SDG&E also disagrees with CommLegal's request to reduce the 2024 labor forecast by $2.024 million for 31.9 additional FTEs.[1760] It further argues that the 30 additional FTEs on staff as of year-end 2022 are not incremental, as they are performing the work that was handled by the external call center contract workforce in 2021.[1761]

[1756] CommLegal Opening Brief at 27-28.

[1757] CommLegal Opening Brief at 24-25.

[1758] Sempra Opening Brief at 525-526.

[1759] Sempra Opening Brief at 527.

[1760] Sempra Opening Brief at 528.

[1761] Sempra Opening Brief at 528.

For Customer Operations Compliance and Strategy, SDG&E argues that the Commission should deny CommLegal's recommendation to disallow costs related to either the Consent to Share Application or the CIM Advisor position. SDG&E argues that due to maintenance costs that were funded in 2021, it is forecasting these costs to be ongoing and part of its business case. As for associated labor costs, SDG&E argues that the 2022 labor costs ($179,125) were annualized to $220,880 for the Test Year forecast.[1762]

For postage costs, SDG&E states that it does not believe it should be penalized for its internal misunderstanding, which resulted in it continuing to incur additional postage costs for group mail with three or more bills.[1763] SDG&E further argues that CommLegal's proposal underestimates postage costs, ignoring rate increases since filing the initial application. SDG&E further argues that the Commission previously found its postage forecast reasonable and contends that its current forecast accurately reflects the impact of rising rates.[1764]

In its opening brief, SDG&E notified the Commission of an error in its Uncollectible Rate. SDG&E requested that its uncollectible rate for the 2024 Test Year be set at 0.219 percent, whereas it should be 0.205 percent, which excludes the Arrearage Management Payment plan write-offs.[1765]

[1762] Sempra Opening Brief at 529-530.

[1763] Sempra Opening Brief at 535-536.

[1764] Sempra Reply Brief at 393.

[1765] Sempra Opening Brief at 536.

23.2.3. Discussion

SDG&E has permission to close its branch office locations for Branch Office-related costs.[1766] The costs should be adjusted to reflect the change in the cost of service to ratepayers. In D.23-05-012, the Commission allowed SDG&E to establish a GRC memorandum account (GRCMA) to record 2024 Test Year GRC revenue requirements effective January 1, 2024, for Track 1. Since the costs related to the branch offices are tracked in the GRCMA from January 1, 2024, through July 8, 2024, we deny a 2024 Test Year cost estimate in the revenue requirement. SDG&E's Advice Letters 4447-E-A/3304-G-A approved the closures effective July 8, 2024, and the Branch Offices were open for roughly 51 percent of the year. Therefore, in its GRCMA review and rates update, SDG&E shall apply a 49 percent reduction for 2024, which is $0.749 million of its forecast of $1.517 million. SDG&E shall prorate the costs collected through July 8, 2024, and settle the remaining costs in the GRCMA to reduce overcollection.

Since SDG&E has closed all branch offices, we do not see a need for ratepayers to continue funding those operations, and accordingly, we reduce the 2024 Test Year forecast to $0.

We agree with TURN and CommLegal that SDG&E has not justified the increase in staffing levels at Customer Contact Center Operations. We disagree with SDG&E that past staffing levels and FTE counts have little bearing on future staffing needs.[1767] SDG&E claims that while call volume has been reduced from 2019, average call handle time has increased,[1768] but it does not establish evidence

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[1766] D.22-06-008 ordered the closure of the downtown San Diego location and National City branch office, and the Commission's disposition letter dated July 22, 2024, approved Advice Letters 4447-E-A/3304-G-A requesting the branch closures effective July 8, 2024.

[1767] Sempra Opening Brief at 528.

[1768] Sempra Opening Brief at 528.

that this should result in increased staffing levels of 30 new FTE positions. If historical operational budgets accommodate external call center employees who will become redundant, we disagree that past historical spending is not representative of supporting in-house staff. We accept TURN's five-year historical average and deny an incremental cost increase. Therefore, we adopt the 2024 forecast of $10.941 million, a reduction of $2.799 million for Customer Contact Center Operations.

For Customer Operations Compliance and Strategy, we agree with CommLegal that SDG&E's inconsistent evidence in rebuttal and opening brief on vacant versus leave of absence for labor costs does not justify an incremental cost increase.[1769] We agree with CommLegal that SDG&E's assumption regarding non-labor costs is not reasonable. By assuming a constant need for the same level of work on the Consent to Share app, SDG&E ignores the potential for diminishing returns over time, burdening ratepayers with ongoing costs for a program developed in 2021.[1770] Therefore, we adopt CommLegal's recommendation to reduce labor costs by $56,000 and non-labor costs by $220,000.

Regarding postage costs, SDG&E found errors in its process only after CommLegal's data requests. SDG&E's argument that the Commission found these costs reasonable in the last GRC decision is without merit because the circumstances in this application indicate an error in how SDG&E claims postage costs. We agree with CommLegal that SDG&E is labeling its errors as a misunderstanding with ambiguous evidence on when and how the errors will be corrected and the impact on the ratepayers. Therefore, we deny all costs due to

[1769] CommLegal Reply Brief at 16.

[1770] CommLegal Reply Brief at 16-17.

SDG&E's Group Mail error and adopt CommLegal's recommendation to reduce SDG&E's postage request by $179,000.

For Customer Contact Support, TURN recommended a $243,000 reduction to deny IT capital costs for the Customer Contact Center of the Future. As we are adopting SDG&E's IT capital costs, we do not apply TURN's $243,000 O&M reduction.

In summary, we authorize $33.151 million for Customer Services Office Operations.

The following costs for SDG&E's contested Customer Service Office Operations are adopted:

Table 23.7
SDG&E's Contested Customer Service Office Operations (in $000)

	SDG&E Requested	Adopted	Difference
Branch Offices and Authorized Payment Locations	1,517	$0	(1,517)
Customer Contact Center Operations	13,740	10,941	(2,799)
Customer Operations Compliance and Strategy	4,917	4,641	(276)
Customer Contact Center Support	4,030	4,030	(0)
Postage	4,005	3,826	(179)
Total	**28,209**	**23,438**	**(4,771)**

The following O&M requests were uncontested and are adopted:

Table 23.8
SDG&E's Uncontested Customer Service Office Operations (in $000)

	SDG&E Requested	Adopted
Billing	6,601	6,601
Credit and Collections	2,096	2,096

Remittance Processing	678	678
Safety – Meter Revenue Protection	338	338
Total	**9,713**	**9,713**

No parties objected to the business justification for expenses recorded to the California Consumer Privacy Act Memorandum Account (CCPAMA), Wildfire Consumer Protections Memorandum Account (WCPMA), Residential Disconnection Protections Memorandum Account (RDPMA), and Emergency Customer Protections Memorandum Account (ECPMA). SDG&E's request to continue the existing regulatory accounts is approved. These regulatory accounts are addressed under the Regulatory Accounts Section of this decision.

23.3. Uncollectible Rate

The Uncollectible Rates proposed by SoCalGas and SDG&E are uncontested.

SoCalGas requests to increase the authorized uncollectible expense rate from 0.278 percent to 0.310 percent. SoCalGas's proposed rate is based on a ten-year rolling average of actual and reserve write-offs from 2012 through the 2021 Base Year.[1771] SoCalGas states that using ten years is most appropriate because a shorter period (i.e., three-year average) fails to reflect the full range of the potential impacts of economic and cyclical variables experienced by SoCalGas.[1772] We find it reasonable to adopt SoCalGas's uncontested Uncollectable Rate of 0.310 percent.

SDG&E requests a 0.205 percent Uncollectable Rate based on a ten-year rolling average.[1773] Similar to SoCalGas's use of ten years of historical data to

[1771] Sempra Opening Brief at 499-500.

[1772] SCG Ex-15-R-2E at BMS-45.

[1773] Sempra Opening Brief at 536.

calculate the Uncollectible Rate, reflecting economic and cyclical factors, it is reasonable to adopt SDG&E's uncontested Uncollectible Rate of 0.205 percent.

24. Supply Management, Logistics, & Supplier Diversity

24.1. SoCalGas Supply Management

Supply Management, Logistics, & Supplier Diversity (Supply Management) is responsible for identifying, purchasing, and managing the procurement contracts of products and services needed to operate SoCalGas and SDG&E. Supply Management delivers value to its internal business clients and ratepayers by leveraging technology and tools to assess the market and analyze spending trends to meet purchasing needs while reducing costs and managing contract performance. The Supplier Diversity programs advocate for diverse businesses to encourage participation in contracting opportunities with SoCalGas and SDG&E.[1774]

SoCalGas asks the Commission to adopt its forecasts of $35.489 million for O&M to support SoCalGas's Supply Management regarding the purchase, distribution, and inventory of materials, supplies, and services. This represents a $1.056 million increase over the 2021 Base Year adjusted recorded costs in this area. All costs use a Base Year forecast methodology.[1775]

SoCalGas also presents the business case for these O&M costs in support of a capital forecast of $17.697 million in 2022, $10.364 million in 2023, and $1.703 million in 2024 for Supply Management IT projects.[1776] The four projects proposed are as follows: [1777]

[1774] Sempra Reply Brief at 406; SDG&E Ex-20 at DC-iii.

[1775] Sempra Opening Brief at 559.

[1776] IT project costs are addressed under the IT Section of this decision.

[1777] Sempra Opening Brief at 564.

- **Disadvantaged Business Enterprise (DBE) Spend Reporting Enhancements:**
  - This project aims to improve DBE reporting accuracy and efficiency by automating the process and addressing cybersecurity vulnerabilities.
- **Supply Management and Logistics Modernization:**
  - A three-phase project to upgrade IT systems that rely on SAP tools to handle increased workload, improve inventory management, and enhance compliance.
- **Enterprise Source to Pay (ES2P):**
  - This project will consolidate procurement processes into a single SAP Ariba platform, increasing efficiency, compliance, and sourcing effectiveness.
- **Supplier Management System:**
  - An IT application to manage supplier relationships, risk management, compliance, and quality management.

24.2. SDG&E Supply Management

SDG&E requests the Commission to adopt its forecast of $20.719 million for O&M to support SDG&E's Supply Management group regarding the purchase, distribution, and inventory of materials, supplies, and services. This represents a $0.903 million increase over the 2021 Base Year adjusted recorded costs in this area. All costs use a Base Year forecast methodology.

24.3. Discussion

Two parties, Cal Advocates and CommLegal, provided testimony concerning SoCalGas's and SDG&E's requests. Cal Advocates stated it did not oppose any of SoCalGas's and SDG&E's requests.

CommLegal did not propose reductions to either utility's revenue request but recommended new activities and reporting for the Supplier Diversity group for both utilities.

We have reviewed SoCalGas's and SDG&E's cost requests and forecasting methodologies for 2024 Test Year costs and find them reasonable. Therefore, we adopt $35.489 million for O&M for SoCalGas's Supply Management group and $20.719 million for O&M to support SDG&E's Supply Management group.

We decline to adopt CommLegal's recommendations for new activities and reporting for the reasons explained below.

CommLegal recommends that SoCalGas report its efforts and effectiveness in technical assistance, supplier outreach, and capacity-building programs, set goals to increase contracting with small DBEs, and report on staff training programs with detailed information on costs, feedback received, modifications made for improvement, course descriptions, and associated costs.[1778]

In its reply, SoCalGas opposes imposing reporting on outreach efforts and setting goals for small DBEs and training. SoCalGas contends not only that its Supplier Diversity facilitates SoCalGas's compliance with General Order 156 but that the Company has surpassed the Commission's goal for the past 29 years and has more than doubled the Commission's target for the last 10 years.[1779] SoCalGas contends that such efforts would divert resources from other aspects of the Supplier Diversity program and should be done in collaboration with the Commission.[1780]

For SDG&E, CommLegal recommends reinstating the Best In Class program or a similar capacity-building program, setting goals to increase the total number of DBEs contracted with specific targets for small DBEs, setting DBE

[1778] CommLegal Opening Brief at 4.

[1779] Sempra Reply Brief at 562.

[1780] Sempra Reply Brief at 571.

spending goals for prime suppliers and evaluating these goals when awarding contracts, and increasing staff training in identifying and engaging small DBEs.[1781]

SoCalGas's and SDG&E's Supplier Diversity programs' compliance with GO 156 is not at issue in this GRC. We agree with SoCalGas and SDG&E that imposing additional reporting requirements within the GRC without further information and evidence and collaboration with the Commission is not reasonable. It is important to consider potential tradeoffs and whether they would benefit the whole program before shifting the focus of the Supplier Diversity program to goals for small DBEs.

CommLegal's comments have broader implications than the scope of this proceeding. The Commission will require more data, wider coordination, and alignment with the overall policy objectives. Therefore, we decline to adopt additional reporting requirements on Supplier Diversity in this GRC. CommLegal may address these issues in an appropriate rulemaking proceeding before the Commission.

25. SDG&E Clean Transportation

SDG&E's Clean Transportation department's activities consist of three functional areas: Business Development, Data Analytics and Systems; Program Management; and Customer Experience.[1782] SDG&E requests costs needed to support the Zero Electric Vehicle (ZEV) transition in this GRC cycle rather than incremental separate applications.[1783]

1781 CommLegal Opening Brief at 4.

1782 SDG&E Ex-21 at 2.

1783 SDG&E Ex-21 at 3.

25.1. Summary of SDG&E's Proposal

SDG&E requests $4.831 million in O&M and $7.580 million in capital costs for its Clean Transportation department.[1784] These costs are in addition to SDG&E's electric vehicle (EV) infrastructure programs funded through incremental Commission decisions outside of this proceeding.[1785] SDG&E's requests for cost recovery in this GRC pertain to ongoing O&M costs and costs related to AB 841 and resulting EV Infrastructure Rules approved in Commission Resolution E-5167.

SDG&E is requesting a $1.53 million increase in its Non-Shared O&M expenses, consisting of labor and non-labor costs, from the 2021 Base Year.

Table 25.1
Non-Shared O&M Summary of Cost[1786]

CLEAN TRANSPORTATION (In 2021 $000s)	2021 Adjusted Recorded	TY2024 Estimated	Change
Labor	1,622	1,997	375
Non-Labor	1,678	2,834	1,156
Total Non-Shared Services	**3,300**	**4,831**	**1,531**

According to SDG&E the cost drivers for an increase in its O&M costs include:[1787]

- $906,000 in non-labor to cover ongoing O&M for the 2016 Vehicle Grid Integration (VGI) Pilot Program approved in D.16-01-045;
- $250,000 to fund a broad-based EV awareness campaign;
- $250,000 in labor for two new TE positions that will support the proposed TE Advisory and Consultation Services function to advise customers; and

1784 Sempra Opening Brief at 572.

1785 Sempra Opening Brief at 572.

1786 SDG&E Ex-21-WP.

1787 Sempra Opening Brief at 572-573.

- $125,000 in labor for a new data scientist position beginning in 2023 to support SDG&E's Commission-mandated EV data reporting and regional ZEV planning.

Regarding capital costs, SDG&E forecasted $20 million in new capital costs in 2024 using a zero-based forecasting method.[1788] In its Opening Briefs, SDG&E changed its position to align it with the recommendation of Cal Advocates for a lower capital cost. SDG&E states that it will establish a new Electric Vehicle Infrastructure Rule Balancing Account (EVIBA), a two-way balancing account with a forecast of $7.58 million.[1789] SDG&E states that given the difficulty in projecting the results from a brand-new EV Infrastructure Rule,[1790] it agrees with Cal Advocates that the EVIBA be created similar to the Vehicle Grid Integration Memorandum Account (VGIMA). SDG&E proposes to establish EVIBA as a two-way balancing account to receive the funding necessary to comply with Resolution E-5167.[1791] SDG&E states that per Commission Resolution E-5167, it is required to own, install, and maintain the electrical distribution infrastructure and associated construction on the utility side of the electric meter for separately-metered EV charging installations, with the exception of single-family homes, for customers that elect to take service under the EV Infrastructure Rule.[1792]

1788 SDG&E Ex-21.

1789 Sempra Opening Brief at 573-574.

1790 The EV Infrastructure Rule is an optional new service rule for separately-metered EV charging sites, with the exception of single-family homes, established by Commission Resolution 5167-E.

1791 Sempra Opening Brief at 574.

1792 SDG&E Ex-21 at JLR-iii.

SDG&E's cost drivers for capital expenditure include designing, installing, and maintaining the utility-side charging infrastructure[1793] at sites requesting service under the EV Infrastructure Rule, including the electrical distribution infrastructure and associated construction between the distribution system and utility meter.[1794]

Regarding the balancing account, SDG&E states that it will balance the EVIBA over the GRC cycle and any over/under collection will be carried forward to the following year.[1795] If costs and customer participation exceed their estimated amount, resulting in an under-collection, SDG&E states that it may recover the balance before the next GRC cycle to avoid a large undercollection for recovery.[1796]

Regarding regulatory accounts, except as described below, SDG&E proposes to close the following regulatory accounts and transfer the balances to the Electric Distribution Fixed Cost Account for inclusion in rates:

1. Vehicle Grid Integration Balancing Account (VGIBA)—SDG&E requests to recover $48.5 million[1797] recorded to the VGIBA, a one-way interest-bearing balancing account that records the authorized revenue requirement and actual incremental costs from implementing the 2016 Power Your Drive (PYD) Pilot Program as approved by D.16-01-045.[1798] SDG&E states that $48.5 million recorded to the VGIBA consists of the approved $45 million budget plus the

[1793] Pub. Util. Code Section 740.19(b) defines utility-side infrastructure as "poles, vaults, service drops, transformers, mounting pads, trenching, conduit, wire, cable, meters, other equipment as necessary, and associated engineering and civil construction work."

[1794] SDG&E Ex-21 at 11-12.

[1795] SDG&E Ex-21 at 12.

[1796] SDG&E Ex-21 at 12.

[1797] SDG&E Ex-243 at 10; SDG&E Ex-21 at 15.

[1798] Sempra Opening Brief at 573; SDG&E Ex-21 at 15.

$3.5 million incremental costs attributable to the changes in Americans with Disabilities Act (ADA) regulations.

2. VGIMA — an interest-bearing memorandum account that tracks long-term O&M expenses and participation payments due to the VGI Pilot Program approved by D.16-01-045.[1799] SDG&E requests that future costs of the 2016 Vehicle Grid Pilot Program be recovered from all customers, including California Alternative Rates for Energy (CARE) customers, as was approved by the Commission for the PYD Pilot Extension Program and consistent with other EV infrastructure programs.[1800] SDG&E's undercollected balance as of the first quarter of 2022 was $7.384 million.[1801]

3. Clean Transportation Priority Balancing Account (CTBA) — an electric balancing account established to record SDG&E's authorized revenue requirement and costs associated with SDG&E's Priority Review Projects as approved by D. 18-01-024 and its Residential Charging Program as approved in D.18-05-040.[1802] According to SDG&E, the Q1 2022 overcollected balance is ($10.693) million.[1803]

4. Working Group Facilitator Memorandum Account (WGFMA) — an interest-bearing account to record costs associated with hiring a facilitator to organize and facilitate the VGI Working Group.[1804] According to SDG&E, the account had an undercollected balance of $0.037 million as of Q1 2022.[1805]

5. Electric Vehicle Infrastructure Memorandum Account (EVIMA) — is an interest-bearing memorandum account

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1799 Sempra Opening Brief at 573; SDG&E Ex-21 at 15.

1800 Sempra Opening Brief at 573; SDG&E Ex-21 at 15.

1801 SDG&E Ex-43-R-E at 8.

1802 SDG&E Ex-21 at 16-17.

1803 SDG&E Ex-43 at JK-2.

1804 SDG&E Ex-21 at 17.

1805 SDG&E Ex-43 at 9.

that tracks the incremental costs associated with Rule 45: EV Infrastructure.[1806] In Exhibit SDG&E-21, SDG&E states that it wants to close this account, transfer the under-collected balance as of December 31, 2023 to EDFCA for inclusion in rates, and replace it with a two-way balancing account: the EVIBA.[1807] In Exhibit SDG&E-43, SDG&E proposes to maintain an account with a balance of $0.[1808] Although no activity has been recorded since inception, SDG&E expects to record activity in the future.

6. High Power Interim Rate Waiver Balancing Account (HPWBA) — a two-way balancing account established pursuant to D.20-12-023 to record any revenue shortfall or surplus from the EV-High Power interim rate waiver.[1809] SDG&E requests that the HPWBA remain open as, pursuant to D.20-12-023, SDG&E will address the treatment of any HPWBA shortfall or surplus in its next General Rate Case Phase 2 application.[1810] According to SDG&E, the undercollected balance as of Q1 2022 was $2.044 million.

25.2. Intervenors

Cal Advocates, FEA, TURN, and UCAN addressed SDG&E's proposal for Clean Transportation and did not oppose SDG&E's O&M costs.[1811]

Cal Advocates accepts SDG&E's capital forecast of $0 for 2022 and 2023.[1812] Cal Advocates recommends $7.6 million in capital costs for 2024.[1813] Regarding

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[1806] SDG&E Ex-21 at 18.

[1807] SDG&E Ex-21 at 18.

[1808] SDG&E Ex-43 at 5.

[1809] SDG&E Ex-21 at 18-19.

[1810] SDG&E Ex-21 at 19.

[1811] Sempra Opening Brief at 574.

[1812] Cal Advocates Opening Brief at 27.

[1813] Cal Advocates Opening Brief at 27; CA Ex-11 at 11.

regulatory accounts for 2024, Cal Advocates opposes closing the VGIBA.[1814] Cal Advocates recommends an audit of VGIBA to address the authority to change a previously authorized Commission determination, and the reasonableness of including $3.5 million due to unforeseen costs.[1815] Cal Advocates also recommends funding VGIBA with $7.6 million in capital costs equaling the VGIMA revenue requirement pursuant to SDG&E Advice Letter 3908-E.[1816] Cal Advocates does not oppose the closure of the VGIMA, CTBA, WGFMA, EVIMA, or the HPWBA.[1817]

FEA and TURN oppose SDG&E's proposal to establish the EVIBA.

FEA seeks to keep the EVIMA open to continue to track EV infrastructure costs related to Electric Rule 45.[1818] FEA states that since the EV Infrastructure is a new program, the Commission should require SDG&E to track the EV Infrastructure costs in a memorandum account rather than a balancing account.[1819]

TURN opposes SDG&E's request for balancing and memorandum accounts in general. TURN states that the Commission should reduce its reliance on balancing and memorandum accounts, and instead reaffirm its commitment to GRC forecast-based ratemaking where appropriate.[1820] TURN opposes SDG&E's request to establish the EVIBA, as using the "update" advice letter process alone

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1814 CA Ex-11 at 14.

1815 CA Ex-11 at 14.

1816 CA Ex-11 at 6.

1817 CA Ex-11 at 12.

1818 FEA Ex-01 at 48.

1819 FEA Reply Brief at 9.

1820 TURN's Opening Brief at 436.

for reasonableness review before rate recovery is inadequate. TURN states that interested parties must have the opportunity to review and challenge requests before the Commission allows rate recovery via an application process.

UCAN contends that funding for IT assets will be outmoded, obsolete, and stranded within this GRC period, including 00903H Clean Transportation Product Team 2023-2024.[1821, 1822]

25.3. SDG&E's Reply

SDG&E contends that cost recovery via EVIBA is appropriate because the Commission often uses two-way balancing accounts where costs are difficult to predict and subject to variables beyond the applicant's control, such as with a relatively new program. SDG&E states that it is difficult to project the results from the Commission's brand-new Electric Infrastructure Rule. SDG&E argues that requiring an application would be resource-intensive for the Commission and parties due to the difficulty in forecasting usage during the program's infancy. SDG&E recommends that its O&M recommendation and Cal Advocates' capital recommendation should be adopted.

25.4. Discussion

25.4.1. O&M Costs

The decision denies incremental $250,000 in non-labor O&M costs and incremental $250,000 in labor O&M costs.

Pursuant to D.22-11-040, the use of ratepayer funds should not duplicate broad EV awareness campaigns.[1823] Accordingly, SDG&E's request for $250,000 in

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[1821] UCAN Ex-01-E at 280-281.

[1822] UCAN's protest is addressed under the IT cost Section of this decision.

[1823] D.22-11-040, CoL 14: The Commission should prevent ratepayer Funding Cycle 1 and marketing, education, and outreach funds from duplicating broad EV awareness campaigns.

non-labor above the 2021 Base Year to fund a duplicative broad-based EV awareness campaign is denied. These additional funds are not part of program-specific marketing, education, and outreach activities funded through Commission decisions authorizing incremental EV infrastructure programs.[1824] SDG&E seeks to run awareness campaigns to address and overcome common consumer barriers to EV adoption, including range anxiety and a perceived lack of charging options, and tailor their messaging to underserved populations. In D.22-11-040, we authorized funds for underserved populations of the service territory. We decline to grant the additional funds without supporting evidence of how this campaign will add value to the existing targeted campaign. Consistent with D.22-11-040, the consumer awareness issues that SDG&E is proposing to address can be better served by public-private partnerships and are not the best use of ratepayer funds.[1825]

SDG&E's request for $250,000 in O&M labor costs for two FTE positions is denied. SDG&E plans to use the funds to create two new positions that will advise customers interested in adopting ZEVs but outside of Commission-approved programs. SDG&E's workpapers show that they currently have 13.7 FTE positions in the Clean Transportation Department. SDG&E did not provide any evidence to support the creation of two non-TE Advisor positions outside of the incremental EV infrastructure programs. SDG&E states that the two new advisory consultants will assist SDG&E's customers interested in ZEV adoption in completing grant applications for state and federal funding. SDG&E has not provided evidence to support the need for the new positions. It is unclear

[1824] SDG&E Ex-21 at 9.

[1825] D.22-11-040 at 64.

how many customer queries and forecasted call volumes were considered in forecasting the need for additional resources. The PYD Pilot program has ended, and thus, funding these positions through ratepayer funds without proper justification is not reasonable. It is unjustifiable to spend ratepayer funds on hiring two consultants to help with a grant application process that is typically done via a web-based online portal.

SDG&E's incremental cost request of $906,000 in non-labor O&M costs is reasonable for rate recovery as it covers the costs for ongoing data subscription fees, which are paid to the EV Service Providers (EVSP) that manage billing at PYD Pilot and Priority Review Project sites authorized pursuant to D.16-01-045 and D.18-01-024 and are necessary to keep the electric vehicle chargers in operation. The pace of transportation electrification in California is increasing, as is the pace of Commission mandates on the Clean Transportation function. Therefore, we also find it reasonable to grant $125,000 to fund a data scientist position to support these functions.

Accordingly, SDG&E shall only recover $1.031 million in incremental Clean Transportation O&M costs.

25.4.2. Regulatory Accounts

This decision denies SDG&E the authority to collect $3.5 million overspending under the VGIBA regulatory account from ratepayers.

SDG&E is requesting to recover an additional $3.5 million from VGIBA. SDG&E has already collected the approved $45 million budget, so with the inclusion of $3.5 million overspend the total amount recoverable through VGIBA would equal $48.5 million. SDG&E states that approximately $3.5 million of the PYD Pilot overspending is attributable to ADA regulation changes that occurred in 2017 and were not foreseeable in the 2016 decision approving the Pilot. It should be noted that in D.21-04-014, which authorized SDG&E to extend the program approved in D.16-01-045, the Commission discussed the cost overruns of the PYD Pilot program. Although authorized to spend up to $45 million, SDG&E reported a total cost of $70,253,053.[1826] The Commission did not authorize recovery of the cost overruns. In D.21-04-014, the Commission directed SDG&E to contract with a third-party auditor to conduct a detailed review of the PYD Pilot cost.[1827] The Commission has already denied cost overruns, which included $3.5 million in ADA-related costs.

Regarding the closure of regulatory accounts proposed by SDG&E, this decision authorizes it to close the following regulatory accounts and transfer the balances to the Electric Distribution Fixed Cost Account (EDFCA) for inclusion in rates: VGIBA, VGIMA, CTBA, WGFMA, and the HPWBA. As shown in SDG&E's Opening Brief, these regulatory accounts were created to support various pilot program implementations, which have already been completed, and there is no need for continued use of these regulatory accounts. The current balance recorded in VGIBA, VGIMA, CTBA, WGFMA, and the HPWBA regulatory accounts as of December 31, 2023, under and over-collection, will carry over into the EDFCA. Therefore, it is reasonable to close the above-mentioned regulatory accounts.

25.4.3. Capital Costs

This decision denies SDG&E's request to establish EVIBA, a two-way balancing account with a $7.58 million funding level, in lieu of EVIMA. Instead, SDG&E is ordered to continue recording costs incurred from the EV

[1826] D.21-04-014 at 4.

[1827] D.21-04-014 at 81-82.

Infrastructure Rule in the existing EVIMA until the next GRC cycle. This decision also sets a capital funding level of $7.58 million for the memorandum account.

It should be noted that there are discrepancies in SDG&E's treatment of the EVIMA, as Exhibit SDG&E-21 proposes to close the regulatory account while the witness in Exhibit SDG&E-43 seeks continuation of the regulatory account.

We decline balancing account treatment for capital costs because the EV Infrastructure Rule established pursuant to AB 841 and Pub. Util. Code Section 740.19(c) requires that costs incurred by the IOUs between January 1, 2021 and the implementation date of rates approved in the next GRC Decision for that IOU be tracked in a memorandum account and recovered, subject to reasonableness review in the decision adopting the next GRC revenue requirement.[1828]

Given that SDG&E opened the EV Infrastructure Rule to customer applications in April 2022, it has yet to book significant costs in the EVIMA. At the time of filing the GRC application, SDG&E showed a $0 balance in the EVIMA. Since costs have yet to be reviewed, closing the EVIMA and authorizing a new balancing account for these costs is not reasonable.

According to SDG&E and Cal Advocates, it is difficult to project costs associated with a brand-new EV Infrastructure Rule. The Commission agrees with Cal Advocates that although SDG&E's Advice Letter 3908-E pertains to the years 2022 and 2023, it acts as a better guideline for future funding, considering the present uncertainties and lack of any EV infrastructure sites built. The uncertainty of costs and past cost overruns in similar pilot programs make it reasonable to set a funding level of $7.58 million for EVIMA's capital expenses. Therefore, it is reasonable to adopt Cal Advocates' proposal of establishing a funding level that

[1828] Resolution E-5167 at 5.

SDG&E has forecasted in its Advice Letter 3908-E, pursuant to Resolution E-5167. The proposed funding level is approximately $7,580,000, and it allows SDG&E to build EV infrastructure in accordance with the AB 841 EV Infrastructure Rule.

Generally, memorandum accounts do not have a cap, but in this instance, since SDG&E has agreed to set a funding level, we find it reasonable to limit cost spending and recovery in rates at their proposed funding level. SDG&E shall record costs in the memorandum account pursuant to E-5167 and a reasonableness review of these costs will take place in the next GRC cycle.

26. SoCalGas and SDG&E Fleet Service

Sempra Utilities requests Non-Shared O&M costs, including labor and non-labor costs, for its Fleet Services to operate fleets that comply with laws mandating replacing diesel-fuel vehicles with alternative-fuel vehicles (AFVs). Sempra Utilities states that the costs include retiring old vehicles, purchasing ZEVs, and supporting Governor Newsom's Executive Order N-79-20 mandating that all new passenger trucks and cars sold in the state be emissions-free by 2035 and California Air Resources Board's (CARB's) Advanced Clean Truck Regulation.[1829]

26.1. SoCalGas Fleet Service

26.1.1. Summary of SoCalGas's Request

SoCalGas is requesting $82.509 million in Non-Shared Services O&M costs in Test Year 2024 for its Fleet Services, which consists of the following cost categories:

[1829] Sempra Opening Brief at 577.

Table 26.1
SoCalGas's Non-Shared Fleet Service
Test Year 2024 O&M Cost Summary ($000)[1830]

Non-Shared Services	2021 Adjusted-Recorded	TY 2024 Estimated	Change
A. Lease and License	24,140	48,332	24,192
B. Maintenance Operations and Fuel Costs	27,641	27,912	271
C. Fleet Management and Telematics	4,107	5,783	1,676
D. Director	926	482	-444
Total	**56,814**	**82,509**	**25,695**

Cost Categories:

A. **Lease and License Costs** include (1) existing fleet leases and licenses; (2) salvage and replacement; (3) vehicle additions; and (4) zero-emission vehicles and renewable natural gas vehicles.

SoCalGas forecasted $48.332 million for Lease and License using a zero-based method.[1831]

Table 26.2
Lease and License O&M Summary of Costs ($000)[1832]

Lease and License	2021 Adjusted-Recorded	Test Year 2024 Estimated	Change
1. Existing Fleet Leases & Fees	25,860	20,215	-5,645
2. Salvage & Replacement	-1,840	7,981	9,821
3. Vehicle Additions	0	6,753	6,753
4. Zero Emission Vehicles & Renewable Natural Gas Vehicles	120	13,383	13,264
Total	**24,140**	**48,332**	**24,192**

1830 SCG Ex-18-R-E at MF-12.

1831 SCG Ex-18-R-E at MF-22.

1832 SCG Ex-18-R-E at MF-13.

B. **Maintenance Operations and Fuel O&M Costs:** SoCalGas's forecasted request is based on a five-year historical average for maintenance operations of 5,000 vehicles and power-operated equipment, including technician labor, replacement parts, and contracted repair services.[1833] Fuel O&M costs are based on a four-year historical average to account for 12 cents per gallon base excise tax.[1834]

Table 26.3
Maintenance Operations and Fuel O&M Summary of Costs ($000)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
1. Maintenance Operations	16,330	15,810	(520)
2. Fuel Costs	11,311	12,102	791
Total	**27,641**	**27,912**	**271**

C. **Fleet Management and Telematics**

SoCalGas requests $3.148 million for **Fleet Management**, a decrease of $959,000 from 2021 adjusted-recorded costs.[1835] SoCalGas bases its forecast on a five-year historical cost average. It states that it is seeking costs for Fleet Services management staff and non-vehicle-specific expenses not covered elsewhere, including Asset Management; Financial & Systems; Maintenance Operations Management & Supervision; and Commutation Fee Credits.[1836]

For Telematics, SoCalGas requests $2.635 million in Test Year 2024 based on a zero-based forecasting methodology to install a telematics system on all existing and new fleet over-the-road vehicles to gather vehicle data and monitor a wide

[1833] SCG Ex-18-WP-R-E at 194.

[1834] SCG Ex-18-R-E at MF-26.

[1835] SCG Ex-18-R-E at MF-28.

[1836] SCG Ex-18-R-E at MF-28.

range of information, including vehicle location, driver behavior, and vehicle activity to help manage resources, increase efficiency, and improve reliability and driver safety.[1837]

D. Director

SoCalGas requests $482,000 in Test Year 2024 to fund a portion of the labor costs for the Support Services Director, who provides overall leadership and direction to the Fleet Service organization.

As with other Sections of the decision, certain costs included in this Section are RAMP-related costs supporting activities that mitigate key risks identified in the RAMP Report. SoCalGas states that its planned purchases of zero-emission vehicles, including Battery Electric Vehicles and Hydrogen Fuel Cell Electric Vehicles, are RAMP costs to support Governor Newsom's Executive Order mandating that all new passenger trucks and cars sold in the state be emissions-free by 2035.[1838] SoCalGas is projecting $15.264 million in O&M costs associated with incremental activities resulting from the RAMP process.

26.1.2. Party Positions

Cal Advocates, TURN, CEJA, and Air Products oppose SoCalGas's Fleet Services proposed costs. The cost differences among SoCalGas and the intervenors are summarized below:[1839]

[1837] SCG Ex-18-R at MF-30.

[1838] SCG Ex-18-R-E at MF-iii.

[1839] Sempra Opening Brief at 578; CEJA Opening Brief at 67-68. Table 24.1 in Sempra's Opening Brief misstates CEJA's position.

Table 26.4
Summarized Cost Differences Among SoCalGas and Intervenors ($000)

	SoCalGas	Cal Advocates	TURN	CEJA
Test Year 2024	$82,509	$61,303	$67,492	$67,005
Difference between Intervenor and SoCalGas		($21,206)	($15,018)	($15,504)

26.1.2.1. Cal Advocates

Cal Advocates recommends the following cost reductions:[1840]

Table 26.5
Cal Advocates Cost Reduction Recommendations ($000s)

Non-Shared Services	SoCalGas Test Year 2024 ($	Cal Advocates Test Year 2024($	Change($
A. Lease and License	48,332	29,069	-19,263
B. Maintenance Operations	27,912	26,851	-1,061
C. Fleet Management	5,783	4,901	-882
D. Director	482	482	0
Total	**82,509**	**61,303**	**-21,206**

Cal Advocates bases its recommendations on recorded 2020 costs for lease and license as it represents the highest cost in the recorded years. Cal Advocates states that SoCalGas has overestimated its Test Year 2024 forecast, which is higher than its historical lease and license costs averages. Cal Advocates argues that SoCalGas has a history of not adding or replacing vehicles as authorized and over-forecasting its vehicle needs. It contends that from 2014-2019, SoCalGas predicted 3,965 vehicles but only added or replaced 2,020. It claims that ratepayers paid for 1,945 vehicles SoCalGas never purchased, and SoCalGas was

[1840] Cal Advocates Opening Brief at 221-225.

not obligated to refund those costs. Cal Advocates opposes the incremental fuel cost increase associated with SoCalGas's forecasted incremental vehicle additions as it argues these purchases will not be added.

For maintenance operations, Cal Advocates recommends reducing the cost forecast to account for non-recurring costs related to laptop purchases that will not recur in the Test Year, removing duplicative training costs and non-labor costs that Cal Advocates claims are not supported with evidence.

26.1.2.2. CEJA

CEJA recommends the following cost reductions:[1841]

Table 26.6
CEJA's Recommended Cost Reductions ($000s)

Non-Shared Services	SoCalGas 2024 Test Year	CEJA 2024 Test Year	Change
A. Lease and License	48,332	33,644	-14,688
B. Maintenance Operations	27,912	27,912	0
C. Fleet Management	5,783	4,967	-816
D. Director	482	482	0
Total	82,509	67,005	-15,504

According to CEJA, in the last GRC cycle, the Commission rejected SoCalGas's request to use methane-burning vehicles and directed it to switch to battery-electric or hybrid electric vehicles. CEJA asserts that SoCalGas failed to comply as it is only acquiring hydrogen passenger vehicles. CEJA opposes the purchase of 126 hydrogen passenger vehicles as it asserts that hydrogen vehicles are more costly to maintain and fuel than electric vehicles and have a higher carbon intensity. CEJA states that SoCalGas's hydrogen fuel cell electric vehicles

[1841] CEJA Opening Brief at 67-68.

proposal violates Pub. Util. Code Section 701.1(a) and is not as beneficial as battery electric vehicles (BEVs) for ratepayers and the environment. CEJA argues SoCalGas's claim that hydrogen fuel cell electric vehicles can better respond to Public Safety Power Shutoff (PSPS) events is inaccurate, as hydrogen refueling stations require electricity to operate and would be offline during a PSPS event. CEJA argues that the Commission should reject SoCalGas's procurement strategy as it prioritizes the interests of its shareholders over the ratepayers, public health, and the environment.

CEJA recommends denying $816,000 in costs of training to address the complexities of hydrogen vehicle maintenance included in SoCalGas's $3.148 million 2024 Test Year request for fleet management costs.[1842] It states that the additional maintenance costs of HFCEVs further widen their cost disadvantage to BEVs and should not be incurred if the Commission rejects SoCalGas's proposed acquisition of HFCEVs.

26.1.2.3. TURN

TURN recommends reducing SoCalGas's lease and license cost forecasts of $48.332 million by $15.016 million, resulting in a forecast of $33.316 million. This is based on the removal of 50 percent of SoCalGas's Planned Replacements and 100 percent of its Additional Vehicles and hydrogen acquisitions.[1843]

TURN argues that SoCalGas has not provided any justification regarding the benefit of reducing fleet age to below historical norms, and it is not reasonable to provide the utility funding to significantly reduce the age of its fleets without such a showing. TURN recommends that the Commission reduce the amount of

[1842] CEJA Opening Brief at 67, 72.

[1843] TURN Opening Brief at 282.

SoCalGas's Planned Replacement Vehicle forecast by 50 percent.[1844] TURN's reduction applies to Planned Vehicle Replacements but not Ordered Vehicle Replacements.[1845]

TURN states that specific support for vehicle addition is either absent or only marginally developed in SoCalGas's business-unit testimony.[1846] TURN opposes SoCalGas's claims for more vehicles to accommodate the growth in full-time employees in various business units. According to TURN, SoCalGas's Fleet Services witness does not directly support this claim and refers the matter to GRC witnesses for the respective areas.[1847] TURN states that it has found that, of the 1,051 additional vehicles SoCalGas plans to add to its fleet, direct support exists for only 56 of those vehicles, while the rest are either marginally developed or not mentioned at all.[1848]

TURN recommends that the Commission reject SoCalGas's proposed plan to acquire 126 commercially available hydrogen fuel cell electric vehicles for $1.109 million in 2024.[1849] It further argues that the environmental benefits of hydrogen fuel cell electric vehicles depend on how the hydrogen fuel is produced, while SoCalGas has not made clear how it intends to produce the fuel.[1850]

[1844] TURN Opening Brief at 295.

[1845] TURN Opening Brief at 286.

[1846] TURN Opening Brief at 289.

[1847] TURN Opening Brief at 289-291.

[1848] TURN Opening Brief at 290-291.

[1849] TURN asserts that SoCalGas also plans to build two hydrogen refueling stations at a cost of $2.2 million and $0.621 million in 2022.

[1850] TURN Opening Brief at 297.

26.1.2.4. Other Intervenors

Air Products questions whether SoCalGas's acquisition of hydrogen fuel cell electric vehicles would necessitate the construction of a dedicated hydrogen fueling station. It argues that as SoCalGas only seeks to acquire light-duty hydrogen fuel cell electric vehicles, there are ample public access refueling stations within its service territory to serve its present needs. Air Products argues that it would not be cost-effective for ratepayers and is neither just nor reasonable to authorize Sempra Utilities to develop hydrogen refueling stations for its existing fleet.[1851]

While EDF does not directly comment on Fleet Services, it generally opposes SoCalGas's proposal to produce hydrogen and construct hydrogen refueling stations for hydrogen fuel cell electric vehicles.

26.1.2.5. SoCalGas Reply

Regarding TURN's reduced Fleet Services costs, SoCalGas argues that TURN does not identify how SoCalGas should handle the need to replace aging vehicles with only half the funding to do so, given that 71 percent of SoCalGas's fleet is eight years or older, arguing that continued replacement deferral is neither prudent nor cost-effective.[1852] SoCalGas argues that its decision to decarbonize its fleet and procure zero-emission vehicles is based on the CARB Advanced Clean Truck Regulation, which accelerates the transition to emissions-free medium-duty and heavy-duty trucks, and California Governor Gavin Newsom's Executive Order N-79-20, which mandates that all new cars and light-duty vehicles sold in the state be emissions-free by 2035.[1853] Regarding the cost of full-time employees

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[1851] Air Products Opening Brief at 36.

[1852] Sempra Reply Brief at 413.

[1853] Sempra Reply Brief at 413-414.

to operate the incremental vehicle additions and maintenance work, SoCalGas argues that if both incremental vehicles and maintenance are not approved, then the approved incremental projects will be burdened with unplanned vehicle rental and fuel costs.

SoCalGas argues that it has explored BEVs and hybrid vehicles as possible platforms for its crew trucks, which perform utility work in the field, such as mainline installations and pipe repairs. SoCalGas claims it is technology-neutral and actively embraces and supports all viable pathways to zero emissions through policymaking, funding, and other state decisions/actions. According to SoCalGas, its clean vehicle procurement strategy already includes BEVs.[1854]

26.1.3. Discussion

26.1.3.1. Lease and License Costs

We agree with TURN and Cal Advocates that SoCalGas's Test Year 2024 new vehicle purchases and replacements appear to be overestimated. The current projection is to purchase 3,100 vehicles from 2022 through 2024, averaging about 1,033 vehicles annually. This is significantly higher than its average yearly procurement of 198 vehicles from 2017 through 2021, when SoCalGas added/replaced 991 vehicles. We understand that it is important to consider the supply chain disruptions caused by the pandemic in 2020. However, it is unreasonable for SoCalGas to propose a $24.192 million incremental Lease and License cost (see summary table on Non-Shared O&M Costs) if its order of 1,521 units from 2020 is scheduled for late 2024 delivery or has already been delivered in 2023.[1855] Managing such a huge inventory increase within a short timeframe could be challenging. Additionally, given the delayed inventory

[1854] Sempra Reply Brief at 418.

[1855] Sempra Reply Brief at 413-415.

SoCalGas will receive in 2023 and 2024, it is unclear how SoCalGas will manage a large stock of vehicles if it buys its entire additional inventory in this GRC cycle. We recognize that planning and budgeting for replacing the aging fleet is essential. However, Cal Advocates and TURN have raised valid points about SoCalGas's vehicle adoption and replacement scenarios and the associated costs.

While SoCalGas claims that 71 percent of its fleet being over eight years old and its vehicles being past the end of their useful lives are reasons to replace the existing fleet, the utility has not demonstrated a reasonable economic benefit for replacing aging vehicles. SoCalGas aims to increase the percentage of automobiles and compact trucks aged 0-7 years from 68 percent and 69 percent in 2016 to 87 percent and 80 percent by 2024, respectively. The proposal lacks evidence and justification for economic benefits to ratepayers.

We agree with TURN that there is limited direct support for only 56 vehicles, while the rest are either marginally developed or not mentioned, and the cost request is not justified or reasonable. Simply relying on CARB's ZEV mandates to procure additional vehicles is not a sufficient reason. Moreover, the Commission included forecast authorization to catch up with CARB requirements in the 2019 GRC, which SoCalGas should have included in the instant GRC application.[1856] The Commission is supportive of SoCalGas's transition to ZEV mandates, but without visibility into how SoCalGas has utilized the catch-up funds and the impact on its forecast for this GRC cycle, it is reasonable to lower the cost requests.

SoCalGas has a unique cost driver for Test Year 2024 costs related to hydrogen technology. Its fleet has 50 hydrogen fuel cell vehicles and has ordered over 200 BEVs. SoCalGas is also installing more than 240 EV chargers at nine

[1856] D.19-09-051.

company locations and plans to have more than 1,500 EV chargers installed by 2025 at its operating bases. Regarding the procurement of hydrogen fuel cell electric vehicles (HFCEVs) versus BEVs, this decision does not address the benefits of the various features of fleet technologies available to SoCalGas. SoCalGas is responsible for acting as a prudent manager and ensuring adequate service at just and reasonable rates. There are state mandates that SoCalGas must adhere to in its procurement decision-making. However, based on the evidence before us, we agree with TURN, Cal Advocates, and CEJA that SoCalGas's hydrogen vehicle procurement plan is not based on market maturity because it is limited to light-duty applications, whereas the market is overwhelmingly moving towards electric (including plug-in electric vehicle and hybrid electric vehicle) for light-duty vehicles.[1857] Parties have sufficiently demonstrated that EVs have significantly lower operational and lifetime costs than hydrogen-fueled light-duty vehicles.[1858] We would be more supportive of this request if SoCalGas had requested to adopt medium- and heavy-duty hydrogen vehicles, where interest in market growth is more likely to be achieved over the upcoming years.

Therefore, it is reasonable to adjust SoCalGas's cost estimates downward. After careful consideration, we find that an average of the intervenors' recommended amount is a reasonable cost estimate that allows SoCalGas to continue operating and owning its fleet without incurring unreasonable ratepayer costs.

[1857] California Energy Commission Senate Bill 643 Report: Clean Hydrogen Fuel Production and Refueling Infrastructure to Support Medium- and Heavy-Duty Fuel Cell Electric Vehicles and Off-Road Applications at 14. https://efiling.energy.ca.gov/GetDocument.aspx?tn=254100.

[1858] California Air Resources Board Draft Advance Clean Fleets Total Cost of Ownership Discussion Document at Section IX "Total Cost of Ownership Analysis" starting at page 33. https://ww2.arb.ca.gov/sites/default/files/2021-08/210909costdoc_ADA.pdf.

Table 26.7
SoCalGas's Cost Estimates Adjusted Downward

$ (000)	Cal Advocates	TURN	CEJA	Avg.
A. Lease and License	29,069	33,316	33,644	32,010

This decision authorizes $32.010 million for Lease and License costs for Test Year 2024.

Table 26.8
2024 Test Year Lease and License Authorization ($000)

Lease and License	2024 Test Year	PD Authorization	Change
1. Existing Fleet Leases & Fees	20,215	13,393	-6,822
2. Salvage & Replacement	7,981	5,284	-2,697
3. Vehicle Additions	6,753	4,471	-2,282
4. Zero Emission Vehicles & Renewable Natural Gas Vehicles	13,383	8,862	-4,522
Total	48,332	32,010	-16,322

Regarding SoCalGas's collaboration with Ford Motor Company in developing an F-500 Super Duty HFCEV truck for a demonstration project and a temporary Hydrogen refueling station located at the Bakersfield SoCalGas facility, we could not find related costs in its exhibits and workpapers.[1859] If the costs are embedded under other cost items, SoCalGas shall remove them from the ratepayer-funded O&M and capital expense. We find no basis for ratepayers to fund the demonstration project outside of an RD&D proposal. We see no reason

[1859] Sempra Opening Brief at 582; SCG Ex-218 at MF-16.

for SoCalGas's shareholders not to fund the activity in collaboration with Ford Motor Company.

26.1.3.2. Maintenance Operations and Fuel Costs

SoCalGas has agreed to correct its non-labor incremental cost forecast and remove one-time costs associated with laptop purchases and duplicative training costs from its forecasted costs.[1860]

SoCalGas argues that Cal Advocates' failure to contest the incremental FTEs, programs, or projects should result in the Commission granting Lease and License and garage and maintenance costs.[1861] Additionally, SoCalGas claims that it spent rental fees worth over $6.2 million in the past three years that could have been used to acquire company vehicles that would be properly equipped to conduct utility work.[1862]

We disagree with SoCalGas's arguments.

First, SoCalGas needs to improve its mapping of Fleet Services testimony to each program requesting additional vehicles. Expecting intervenors and the Commission to connect the relevant information across multiple exhibits and testimony is unreasonable. SoCalGas must provide clearer evidence to meet its burden of proof. Second, regarding the rental fees that SoCalGas paid, it fails to show whether these fees were lower than the O&M costs requested in the last GRC. Furthermore, while it is difficult to map the costs of the Fleet Services to each program because of how SoCalGas has presented the data, we can confidently say that this decision does not authorize all the new projects proposed by SoCalGas. Therefore, a reduction in incremental costs is reasonable.

[1860] SCG Ex-218 at MF-18.

[1861] Sempra Opening Brief at 588.

[1862] Sempra Opening Brief at 588.

Cal Advocates' two percent reduction is not significantly different from SoCalGas's requested amount of $15.810 million. Adjusting SoCalGas's maintenance cost is reasonable because we are not authorizing its requested incremental vehicle costs. Therefore, it is economically reasonable to adopt Cal Advocates' recommendation of a lower maintenance cost and approve $15.54 million for SoCalGas's 2024 Test Year fleet additions/maintenance operation expense.

For fuel costs, we agree with Cal Advocates' downward adjustment because this decision authorizes a lower vehicle increment. As a result, we adopt Cal Advocates' recommended base-year expense of $11.311 million.

26.1.3.3. Fleet Management and Telematics

We have reviewed SoCalGas's testimony and find that its proposed reduction of $959,000 from the 2021 Base Year adjusted-recorded Fleet Management costs is reasonable. We agree with CEJA and deny SoCalGas the $816,000 embedded in the 2024 Test Year Fleet Management request for training costs to address the complexities of hydrogen vehicle maintenance, because we are not authorizing the requested incremental vehicle costs, and therefore denying additional training costs is reasonable.[1863] Accordingly, we authorize $2.332 million for Fleet Management.

For Telematics, SoCalGas requests $2.635 million in Test Year 2024. Cal Advocates recommends reducing $881,000 because the vendor cost has decreased for the Telematics systems. In its Opening Brief, SoCalGas agrees that the cost has decreased but requests that we authorize the original costs because it will cover the installation cost of video capabilities to help improve driver and vehicle

[1863] CEJA Opening Brief at 72.

safety. We find that additional safety features without further incremental cost increases are reasonable. Therefore, this decision authorizes $2.635 million for Telematics.

26.1.3.4. Director

This decision partly denies SoCalGas's O&M cost for a Director and administrative assistant. The labor costs in 2021 Base Year appear to be an outlier compared to the historical costs. SDG&E has not met its burden of proof to show why the costs fluctuated and the reason for the $0.926 million cost in 2021, which is a 150 percent increase over the average cost for 2017-2020. The workpapers show that in the past five years, on which SoCalGas bases its forecast, the utility has managed its operations from 2017 through 2020 with one or two FTE costs; however, in the Base Year, SoCalGas estimated about 3.8 FTE costs. This increase in Base Year costs increases the five-year historical averages. The averages are overestimated due to almost double the cost in the Base Year, which appears to be an outlier. Therefore, we will remove Base Year costs and take the four-year historical average for forecasts in this GRC as just and reasonable. Instead of authorizing $482,000, this decision grants SoCalGas $370,250 for Test Year 2024.

26.1.4. Summary

Based on the discussion above, the following costs are authorized for SoCalGas's Non-Shared O&M costs for Fleet Services:

Table 26.9
SoCalGas's Non-Shared O&M Costs for
Fleet Services Authorization ($000)

Non-Shared Services	2024 Test Year SoCalGas Requested	2024 Test Year PD Authorization	Change
A. Lease and License	48,333	32,010	-16,323

Non-Shared Services	2024 Test Year SoCalGas Requested	2024 Test Year PD Authorization	Change
B. Maintenance Operations and Fuel Costs	27,912	26,851	-1,061
C. Fleet Management and Telematics	5,783	4,967	0
D. Director	482	370	-112
Total	**82,510**	**64,198**	**-18,312**

26.2. SDG&E Fleet Services

26.2.1. Summary of SDG&E's Request

SDG&E is requesting $52.732 million for Fleet Services for Test Year 2024. SDG&E states that the increase of $14.661 million from 2021 Base Year is primarily driven by increased vehicle leasing costs to support the replacement of end-of-life vehicles, electrification, and Zero-Emission Vehicle goals.[1864]

Table 26.10
SDG&E's Non-Shared Fleet Services
Test Year 2024 O&M Cost Summary[1865] ($000)

Non-Shared Services	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
A. Lease and License	15,944	23,824	7,880
B. Maintenance Operations	18,793	25,124	6,331
C. Fleet Management	3,334	3,784	450
Total	**38,071**	**52,732**	**14,661**

[1864] Sempra Opening Brief at 577.

[1865] SDG&E Ex-22-R-E at AA-6.

Cost Categories:

A. Lease and License Costs

SDG&E requests $23.824 million for Fleet Lease and License Costs, an increase of $7.880 million above 2021 adjusted-recorded costs based on a zero-based forecasting methodology and standard escalation.[1866] For the purposes of this forecast, future interest rates for leases not already active have been locked utilizing January 1, 2022 interest rates for future periods.[1867]

Existing Leases and Fees include monthly lease payments, California use tax, and California DMV license fees. SDG&E's expenses will peak in Base Year +1 as all existing lease obligations are paid, and costs will decrease as assets are paid off.[1868] SDG&E's lease obligations for Test Year 2024 include replacing medium and heavy-duty vehicles to comply with CARB Truck and Bus regulations. According to SDG&E, these replacements are expensive due to specialized features and will cost $8.369 million in Test Year 2024, representing 36 percent of current lease obligations and 53 percent of Existing Leases and Fees.[1869]

SDG&E's **Salvage and Vehicle Replacement** is based on the targeted useful life of each vehicle or equipment by asset class, and it considers the age, mileage, condition, maintenance history, and criticality of an asset. SDG&E asserts that some vehicle replacements are mandated and must be replaced to comply with federal, state, and local regulations.[1870] SDG&E plans to replace 743 vehicles by

[1866] SDG&E Ex-22-R-E at AA-23.

[1867] SDG&E Ex-22-R-E at AA-22-23.

[1868] SDG&E Ex-22-R-E at AA-18.

[1869] SDG&E Ex-22-R-E at AA-27.

[1870] SDG&E Ex-22-R-E at AA-19 and AA-27.

Test Year 2024, segmented into committed and planned orders.[1871] Committed purchase orders will acquire 147 vehicles and incur an expense of $2.869 million, while planned orders will acquire 596 vehicles and incur an expense in Test Year 2024 of $5.167 million. SDG&E forecasts a $0.978 million collection from salvage proceeds from the sale of 226 replaced assets.[1872]

Regarding **Vehicle Additions**, SDG&E forecasts vehicles needed by various operating departments over the three-year forecast period, 2022-2024, that are net additions to the Fleet and do not replace an existing asset.[1873] SDG&E plans to add 95 vehicles to the Fleet, costing $0.900 million in Test Year 2024.[1874] For cost justification, SDG&E references nine other exhibits and testimony.[1875]

SDG&E requests $26,000 in O&M costs for Test Year 2024 to lease commercially available **Hydrogen Fuel-Cell Vehicles** (three passenger sedans and three medium-duty work trucks) to understand the technology applications for SDG&E's fleet, particularly in medium-duty and heavy-duty vehicle applications that require long duty cycles and short refueling times.[1876] SDG&E states that purchasing six hydrogen fuel-cell vehicles will require constructing one additional hydrogen fuel-cell re-fueling site at one of SDG&E's existing base locations.[1877]

The forecasted cost for the above areas is summarized in the table below.

[1871] SDG&E Ex-22-R-E at AA-27-28.

[1872] SDG&E Ex-22-R-E at 27-28.

[1873] SDG&E Ex-22-R-E at AA-20.

[1874] SDG&E Ex-22-R-E at AA-28.

[1875] SDG&E Ex-22-R-E at AA-28.

[1876] SDG&E Ex-22-R at AA-13.

[1877] The new SDG&E hydrogen fuel-cell refueling site details will be reviewed in the Real Estate, Land Services, & Facilities Operations decision Section related to Exhibit SDG&E Ex-23.

Table 26.11
Forecast for Lease and License Costs ($000)[1878]

Lease and License Cost	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
1. Existing Fleet Leases and Fees	15,944	15,841	(103)
2. Replacement Plan and Salvage		7,057	7,057
3. Vehicle Additions		900	900
4. Hydrogen Fuel-Cell Vehicles		26	26
Total	**15,944**	**23,284**	**7,880**

B. Maintenance Operations: SDG&E requests $25.124 million for Maintenance Operations, an increase of $6.331 million above 2021 adjusted-recorded costs. The cost area has two sub-cost categories: Maintenance Garage Operations and Fuel Costs.

SDG&E bases its forecast on a five-year historical average for Maintenance Garage Operations and added anticipated costs for incremental FTEs and increased costs related to Vehicle Additions to the Fleet.

SDG&E states that it elected to utilize a four-year historical average (2018-2021) rather than a five-year historical average to forecast automotive fuel costs because of SB 1 (Stats. 2017, ch. 5), which implemented new gasoline and diesel taxes in 2017.[1879]

Table 26.12
SDG&E Maintenance Operations O&M Summary of Costs ($000)[1880]

Maintenance Operations	2021 Adjusted- Recorded	2024 Test Year Estimated	Change
1. Maintenance Garage Operations	12,141	15,199	3,058
2. Automotive Fuels	6,652	9,925	3,273
Total	**18,793**	**25,124**	**6,331**

1878 SDG&E Ex-R-E at AA-17.

1879 SDG&E Ex-R-E at AA-30.

1880 SDG&E Ex-R-E at AA-29.

C. Fleet Management

SDG&E requests $3.784 million for Fleet Management, an increase of $0.450 million above 2021 adjusted-recorded costs.

According to SDG&E, this cost category consists of all the SDG&E Fleet Services management staff and non-vehicle-specific expenses not covered elsewhere, including Asset Management, Financial and Systems, Maintenance Operations Management and Supervision, Commutation Fee Credits, and Telematics.

For Asset Management, Financial and Systems, and Maintenance Operations Management and Supervision, SDG&E uses a five-year historical forecast methodology. It used a four-year historical average for Commutation Fee Credits and a zero-based forecasting method for Telematics.

The breakdown of the cost areas is as shown below:

Table 26.13
Fleet Services (In 2021 $)

Fleet Management	2021 Adjusted Recorded (000s)	2024 Test Year Estimated (000s)	Change (000s)
Asset Management	1,200	1,371	171
Financial and Systems	1,143	1,145	2
Maintenance Operations Management	669	659	(10)
Commutation Fee Credits	(226)	(239)	(13)
Telematics Service Fees	548	848	300
Total	**3,334**	**3,784**	**450**

26.2.2. Party Positions

Cal Advocates, TURN, CEJA, and Air Products oppose SDG&E's Fleet Services proposed costs. The cost difference between SDG&E and the intervenors is summarized as shown below:[1881]

Table 26.14
Cost Difference Among SDG&E and Intervenors Summarization ($000)

	SDG&E	Cal Advocates	TURN	CEJA
Test Year 2024	52,732	39,845	48,935	52,706
Difference between Intervenor and SoCalGas		(12,887)	(3,797)	(26)

26.2.2.1. Cal Advocates

Cal Advocates recommends the following cost reductions:[1882]

Table 26.15
Cal Advocates' Recommended Cost Reductions

FLEET SERVICES (In 2021 $) (000s)	SDG&E 2024 Test Year Estimated	Cal Advocates 2024 Test Year Estimated
A. Lease and License Costs	23,824	16,660
B. Maintenance Operations	25,124	19,401
C. Fleet Management	3,784	3,784
Total Non-Shared Services	**52,732**	**39,845**

Cal Advocates opposes SDG&E's forecast and recommends a Test Year 2024 forecast of $39.845 million, with adjustments to lease license costs, garage operations costs, and automotive fuel costs.

[1881] SDG&E Ex-222-E at AA-1; Sempra Opening Brief at 578.

[1882] Cal Advocates Opening Brief at 225-228.

Cal Advocates recommends reducing Lease and License expenses from $23.824 million to $16.660 million in alignment with 2020 recorded adjusted actuals. In its opening brief, Cal Advocates argues that SDG&E forecasted 1,741 vehicles from 2014 to 2019 but only added 629. It further argues that SDG&E's Test Year 2024 lease and license cost forecast is overestimated as it forecasts 845 vehicles for 2022-2024, averaging 280 per year, but it only added 608 vehicles from 2017-2021, averaging 121 per year. Cal Advocates states that from 2012 - 2021, there is a general upward trend in spending. However, over those

10 years spending remained relatively flat until 2017, then increased 9% from 2017 - 2018, 15% from 2018 - 2019, and remained flat from 2019 - 2021. Cal Advocates argues that this spending pattern is in contrast to SDG&E's current request which is higher than the 2021 Base Year.[1883]. Cal Advocates argues that SDG&E has not provided sufficient evidence to warrant an excessive increase in its 2024 Test Year forecast.

Regarding fuel costs under Maintenance Operations, Cal Advocates recommends using Base Year costs of $6.652 million. Cal Advocates argues that SDG&E's fuel price level adjustment of $3.920 million above the four-year average should be denied because it is based on the price of fuel when fuel costs were excessively high.[1884]

Cal Advocates recommends reducing SDG&E's garage maintenance cost by $2.450 million because it argues that SDG&E did not provide proof that these additional vehicles will be added outside an overly aggressive vehicle forecast.[1885]

[1883] Cal Advocates Opening Brief at 227.

[1884] Cal Advocates Opening Brief at 227.

[1885] Cal Advocates Opening Brief at 228.

26.2.2.2. CEJA

CEJA argues that the Commission should reject SDG&E's request for $26,000 in O&M costs for six hydrogen passenger vehicles. CEJA contends that hydrogen vehicles have significant cost, maintenance, and efficiency disadvantages compared with battery electric vehicles and should not be allowed to be purchased by SDG&E.[1886]

26.2.2.3. TURN

For Lease and License costs, TURN recommends denying 75 percent of SDG&E's Replacement Plan and Salvage and 100 percent of Vehicle Additions, asserting that SDG&E's forecast is overly aggressive compared to historical norms.[1887]

TURN recommends reducing SDG&E's Lease and License costs forecast of $23.824 million by $3.797 million, resulting in a forecast of $20.027 million.[1888] Regarding vehicle replacement, TURN states that SDG&E's vehicles' average age increased from 101 months (8.4 years) in 2016 to 110 months (9.2 years) in 2021, whereas it now plans to reduce the average age to 82 months (6.8 years) by 2024, which would lower the fleet age to 20 percent lower than the age in 2016, were the utility to manage its fleet in a manner that is consistent with its forecast.[1889] Regarding replacing medium- and heavy-duty vehicles, TURN contends that the Commission included in the 2019 GRC forecast authorization an allowance for the utilities to replace such vehicles to meet CARB mandates, so the more expensive

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[1886] CEJA Opening Brief at 76.

[1887] TURN Opening Brief at 282.

[1888] TURN Opening Brief at 284, 286-288.

[1889] TURN Opening Brief at 285.

vehicle costs have been accounted for in the 2019 GRC forecast authorization.[1890] TURN recommends reducing SDG&E's Planned Replacement Vehicle-designated forecast by 75 percent.[1891]

Regarding Vehicle Additions, TURN states that specific support is either absent or only marginally developed in SDG&E's business-unit testimony.[1892] TURN opposes SDG&E's claims for more vehicles to accommodate the growth in full-time employees in various business units. According to TURN, SDG&E planned to acquire 92 Vehicle Addition units, but only 15 were specifically identified in its testimony.[1893] TURN argues that the remaining vehicles were either mentioned in passing or had no substantive support.

TURN argues that SDG&E's claim that vehicle additions are based on past spending on incremental additions due to projects and hiring fails to provide proof of the origin of Vehicle Additions in this GRC.[1894] TURN recommends that the Commission exclude 100 percent of the requested funding for Vehicle Additions, which would reduce $900,000.

26.2.2.4. Other Intervenors

Air Products does not take a position on acquiring hydrogen fuel cell vehicles. However, Air Products argues that it would not be cost-effective for ratepayers and is neither just nor reasonable to authorize Sempra Utilities to develop hydrogen refueling stations for its existing fleet.[1895]

[1890] TURN Opening Brief at 285-286.

[1891] TURN Opening Brief at 285.

[1892] TURN Opening Brief at 289.

[1893] TURN Opening Brief at 291.

[1894] TURN Opening Brief at 292.

[1895] Air Products Opening Brief at 36.

26.2.2.5. SDG&E Reply

SDG&E disagrees with Cal Advocates' and TURN's argument that SDG&E's vehicle replacement programs are overly aggressive compared to historical norms, and Vehicle Addition programs are not supported by their respective evidence. SDG&E disputes Cal Advocates' and TURN's assertion that SDG&E over-forecasts and underspends GRC funding.

SDG&E states that its authorized Lease and License funding level for 2019–2021 was $13.1 million, while SDG&E spent $16.2 million, $16.6 million, and $15.9 million in each of these respective years to replace vehicles to comply with CARB's Truck and Bus regulation requirements, replace the most critical assets in the Fleet, and add vehicles to the Fleet for incremental FTEs and business needs.[1896]

SDG&E states that its forecast includes higher lease costs and end-of-life replacements because it replaces vehicles that have already been fully paid off and have no lease expense.[1897] SDG&E argues that although its replacement forecast includes a higher number of vehicles than previously acquired, a lower per-unit cost offsets the higher volume since it will complete the CARB Truck and Bus required replacement acquisitions and will allow SDG&E to shift funding to non-CARB replacement acquisitions, which are mostly light-duty vehicles.[1898]

SDG&E argues that Cal Advocates and TURN failed to examine the data and analyses provided by SDG&E for each vehicle it wants to replace or acquire as an incremental vehicle.[1899] It further states that because TURN did not object to

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[1896] SDG&E Ex-222-E at AA-7.

[1897] SDG&E Ex-222-E at AA-7-8.

[1898] SDG&E Ex-222-E at AA-7.

[1899] Sempra Reply Brief at 420.

SDG&E's incremental FTEs and projects that trigger the need for incremental vehicles, there is no basis for eliminating 100 percent of the incremental vehicles requested.[1900] Regarding fuel costs, SDG&E does not dispute that its automobile fuel forecast is high. It argues that it is high because its fuel forecast is based on information when fuel prices were high.[1901]

26.2.3. Discussion

26.2.3.1. Lease and License Costs

SDG&E argues that the correct way to determine Lease and License expenses and compare forecasts to historical data is by looking at the acquisition costs per year rather than the number of vehicles.[1902] However, this argument contradicts SDG&E's own analysis and cost recovery request. SDG&E's historical fleet acquisition cost from 2017-2021 was $18.425 million, but it is seeking a 25 percent increase for Test Year 2024 based on the number of additional vehicles it plans to add to its fleet. Upon reviewing historical trends and evidence on the funding level required to cover existing obligations, average acquisition costs, and the number of vehicle additions, we find that TURN's recommendation to reduce the Lease and License expense forecast of $23.824 million is reasonable based on the historical trend of how SDG&E acquires and replaces assets.

We agree with TURN that the Commission should consider reducing SDG&E's Planned Replacement forecast because if SDG&E manages its fleet consistently with its prior forecast, the fleet age in 2024 will be nearly 20 percent lower than in 2016. It is unreasonable for SDG&E to significantly reduce the age

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[1900] Sempra Reply Brief at 421.

[1901] Sempra Reply Brief at 421-422.

[1902] SDG&E Ex-222-E at AA-17.

of its fleet without providing any justification for the direct benefits to ratepayers of an aggressive reduction in the fleet age.

SDG&E's argument for authorizing Vehicle Additions is questionable. Providing uncited exhibits and testimony to justify the need for more vehicles is insufficient evidence. The burden of proof to demonstrate that the request for additional vehicles is just and reasonable can only be met by establishing a clear and appropriate evidentiary record. Regulators and intervenors cannot be expected to link Fleet Services to other testimonies and parse through exhibits to identify ratepayer benefits. The Commission cannot make an informed decision without a clear record in the Fleet Services testimony.

We agree with Cal Advocates and TURN that, based on historical trends, SDG&E's forecast appears to overestimate its vehicle replacement and acquisitions.

Regarding SDG&E's forecast to acquire three passenger HFCEVs and three medium-duty aerial work trucks, we are supportive of this limited request since SDG&E is leaning towards piloting medium- and heavy-duty hydrogen vehicles, where interest in market growth is more likely to be achieved over the upcoming years. Granting $0.026 million in O&M costs for these pilot vehicles is reasonable.

We agree with TURN's recommendations for Lease and License which result in a reduction of $4.304 million for a total of $19.520 million.[1903] This will

[1903] TURN's recommendation is described in detail in TURN Ex-10 at 7, Table 6. TURN's recommendation of $20.027 million is a miscalculation which did not incorporate a reduction of $506,000 in Salvage. TURN's actual recommendation based on these calculations should be $19.520 million.

allow SDG&E to maintain its current lease obligations and plan for reasonable vehicle additions funded by ratepayers.

We adopt the following cost breakdown from TURN's recommended 2024 reduction to each project category:

- Lease and License Costs Total: $19,520,000;
- Existing Fleet Leases & Fees: $13,826,000;
- License Fees: $2,015,000;
- Salvage and Replacement: $3,653,400;
- Replacement: $4,160,000;
- Salvage: ($506,600);
- Vehicle Additions: $0; and
- Hydrogen Fuel-Cell Vehicles: $26,000.

26.2.3.2. Maintenance Operations

As we deny part of the requested incremental vehicle increases under Lease and License, lowering the incremental costs associated with Maintenance Garage Operations and Fuel costs within the Maintenance Operations cost category is justified and reasonable.

We agree with Cal Advocates' reduced non-labor costs for Maintenance Garage Operations and Fuel costs. This decision adopts $12.749 million for Test Year 2024 Maintenance Garage Operations and $6.652 million for Fuel costs.

26.2.3.3. Fleet Management

SDG&E's five-year historical forecast methodology for Asset Management, Financial and Systems, Maintenance Operations Management and Supervision, a four-year historical average for Commutation Fee Credits, and a zero-based forecasting method for Telematics are reasonable. We adopt $3.784 million for Fleet Management for Test Year 2024.

26.2.4. Summary

It is reasonable to adopt the following costs for SDG&E Fleet Services:

- Lease and License Costs: $19.520 million.
- Maintenance Operations: $19.401 million.
- Fleet Management: $3.784 million.

27. Real Estate, Land Services & Facility Operations

SoCalGas's Real Estate & Facility (REF) Operations and SDG&E's Real Estate, Land Services & Facility (RELF) Operations are responsible for planning, acquiring, building, and maintaining real estate and facility assets to deliver the Companies' respective utility services.

27.1. SoCalGas Real Estate & Facility Operations

SoCalGas's Facility Operations and Real Estate groups are responsible for planning, acquiring, designing, constructing, operating, and maintaining over two million square feet of leased and fee-owned property, comprised of 108 staffed locations, including general offices, bases, multi-use sites, branch offices, and telecommunication sites. Facility Operations and Real Estate are also tasked with providing the organization with safe, compliant, reliable, and suitable working environments for its employees.

27.1.1. SoCalGas REF Operations O&M Costs

SoCalGas requests that the Commission adopt its 2024 Test Year forecasts of $51.296 million for O&M REF Operations.

Table 27.1
SoCalGas REF O&M ($000)[1904]

	2021 Base Year	2024 Test Year	Change
NON-SHARED O&M	27,401	27,371	(30)
SHARED O&M	22,262	23,925	1,663
TOTAL	**49,663**	**51,296**	**1,633**

1904 Sempra Opening Brief at 590.

Non-Shared services are activities a utility performs solely for its benefit. Sempra Energy provides certain services to SoCalGas and SDG&E, as well as to other Sempra affiliates. For this general rate case, SoCalGas treats costs for services received from Sempra as Non-Shared services costs, consistent with any other outside vendor costs incurred by the utility. SoCalGas's Non-Shared services are further categorized as:

Table 27.2
Non-Shared O&M REF Operations Cost in 2021$ (in Thousands)

O&M	2021 Adjusted-Recorded	Estimated 2024 Test Year	Change
Rent	2,290	2,502	212
Real Estate Administration	547	600	53
Facility Operations	24,564	24,269	-295
Total Non-Shared O&M	**27,401**	**27,371**	**-30**

SoCalGas used the 2021 Base Year for forecasting 2024 Test Year Rent Non-Shared O&M costs and escalated it by 3 percent, which is contract-based.[1905]

The forecast method developed for the Real Estate Administration cost category is a three-year historical average of 2019-2021. SoCalGas contends that 2021 Base Year is not a reasonable forecast of required costs due to abnormally lower labor resulting from a vacant lease administrator position in 2021. SoCalGas's three-year historical average includes non-labor consulting services for lease payments and telecommunication market expertise that were secured prior to the 2021 Base Year and are required to support these functions.

Facility Operations forecasts were based on a three-year historical average for 2019-2021. SoCalGas argues that a five-year average would not reasonably reflect forecasted costs because deferred maintenance occurred in the first two

[1905] SCG Ex-19-R-2E at BKG-11.

years of the five-year average, resulting in abnormally lower spending in the first two years. Completion of some of the deferred maintenance, along with the resumption of scheduled maintenance measures, has occurred over the last three years.[1906]

No intervenor objected to these costs.

27.1.1.1. SoCalGas's Non-Shared REF O&M Costs

The forecasting methodology and cost drivers for SoCalGas's 2024 Test Year costs for Non-Shared Rent O&M costs are reasonable. The cost forecast for Rent O&M is based on contractual obligations and industry-standard annual three (3) percent escalation.

As for the Real Estate Administration and Facility Operations' O&M cost forecast, SoCalGas has not met its burden of proof to show that its cost request is just and reasonable. We reject SoCalGas's forecast methodology, which relies on a three-year historical average. SoCalGas's argument that it relied on the 2019-2021 three-year average due to lower labor costs in the 2021 Base Year resulting in vacancies, COVID-19 impacts, and fluctuations in the five years (2017-2021), is unreasonable and without merit. SoCalGas excluded the first two years (2017-2018) of the five-year average (2017-2021) because it deferred maintenance, resulting in lower spending, which would have reduced the historical average cost if it had been included.[1907] SoCalGas does not demonstrate why it deferred maintenance in 2017-2018 and whether it was granted GRC funds for the maintenance activities, which were redirected.

[1906] SCG Ex-19-R-2E at BKG-15-16.

[1907] SCG Ex-19-R-2E at 12, 15.

SoCalGas requested labor costs for Facility Operations to backfill five vacant positions and nine additional positions. Exhibit SCG-19-WP-R shows that in 2021, SoCalGas operated with 41.5 FTE positions and is planning to increase the headcount to 55.3 FTEs in 2024.[1908] We do not see the justification for this labor cost increase commensurate with its operations.

Additionally, SoCalGas requests labor costs to meet sustainability goals and sustainability-related technology (such as fuel cells, solar arrays, and EV charging stations).[1909] The ambiguous use of sustainability activities as a cost driver is a cause for caution and concern. For instance, a project manager position is being requested to support the electric vehicle charging and hydrogen fueling infrastructure projects.[1910] Without knowing what "support" means it is unjust and unreasonable to grant ratepayer funding for such requests.

In 2022, the recorded Facilities Operations and Real Estate Administration O&M costs were $1.045 million less than SoCalGas's estimation in the GRC.[1911] The purpose of the GRC is to authorize a normalized funding level that remains stable and allows the utility to maintain its operations and recover the cost of service. Using the most recent six-year historical average is reasonable because it normalizes fluctuations and sets the spending at levels representing the cost of serving customers. Moreover, in this instance, the six-year historical costs exclude the impacts of incremental COVID-19 costs, which SoCalGas states it will recover

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1908 SCG Ex-19-WP-R at 5.

1909 SCG Ex-19-R-2E at 16-17.

1910 SCG Ex-19-R-2E at 17.

1911 SCG Ex-302 at 11; SCG Ex-19-WP-R.

in its CEMA proceeding.[1912] Therefore, it is reasonable to authorize the following Non-Shared O&M REF Test Year costs for SoCalGas:

Table 27.3
Non-Shared O&M REF Operations Test Year Costs $ (in Thousands)

O&M	Labor	Non-Labor	NSE	Total
Rent	0	4	2,498	2,502
Real Estate Administration	317	249	0	566
Facility Operations	4,199	17,459	0	21,658
Total Non-Shared O&M	**4,516**	**17,712**	**2,498**	24,726

27.1.1.2. SoCalGas's Shared REF O&M Costs

Shared costs are incurred for the benefit of and shared by SoCalGas or SDG&E, Sempra Energy, and Sempra Affiliates. SoCalGas is seeking $23.925 million in Test Year Shared REF O&M costs, a $1.633 million increase from the Base Year 2021 costs of $22.262 million.[1913]

The costs are further broken down as shown below:[1914]

Table 27.4
(In 2021 $) Incurred Costs (100% Level)

A. FACILITY OPERATIONS	2021 Adjusted-Recorded (000s)	2024 Test Year Estimated (000s)	Change (000s)
1. Monterey Park	2,202	2,500	298
2. Gas Control Tower (GCT)	1,205	1,261	56
3. Pico Rivera	0	409	409
Incurred Costs Total	**3,407**	**4,170**	**763**

1912 SCG Ex-19-WP-R.

1913 Sempra Opening Brief at 592.

1914 SCG Ex-19-R-2E at BKG-18.

B. RENTS	**2021 Adjusted-Recorded (000s)**	**2024 Test Year Estimated (000s)**	**Change (000s)**
1. GCT Rents	16,794	17,486	692
2. Microwave Rents	2,061	2,269	208
Incurred Costs Total[1915]	**18,855**	**19,755**	**900**

SoCalGas's forecast methodology varies between zero-based (GCT Rents, Pico Rivera Facility Operations), Base-Year (Microwave Rents), and three-year historical costs (Monterey Park, GCT Facility Operations). No party objected to SoCalGas's cost request.

The overall forecasting methodology is reasonable as the costs are based on Shared services percentages of the occupying utility, contractual obligations, and contractual escalations. Therefore, it is reasonable to authorize $23.925 million in Test Year Shared REF O&M costs.

27.1.2. SoCalGas REF Operations Capital Costs

SoCalGas's capital expenditures forecast for REF Operations includes costs for maintaining infrastructure, renovating buildings, installing renewable energy solutions, and upgrading fueling stations and EV charging ports. SoCalGas requests the adoption of its 2022-2024 REF Operations Capital forecasts for the following cost areas: (1) Infrastructure & Improvements, (2) Safety & Compliance, (3) Sustainability and Conservation, (4) Fleet Projects, and (5) Fleet Alternative

1915 While the total Non-Shared cost amounts in the Opening Brief and Exhibit SCG Ex-19-R-2E match, there are discrepancies between SoCalGas's testimony and workpaper. SoCalGas Exhibit SCG Ex-19-R-2E, Table BG-13 data does not add to the same amounts as shown in the workpaper Exhibit – SCG Ex-19-WP-R for Shared Costs. Compared to the testimony, the workpaper cost estimates are overstated by $1.45 million.

Refueling Infrastructure. That capital expenditure forecast by year is as shown below:[1916]

Table 27.5
SoCalGas REF Capital ($000s)

	2022	2023	2024	Total Capital
TOTAL CAPITAL	79,672	116,351	110,718	**306,741**[1917]

A detailed breakdown of costs ($000s) is shown below:

Table 27.6
Breakdown of Costs ($000s)

Categories of Management	Estimated 2022	Estimated 2023	Estimated 2024
A. Infrastructure & Improvements	52,182	74,122	84,508
B. Safety & Compliance	2,388	2,388	2,388
C. Sustainability and Conservation	13,885	9,312	9,312
D. Fleet Projects	2,071	556	556
E. Fleet Alternative Refueling	9,146	29,973	13,954
Total	**79,672**	**116,351**	**110,718**

In addition to the above costs, SoCalGas is requesting to build a Logistics warehouse. SoCalGas states that the prior GRC requested funds for a Logistics warehouse, but the project was postponed to perform a detailed analysis of the required warehouse footprint to satisfy future demand for warehousing based on capital deployment, maintenance, and compliance work.[1918] This decision will review costs related to the logistics warehouse in its review of the Supply Management, Logistics & Supplier Diversity testimony of Joe Chow (Ex. SCG-17).

1916 Sempra Opening Brief at 590; SCG Ex-19-R-2E at BKG-25.

1917 There is a data discrepancy between SoCalGas's request in the Opening Briefs and its admitted testimony and workpapers, which is explained in the discussion section.

1918 SCG Ex-19-R-2E at BKG-27.

27.1.2.1. Summary of Party Comments

Intervenors commented on select issues under the REF Operations capital costs. The following section summarizes contested issues.

The following table summarizes the intervenors' variances to SoCalGas's REF Operations Capital revenue request:

Table 27.7
Total Capital - Constant 2021$ (000s)

Year	2022	2023	2024	Total	Difference
SoCalGas	79,672	116,351	110,718	**306,741**	
Cal Advocates	71,943	65,787	62,022	**199,752**	(106,989)
TURN	78,122	92,405	101,902	**272,429**	(34,312)
TURN-SCGC	79,051	95,612	102,303	**276,966**	(29,775)
EDF	75,099	116,351	110,718	**302,168**	(4,573)
IS	79,672	116,351	110,718	**306,741**	-
CEJA	63,879	95,067	102,263	**261,209**	(45,532)

<u>Fleet Refueling Infrastructure</u>

The fleet refueling infrastructure includes the capital costs of RNG, Hydrogen, and EV charging infrastructure.

SoCalGas also requests authority to sell and disburse hydrogen-related green credits generated by utility-owned, public-access hydrogen vehicle refueling stations to customers.[1919] SoCalGas plans to place the green credit revenue in the Hydrogen Refueling Station Balancing Account (HRSBA).[1920]

[1919] Sempra Opening Brief at 277.

[1920] Sempra Opening Brief at 277. The HRSBA is discussed under the Regulatory Accounts, Section 43 of its Opening Brief.

Air Products, Clean Energy, Indicated Shippers, PCF, CEJA, TURN, TURN-SCGC, and Cal Advocates oppose SoCalGas's request for funding for the hydrogen refueling stations.

CEJA, TURN, and Cal Advocates filed Opening Briefs with specific comments opposing hydrogen refueling stations at the Company's Pico Rivera facility. TURN also opposes the hydrogen refueling proposed at the Honor Rancho Compressor facility. The intervenors argue that the projects are proposed for construction in census tracts with high pollution burdens.[1921] The intervenors contend that public hydrogen refueling is already available, the market is expanding to meet the fueling need, and no savings for ratepayers were defined to justify ratepayer funding for these projects.

Air Products and Clean Energy state that constructing hydrogen refueling stations violates the principle of cost-causation and results in unfair competition with non-regulated entities. They also oppose the disbursement of Low Carbon Fuel Standard (LCFS) credits.

IS and CEJA argue that individuals taking service at the stations should pay for hydrogen refueling stations, not natural gas customers.[1922]

CEJA and TURN recommend that the Commission deny SoCalGas's request for two RNG stations at Santa Maria and Visalia because they impact ESJ communities.

In response to the intervenor's comments on hydrogen refueling stations, SoCalGas argues that these stations support zero-emissions vehicles in

[1921] TURN Opening Brief at 20-21: RNG stations at Santa Maria and Visalia and hydrogen refueling at Pico Rivera will be in census tracts that meet the definition of an "ESJ community." The Honor Rancho station – the only station not to be located in an ESJ community – poses a risk to the health and safety of children, as it is close to Valencia High School.

[1922] CEJA Ex-01 at 34-35; IS Ex-02 at 9.

SoCalGas's fleet and are consistent with other transportation services that SoCalGas already provides.[1923] SoCalGas contends that intervenor comments disregard the critical outcome of early EV and RNG proceedings, which concluded that utilities had a role to play in developing these markets.[1924]

SoCalGas argues that public-facing hydrogen refueling stations would benefit ratepayers by allowing SoCalGas to execute the LCFS Fuel Card Program reviewed and approved by the Commission.[1925]

Regarding the Pico Rivera facility, SoCalGas states that it is centrally located within its service territory and in proximity to its hydrogen fleet vehicles, creating efficiencies across the fleet.[1926]

Hydrogen Home Experience

SoCalGas requests $4.573 million in ratepayer funding to build a Hydrogen Home project.[1927] It claims the project will showcase a hydrogen microgrid using solar panels, battery storage, green hydrogen production, and blending hydrogen into the natural gas system.[1928] SoCalGas believes this project will benefit ratepayers by demonstrating the role of hydrogen blending.[1929]

EDF and CEJA oppose SoCalGas's request for funding related to the Hydrogen Home.

[1923] Sempra Opening Brief at 277-280.

[1924] Sempra Reply Brief at 12-13.

[1925] Sempra Opening Brief at 279.

[1926] Sempra Opening Brief at 595.

[1927] SCG Ex-12-R at 56.

[1928] SCG Ex-12-R at 56-57.

[1929] Sempra Opening Brief at 276.

EDF argues that the Hydrogen Home is SoCalGas's effort to preserve shareholders' value in the existing gas distribution system at ratepayers' expense.[1930] EDF further states Sempra Utilities must clearly demonstrate that using new fuels such as hydrogen or renewable gas will be competitive with alternatives such as electrification over the projected life of any new infrastructure investment.[1931] According to EDF's October 19, 2023 motion, hydrogen-related requests should be removed from this GRC proceeding and considered in a future application.

CEJA questions the Hydrogen Home's ability to efficiently convert solar energy to hydrogen through its electrolyzer for electricity use via fuel cells, with an efficiency rate of approximately 20 percent. CEJA states that hydrogen homes use gas appliances for space heating, water heating, cooking, and drying clothes, which does not align with CARB's building decarbonization strategy and is fundamentally misaligned with the ESJ Action Plan.[1932] CEJA contends that CARB's building decarbonization strategy does not mention hydrogen homes.[1933] CEJA argues that SoCalGas has not revealed emissions test results or methodology, and the witness for the Hydrogen Home couldn't confirm air quality improvements.[1934] CEJA recommends reducing SoCalGas's 2024 Test Year capital request by $2.568 million. CEJA states that SoCalGas did not seek approval for the Hydrogen Home project in its last GRC application and has wrongly

[1930] EDF Ex-01 at 50.

[1931] EDF Ex-01 at 50.

[1932] CEJA Opening Brief at 87-90.

[1933] CEJA Opening Brief at 88.

[1934] CEJA Opening Brief at 90-91.

reallocated over $2.5 million from approved funds for the Hydrogen Home.[1935] According to responses to CEJA's data requests, CEJA contends that project costs now exceed $15 million.[1936] Referring to the cross-examination of SoCalGas's witness, CEJA states that SoCalGas's witness stated that shareholders would cover these costs, but later changed to state that the difference would come from the *next* GRC even though these costs have already been incurred.[1937] CEJA argues that SoCalGas violated Rule 1.1 by hiding the total costs of the project to make its ratepayer impact appear less burdensome.[1938]

In its Reply Brief, SoCalGas states that the Hydrogen Home is a "living lab" that allows for research and testing and promotes further innovation and adoption of future hydrogen technologies at scale.[1939] SoCalGas contends that raising awareness about the Hydrogen Home project does not require shareholder funding of the underlying project costs.[1940] SoCalGas further states that the historical cost of $2.568 million expended from the 2019 GRC is presented as part of this 2024 Test Year GRC request and is included in the rate base forecast.[1941] Regarding the reallocation of funds allocated in the previous GRC, SoCalGas argues that it is not required to specify such details, nor would it be reasonable or feasible to do so.[1942] SoCalGas opposes CEJA's recommendation to

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[1935] CEJA Opening Brief at 92-93.

[1936] CEJA Opening Brief at 92-93.

[1937] CEJA Opening Brief at 93.

[1938] CEJA Opening Brief at 93.

[1939] Sempra Reply Brief at 173.

[1940] Sempra Reply Brief at 174.

[1941] Sempra Reply Brief at 436.

[1942] Sempra Reply Brief at 436.

remove cost estimates from the rate base and states the rate base associated with the total project costs over the current request of $4.573 million is expected to be included in a future GRC.[1943]

SoCalGas claims the utility is not required to show what activities or projects have been eliminated or postponed by such a reallocation. Regarding recovery of Hydrogen Home project costs in rates, SoCalGas states that costs have been paid only from already authorized revenues, and it will continue until the Commission approves the $4.573 million requested in this GRC and any additional costs as presented and approved in a subsequent GRC application.[1944]

Control Center Modernization Building (CCM Building)

SoCalGas requests capital costs for the CCM Building at $7.108 million in 2022, $29.048 million in 2023, and $39.434 million in 2024.[1945]

Cal Advocates recommends recovering the costs for the CCM Building through a Tier 2 Advice Letter and recommends that if total project costs exceed the forecasted costs by 10 percent, SoCalGas will provide a reasonableness analysis showing why actual costs exceeded the forecast. It further argues that the project scope has changed from smaller to larger and more complicated because, in the previous GRC, SoCalGas requested approximately $16 million for the relocation and construction of the Gas Control Center, and now it is asking for $77 million to construct the new 68,000-square-foot CCM Building. Cal Advocates expects potential project delays, suggesting that the CCM Building may not be in service until after 2024.

[1943] Sempra Reply Brief at 436.

[1944] Sempra Reply Brief at 439.

[1945] SCG Ex-19-R-2E at BKG-25.

SoCalGas disagrees, stating that the delays are being actively addressed, and the project is expected to be in service by 2024. SoCalGas argues that creating a separate regulatory proceeding to address these costs would burden the Commission unnecessarily. Therefore, SoCalGas's request to include these costs in 2024 Test Year is justified and appropriate.

27.1.2.2. Discussion

SoCalGas's requests for $306.741 million for 2022-2024 REF Operations Capital are subdivided into the following cost categories: (1) Infrastructure & Improvements, (2) Safety & Compliance, (3) Sustainability and Conservation, (4) Fleet Projects, and (5) Fleet Alternative Refueling Infrastructure.[1946]

27.1.2.2.1. Infrastructure and Improvements

This decision modifies SoCalGas's Infrastructure and Improvements capital cost request because SoCalGas has not met its burden of proof to justify whether all costs are necessary and reasonable. The briefs, testimony, and workpapers from SoCalGas lack clarity and complete, cohesive information to demonstrate the necessary cost to serve its customers, which limits the Commission's review of the related cost requests. Based on our review and information, this decision adopts a modified capital cost for Infrastructure and Improvements based on six years of historical spending (2017-2022) and adjusted for the CCM Building. Accordingly, we authorize $202.250 million instead of $210.812 million.[1947]

[1946] Sempra Opening Brief at 592.

[1947] SoCalGas did not provide a breakdown of its cost request in the Opening Brief, another example of its tardiness in data presentation. The regulators had to parse four exhibits and workpapers to tally the costs. Furthermore, for Infrastructure and Improvements, costs do not match between Briefs and its testimony. SoCalGas requests a 2022-2024 REF Capital forecast of $79.672 million for 2022, $116.351 million for 2023, and $110.718 million for 2024 Test Year. The Opening Brief does not show the breakdown of these costs. For the CCM Building, the Opening Brief requests $7.108 million in 2022, $29.825 million in 2023, and $40.281 million in 2024. Upon

Footnote continued on next page.

SoCalGas seeks capital cost recovery for the Infrastructure and Improvements costs under cost subcategories shown in the table below.[1948] It estimates its overall capital costs using a three-year average (2019-2021) and then adds an incremental adjustment using a zero-based budget for the CCM Building capital expenditure.

Table 27.8
Capital Expenditures Summary of Costs for Infrastructure & Improvements (In 2021 $ Thousands)

Infrastructure & Improvements	Estimated 2022	Estimated 2023	Estimated 2024	Total
Infrastructure & Improvements	39,078	39,078	39,078	117,234[1949]
CCM Building	7,108	29,048	39,434	75,590[1950]
Physical Security Infrastructure Enhancements	5,996	5,996	5,996	17,988[1951]
Total	**52,182**	**74,122**	**84,508**	**210,812**

We decline to adopt SoCalGas's capital costs for the following reasons and instead authorize $202.25 million for 2022-2024 REF Operations Capital Cost.

SoCalGas requests $117.234 million for facility improvements and equipment upgrades as Infrastructure and Improvements costs to support business operations. SoCalGas requests these funds to improve its hybrid work model and provide a range of spaces to foster flexible and productive work by

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adding the CCM Building data into the REF Capital Forecast provided in the workpapers and testimony, the overall cost increases to $308.365 million.

[1948] Sempra Opening Brief at 590; SCG Ex-19-R-2E at BKG-25.

[1949] Sempra Opening Brief at 598.

[1950] SCG Ex-19-R-2E at BKG-25.

[1951] SCG Ex-19-R-2E at BKG-25.

modifying the workspaces for its employees. Spending $117.234 million of ratepayer funds so that the current workspace can be modified to an activity-based working model does not appear to be a prudent and reasonable use of ratepayer funds. Creating a collaborative workspace at $117.234 million appears excessive when there is a push to consider the affordability of rates. Even putting aside the affordability of rates, SoCalGas has not met its burden of proving that these costs are necessary and reasonable to provide its customers with safe and reliable service. Additionally, the workpaper, Exhibit SCG-19-WP-R, does not show a breakdown of the historical spending for this subcategory, so it is difficult to ascertain the real costs driving the overall three-year average. Since the utility is requesting funds for capital outlays that will earn a rate of return, it is important that we set just and reasonable costs.

We also reject SoCalGas's forecasting methodology for the overall cost category because it relies on skewed data that only reflects increased spending on infrastructure and construction. SoCalGas eliminates a dataset with lower capital expenditure by excluding the 2017-2018 data from its estimation. Changes in scope, project delays, increased costs due to COVID-19 impacts, and supply chain disruptions are all factors that can cause cost fluctuations. However, deferring investments for a few years and following up with rapid capital investments in PTYs falls outside the range of normal costs authorized in the previous Test Year. Relying solely on data with increased costs will lead to overestimating expenses, resulting in a deviation from reasonable capital expense forecasts necessary to serve customers. The table below shows that the costs in 2019-2021 were the highest in the historical period.[1952]

[1952] SCG Ex-19-CWP-E.

Table 27.9
Costs in 2019-2021

	Adjusted Recorded				Adjusted Forecast			
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Infrastructure & Improvements ($ Thousands)	28,361	17,198	21,949	51,701	61,572	52,182	74,122	84,508
FTE	4.5	3.5	5.6	10	10.1	10.8	11	11

The reasons for delaying construction projects and changes in scope that result in higher costs should be considered extraordinary conditions. Similarly, deferred expenditures should not become a normal pattern, which are then excluded by the utility under the pretext of not representing future spending.

In addition to reviewing historical spending, we find that SoCalGas's actual 2022 capital expenditure is much higher than its estimated amount. At $69.291 million, SoCalGas overspent by $17.109 million, more than its estimated $52.182 million in 2022. Just as it is reasonable to account for lower actual spending, in this instance, we find it reasonable to consider all six years of data from 2017-2022 for the Infrastructure and Improvements cost category to capture the impact of cost fluctuations and deferred projects.

Regarding the CCM Building project, D.19-09-051 stated that the "Distributions Operations Control Center is proposed to be built in phases from 2017 to 2021 with an estimated total capital cost of $108 million. This GRC covers costs up to 2019 totaling $29.457 million."[1953] Cal Advocates does not oppose the CCM Building justification or the associated revenue requirement and correctly points out that the project scope has expanded and is more complicated.[1954] Cal Advocates recommends that SoCalGas file a Tier 2 Advice Letter to seek cost

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1953 D.19-09-051 at 128.

1954 Sempra Reply Brief at 426.

recovery as it might encounter delays that will postpone the completion and occupancy of the building for several months beyond the 2024 Test Year. SoCalGas contends it has been and remains committed to placing the CCM Building in service in the 2024 Test Year. We do not find merit in requiring a Tier 2 Advice Letter filing to review construction costs for this project. It will lead to regulatory lag for a project that will most likely be completed at the time of the issuance of this decision. Instead, we find it reasonable to adopt a cost cap of $77.214 million for the CCM Building project. SoCalGas shall not recover costs beyond the cap for the CCM building within this GRC cycle. If SoCalGas exceeds these costs, it may seek cost recovery in the next GRC cycle, showing the complete record of its actual spending and the reasons for costs exceeding the cap.

SoCalGas has not provided a historical breakdown of costs for Physical Security Infrastructure Enhancements. These cost requests are embedded in the overall Infrastructure and Improvements capital costs.

Based on our review and information provided by SoCalGas, this decision adopts a modified capital cost for Infrastructure and Improvements. As explained above, it is reasonable to adjust the forecast to use six years of historical spending and further adjust for incremental costs for the CCM Building. The total capital cost authorized for 2022 through 2024 is $202.250 million. The cost breakdown is as follows:

Table 27.10
Capital Expenditures Summary of Costs for Infrastructure & Improvements ($ 000)

	2022	2023	2024	Total
Infrastructure & Improvements	48,787	71,504	81,960	202,250

27.1.2.2.2. Safety and Compliance

The decision authorizes forecasts for Safety and Compliance for 2022, 2023, and 2024 of $2.388 million, $2.388 million, and $2.388 million, respectively. The forecast method is the Base Year 2021. The forecast relies upon ongoing projects to install automatic doors at branch offices for completion in 2022 and the current and upcoming seismic retrofits and fire safety projects that will increase in 2023 and 2024.

27.1.2.2.3. Sustainability and Conservation

SoCalGas forecasts Sustainability and Conservation capital costs for 2022, 2023, and 2024 at $13.885 million, $9.312 million, and $9.312 million, respectively.

SoCalGas requests funding to install: (1) solar photovoltaic panel systems at additional facilities; (2) LED lighting at various facilities; (3) xeriscape at additional facilities to decrease water usage; (4) other technologies for renewable energy generation and storage; and (5) the [H2] Hydrogen Home project at the Energy Resource Center to demonstrate the capabilities of hydrogen.[1955] SoCalGas uses a 2021 Base Year forecasting method and adds the cost of the Hydrogen Home to its cost requests. The forecast for renewable energy solutions is based on a preliminary study and cost analysis for solar projects at headquarters locations.

Intervenors only contested the Hydrogen Home cost recovery.

<u>Hydrogen Home</u>

SoCalGas did not seek cost recovery for a Hydrogen Home in the Test Year 2019 GRC cycle or a proceeding before the Commission before the 2024 Test Year GRC. Its Hydrogen Home forecast is $4.573 million in 2022. As of March 31, 2023,

[1955] SCG Ex-19-R-2E at BKG-32-33.

the total direct project cost is $15.196 million[1956] and SoCalGas has expended $2,568,658 since its last GRC cycle.[1957]

We deny cost recovery in ratepayer funds for the Hydrogen Home demonstration project for the following reasons:

SoCalGas is legally obligated to ensure the safety, health, comfort, and convenience of its natural gas customers, employees, and the public. The Hydrogen Home project does not directly benefit natural gas ratepayers as a source of renewable and reliable energy because the source of hydrogen at a large scale is not yet available or authorized for use in serving SoCalGas's customers. It is unclear why SoCalGas used ratepayer funds authorized for other projects to showcase this hydrogen microgrid project. SoCalGas could instead use shareholder funds for this project or seek targeted R&D funds, especially since it is uncertain whether or when this asset will have a future role in the renewable energy source mix. Thus, the Hydrogen Home project, which effectively serves as a research and demonstration facility, does not meet the threshold for cost recovery and "just and reasonable" rates under Pub. Util. Code Section 451.

The Hydrogen Home has value as a demonstration project. However, such value needs to be independently assessed as part of a separate application or combined with other hydrogen related mechanisms that would require specific assessment of the value of the project and reasonableness review before allocating ratepayer dollars for a project that is so attenuated at this time from providing direct services to ratepayers.

[1956] Sempra Opening Brief at 597.

[1957] Sempra Opening Brief at 597.

SoCalGas argues that it has the flexibility to reprioritize funds within its approved GRC cycle.[1958] We find this is a misplaced understanding of ratemaking principles in the context of spending ratepayer funds on building a single Hydrogen Home as a test case for new technology.

In D.20-01-002, the Commission did not agree on the necessity of reprioritizing authorized revenues as a condition to move to a four-year GRC cycle.[1959] If the Commission is to accommodate the utilities' four-year cycle, the utilities must reciprocate by more openly engaging in an ongoing dialogue throughout the GRC cycle that enables the Commission to review their activity in a transparent manner and ensure the utilities are held accountable for how they spend ratepayer funds.[1960] We are not convinced by SoCalGas's argument that it has no requirement to show what activities or projects have been eliminated or postponed when it reallocated authorized revenues from the last GRC proceeding to fund this project. Moving to a four-year cycle enables the Commission to become more involved in monitoring how utilities reprioritize authorized GRC funding, not less.[1961] SoCalGas's justification for not using the funds for core utility business, and to use the funds instead to showcase the Hydrogen Home project, is disconcerting.

SoCalGas projects the Hydrogen Home project will cost $15.196 million in capital expenses. Notwithstanding the ambiguity of SoCalGas's testimony during evidentiary hearings on whether these costs will be recovered from shareholders

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[1958] Sempra Opening Brief at 597-598.

[1959] D.20-01-002 at 38.

[1960] D.20-01-002 at 36.

[1961] D.20-01-002 at 36.

or ratepayers,[1962] the Hydrogen Home demonstration project does not balance affordability, transparency, and just and reasonable rates. There is no supporting evidence on proper accounting procedures for a research endeavor of this magnitude. SoCalGas has not provided any breakdown of the capital expenses associated with the different technologies utilized in the project that it intends to recover through rates, nor has it explained why these expenses should be capitalized instead of expensed. If the Hydrogen Home's efficiency of converting solar energy to hydrogen through the project's electrolyzer for subsequent electricity use through fuel cells is only 20 percent, as stated by CEJA, we see no benefit to such a project being capitalized and paid for by all ratepayers.

Moreover, it is unclear why SoCalGas chose not to present the Hydrogen Home demonstration project via its RD&D program budget authorized in the last GRC but decided to divert millions of dollars at its discretion without Commission knowledge and authorization. We agree with CEJA that any costs borne by ratepayers for hydrogen blending projects should be covered by pilots under Commission oversight and through a transparent process. It is reasonable to expect that funding for the Hydrogen Home demonstration project would be pursued via available grants, public funding sources, or shareholder dollars first. Until authorized in a formal proceeding, we do not see a need to reallocate ratepayer funds to this demonstration project where there has been no showing of how it relates to SoCalGas's core utility infrastructure and supply of natural gas. SoCalGas may pursue the project using grants, public-private partnership, and shareholder funds or seek future funding for such projects as part of a separate application where the proposal can be properly reviewed, subject to Commission

[1962] Tr. Vol. 20, 3543:5-25.

process. We agree with CEJA and EDF that the record here does not support ratepayers funding such a Hydrogen Home project, and therefore we cannot find that these costs are just and reasonable pursuant to Pub. Util. Code Section 451.

Therefore, we reject SoCalGas's request for rate recovery of the Hydrogen Home project from ratepayer funds in this GRC or future GRC cycles. In this GRC proceeding, SoCalGas shall remove $4.573 million of capital costs. We further lower its historical costs to remove the anomalous capital expense of $2.568 million from its forecasted rate base.

Other Sustainability Costs

We decline SoCalGas's proposed sustainability cost forecast methodology based on the costs from the Base Year 2021. Even though SoCalGas has removed $2.569 million for the Hydrogen Home from the historical spend and added it to the incremental forecast,[1963] there is a lack of supporting evidence on the reasonableness of costs incurred for the remaining sustainability projects in the historical years leading to Base Year 2021.

The table below displays the incurred capital costs. However, SoCalGas has failed to demonstrate the reasons behind the unusually high expenditures in 2019-2021 compared to 2017-2021. Exhibit SCG-19-CWP merely states the numbers without explaining how adjusted recorded data is determined.[1964]

Table 27.11
Incurred Capital Costs

$000s	2017	2018	2019	2020	2021
Sustainability and Energy Conservation	3,764	2,210	7,367	5,449	6,108

[1963] SCG Ex-19-CWP-E at 39.

[1964] SCG Ex-19-CWP-E at 37.

SoCalGas's justification for using ratepayer funds to evaluate microgrids, fuel cells, renewable natural gas, and hydrogen is insufficient.[1965] We do not see the need to allocate separate funds when there are RD&D programs that can evaluate these new technologies. SoCalGas's request does not meet the just and reasonable standard because these costs do not reflect normal business operations.

Therefore, using five years of historical cost data to set capital costs for sustainability and energy conservation projects is reasonable. Accordingly, we authorize $4.980 million for 2022, $4.980 million for 2023, and $4.980 million for 2024. In addition to these costs, we review cost requests for solar panel projects as discussed below.

We authorize an adjustment for solar panel projects. We have reviewed SoCalGas's workpaper SCG-19-CWP-E at 34 for incremental solar panels and storage costs, wherein SoCalGas is requesting $12.612 million for 2022-2024. We find SoCalGas forecasted incremental adjustments reasonable, as there have not been enough solar panel projects to incorporate a historical average forecast. Accordingly, we authorize $4.204 million for 2022, $4.204 million for 2023, and $4.204 million for -2024. In summary, we authorize $9.184 million in 2022, $9.184 million in 2023, and $9.184 million in 2024 for sustainability and energy conservation projects. .

27.1.2.2.4. Fleet Projects

Forecasted capital expenditure for Fleet Projects supports SoCalGas's safety goals. The forecast method developed for this cost category is a three-year average, with an incremental addition for telematics installation. The underlying

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[1965] SCG Ex-19-R-2E at BKG-33.

cost drivers for this capital project relate to material costs for tools, software, and hardware and vendor estimates for vehicle hoist and telematics installation.

The cost forecasts are reasonable. Accordingly, the decision authorizes Fleet Projects of $2.071 million, $0.556 million, and $0.556 million for 2022, 2023, and 2024, respectively.

27.1.2.2.5. Fleet Alternative Refueling Infrastructure

SoCalGas is requesting the following costs:[1966]

Table 27.12
SoCalGas's Requested Costs

Fleet Alternative Refueling Infrastructure Capital Costs $ (in Thousands)				
Year	**2022**	**2023**	**2024**	**Total**
RNG	3,298	4,105	1,055	**8,458**
Hydrogen	621	20,739	8,415	**29,775**
EV	5,227	5,129	4,484	**14,840**
Total	**9,146**	**29,973**	**13,954**	**53,073**

27.1.2.2.6. RNG Refueling Station Request

SoCalGas seeks $8.458 million for capital expenditures for RNG refueling stations.[1967] Of this amount, SoCalGas is proposing to build two new refueling stations: one in Santa Maria, estimated at $2.087 million, and the other in Visalia, estimated at $2.450 million.[1968] The remaining $3.921 million is for upgrades at its existing RNG refueling stations to enhance its fleet's reliability, capacity, and response time.

[1966] Sempra Opening Brief at 594 shows an incorrect total for RNG of $7,558,000.

[1967] SCG Ex-19-CWP at 58.

[1968] SCG Ex-19-CWP at 68 and 69.

The upgrades will add fueling capacity and replace deteriorating RNG fueling equipment. The forecasting methodology is zero-based and relies on the work needed at each project location. We find the costs to maintain and upgrade the existing facilities reasonable. Therefore, this decision authorizes upgrade costs of $2.369 million in 2022, $898,000 in 2023, and $654,000 in 2024.

Regarding capital expenditure to build new private fleet refueling infrastructure for RNG vehicles, the questions are: Is SoCalGas's decision to use surplus funds from the last GRC decision to build new RNG facilities at Santa Maria and Visalia Base reasonable? Is it reasonable to authorize additional ratepayer funding for these projects?

We deny SoCalGas's request to build new RNG refueling stations using additional ratepayer funds for the reasons below.

The Commission disagrees with SoCalGas's interpretation of D.19-09-051. A proper reading of D.19-09-051 requires considering the decision's emphasis on not constructing new facilities. We agree with CEJA and TURN that the Commission approved funding for RNG refueling stations but expressly stated its "expectation that these amounts will be used for replacements and upgrades of existing facilities as opposed to the addition of new NGV refueling stations."[1969]

We also disagree with SoCalGas's interpretation of D.95-11-035 and D.02-12-056 as the basis for building the RNG refueling stations.[1970] Notwithstanding that D.03-10-086 supersedes these decisions, in D.95-11-035, the Commission only granted interim funding for discretionary low-emission vehicle programs extended in D.02-12-056 through 2005.[1971] Building a new RNG

[1969] D.19-09-051 at 410.

[1970] Sempra Reply Brief at 432.

[1971] D.03-10-086 at 8-9.

refueling facility is not a "discretionary" low-emission vehicle program; rather, it is a capital expense item requiring resolution before the Commission in a GRC or cost-of-service proceeding.[1972] We find that SoCalGas's spending of surplus funds on building new RNG refueling projects is not in compliance with discretionary funding from these prior Commission decisions. SoCalGas's conclusion that it could use the remaining authorized funding for new private fleet refueling infrastructure is flawed.[1973] Pursuant to D.03-10-086, using ratepayer funds to build new RNG refueling stations is contingent upon Commission approval.[1974] However, SoCalGas spent ratepayer funds without authorization on new private fleet refueling infrastructure, violating D.03-10-086.

Whether we should allow additional funds for constructing new RNG refueling stations depends on several factors, such as the sufficient use of alternative-fuel vehicles and associated infrastructure, the number of fleets being served per station, ESJ community impact, other alternate-fuel vehicle advances, the future of RNG vehicles as the state moves to zero-emission vehicles, and the long-term impact on ratepayers.

Since this decision has reduced the ownership cost of incremental vehicles requested in this GRC cycle, it is unclear whether SoCalGas needs additional refueling infrastructure. Moreover, SoCalGas claims that from 2019 to 2021, the number of new RNG stations installed by private fleets and the general public increased by 15 percent on average within the SoCalGas service territory.[1975] If a

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[1972] D.03-10-086 at 8-9.

[1973] SCG Ex-219-E at BKG-15. The authorized funding of $7.542 million in D.19-09-051 for 2018 and 2019 was significantly higher than the forecast for replacement and upgrades of $2.713 million in 2018 and $2.189 million in 2019.

[1974] D.03-10-086 CoL 10.

[1975] SCG Ex-16-2E at BCP-36.

wider network is available in the territory now, we see no justification for burdening ratepayers with additional costs. We agree with CEJA and TURN that ratepayers would bear all the risk of stranded costs as the state transitions to zero-emission vehicles.[1976] SoCalGas has not demonstrated that ratepayers stand to benefit from these additional stations. There is merit in CEJA's argument that new long-term investments in refueling stations for polluting vehicles go squarely against California policies to spur growth in ZEVs and the rapid expansion of ZEV models to meet vehicle fleet needs.[1977] SoCalGas's proposal to own an asset with a 20-year depreciation for the Santa Maria and Visalia RNG stations in 2044 to meet CARB's 2045 goal is without merit.[1978] It assumes that a 20-year depreciation will allow it to operate the RNG refueling station because the feasibility of using electric truck technology by 2045 is uncertain. This approach from SoCalGas fails to inspire confidence that it is committed to transitioning to zero-emission vehicles over the next 20 years. We see no ratepayer benefits to build the RNG refueling stations only to support 56 utility-owned vehicles in the near term.[1979]

SoCalGas has not demonstrated the productivity gains these RNG refueling stations will have, as it claims that these facilities will eliminate non-productive drive time, added fuel costs, and vehicle maintenance necessitated by additional miles driven to source RNG fuel. SoCalGas also did not demonstrate a reduced

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[1976] CEJA Opening Brief at 81; TURN Opening Brief at 32.

[1977] CEJA Opening Brief at 79.

[1978] Sempra Reply Brief at 434.

[1979] SoCalGas proposes 31 vehicles assigned to Visalia Base and 25 vehicles assigned to Santa Maria.

response time in emergencies, including PSPS events, disaster support, and mutual assistance events resulting from these new stations.

SoCalGas further argues that there are limited alternative fuel vehicle options. It contends that BEVs rely on electricity from the grid to charge, and charging ports may not be readily available.[1980] It argued that hydrogen fuel cell electric vehicles are not suited for these northern districts because no public hydrogen fueling stations are installed or planned in or around Santa Maria or Visalia.[1981] However, SoCalGas does not rebut CEJA's argument that the manufacturer offered an electric model of the methane-burning vehicles it proposes to acquire.[1982]

Further, we disagree with SoCalGas that the RNG refueling station projects at Santa Maria and Visalia do not contravene the ESJ Action Plan. CEJA and TURN provided evidence on the ESJ communities where the new gas infrastructures are planned for construction. Transitioning to RNG vehicles will reduce diesel and gasoline emissions, but this does not justify the construction in high-pollution areas, as RNG vehicles still burn methane. While the carbon intensity can differ, the air quality impacts of burning methane are similar regardless of where the methane was sourced.[1983] Similarly, while the stations themselves will not add to pollution in ESJ communities, SoCalGas ignored the impact of methane leakage at refueling stations.[1984] We agree with CEJA and TURN and find that SoCalGas's proposal is inconsistent with the ESJ Action Plan.

1980 SCG Ex-219-E at BKG-16.

1981 SCG Ex-219-E at BKG-16.

1982 CEJA Opening Brief at 78.

1983 CEJA Opening Brief at 79.

1984 CEJA Opening Brief at 79.

Accordingly, the decision denies SoCalGas's request for ratepayer funding for the two new RNG refueling stations.

27.1.2.2.7. Hydrogen Refueling Stations

We deny SoCalGas's request to recover costs related to hydrogen refueling stations at Pico Rivera[1985] and Honor Rancho[1986] facilities as we are unclear about the benefits to the ratepayers. Accordingly, we deny SoCalGas's request to establish a new Hydrogen Refueling Station Balancing Account (HRSBA).

The Pico Rivera and Honor Rancho hydrogen refueling stations do not demonstrate the just and reasonable costs necessary for the utility to meet its obligations to serve its gas customers.[1987] Regulating the production, delivery, and storage of hydrogen for public access presents complex issues compared to this utility's traditional lines of business. Therefore, including these activities in the utility's rate base would require further review and understanding of cost effectiveness and ratepayer benefits before including the costs in the utility's rate base.[1988] Since the decision has reduced the budget to own and lease vehicles, it should lower SoCalGas's plans to own hydrogen passenger vehicles, lowering its reliance on building its own refueling infrastructure.

SoCalGas does not need to build its own hydrogen refueling stations to understand the technology, duty cycles, range, and maintenance requirements necessary to determine future applications.[1989] There are ample research

[1985] SCG Ex-19-R at BKG-37-38.

[1986] SCG Ex-10 at LTB SH-23.

[1987] Pub. Util. Code Section 451.

[1988] Pub. Util. Code Section 201.

[1989] SCG Ex-18-R-E at 11.

opportunities in the public sphere that can be leveraged to understand the workings of hydrogen for the interest areas listed by SoCalGas.

Even if SoCalGas plans to purchase hydrogen vehicles as a portion of its automobile fleet, there are over 30 hydrogen fueling stations currently in SoCalGas's service territory, with more than 20 stations currently undergoing development.[1990] Therefore, SoCalGas has access to hydrogen to refuel any vehicles it buys or leases without owning refueling stations at ratepayer expense. We agree with the intervenors that owning a hydrogen fueling station comes with a larger capital expense than choosing between leasing electric and hydrogen vehicles for the automobile portion of its zero-emission fleet.[1991]

Building and owning hydrogen refueling stations for public access does not comport with cost causation to justify ratepayer funding. We agree with Air Products that it is unclear which category of SoCalGas customers will directly benefit from building this infrastructure.[1992] It is unclear how these fueling stations will impact market competition, as ratepayers will cross-subsidize the construction and sale of hydrogen.

SoCalGas's claim that it is entitled to make significant capital expenditures in hydrogen refueling stations because the Commission has previously approved ratepayer funds for electric vehicle and methane-burning vehicle refueling stations is without merit. There is no statutory requirement that ratepayers bear the cost of transitioning to hydrogen fueling infrastructure. We agree with CEJA

[1990] TURN-SCGC Ex-05 at 5.

[1991] Air Products Opening Brief at 15-16; TURN Opening Brief at 42; CEJA Reply Brief at 28.

[1992] Air Products Opening Brief at 15.

that there is a legislative mandate to electrify the transportation sector, but no analogous hydrogen infrastructure mandates exist.[1993]

SoCalGas contests that there is room for regulated and unregulated entities in the hydrogen industry.[1994] We appreciate SoCalGas's enthusiasm for investing in the hydrogen business, but relying on ratepayer funds for such a capital-intensive project is premature and risky. We do not have insight into the market penetration of public-use hydrogen vehicles refueling at Pico Rivera, which means we do not know the financial impact on ratepayers. Hydrogen vehicle sales are lagging compared to electric vehicles for various reasons we will not delve into here, so the question is whether we should expose ratepayers to the risks if SoCalGas is unable to make the sales it intends in order to cover the costs.[1995] Ratepayers will bear the financial risk of building expensive infrastructure when the only vehicles refueling could be the utility's fleet. SoCalGas has not provided information on the direct ratepayer benefits resulting from the sale of hydrogen and SoCalGas's projections for cost allocation, which it claims should not be addressed in this GRC proceeding. Without a complete breakdown of costs and benefits, granting permission for ratepayer cost recovery is unreasonable.

Regarding ESJ community impact, we do not know if SoCalGas has met applicable local, state, and federal requirements as it claims it would.[1996] Knowing whether the utility has all the required permissions before authorizing funds is

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[1993] CEJA Reply Brief at 32-33.

[1994] Sempra Reply Brief at 16-17.

[1995] TURN Ex-317, TURN Hearing Exhibit at 2 (June 23, 2023- California Energy Commission Zero Emission Vehicle Sales Data); in the first quarter of 2023, light-duty BEV sales in California were 95,946 as compared to only 902 fuel cell vehicles.

[1996] Sempra Reply at 430-431.

fair and justified for granting ratepayer funds. SoCalGas asserts that its hydrogen refueling facilities in ESJ communities will offer greater choice for consumers in that area by providing infrastructure support to those who may elect to drive a hydrogen vehicle.[1997] However, it is important to note that the high cost of hydrogen vehicles and SoCalGas's argument do not align with the economic and median household income data in Pico Rivera. It would also be beneficial to know that, as part of the LCFS credit revenue, SoCalGas will consider incorporating higher set-asides and prioritizing ESJ and underserved communities for investments. We do not know the complete impact of this capital and ongoing O&M expenses on the affordability of rates.

If the utilities are confident that hydrogen fueling stations are economically viable and can be designed without taking advantage of their monopoly status, which guarantees a rate of return from ratepayers, they should be allowed to file an application that relies on shareholder funds to do so. In exchange, they should have an opportunity to benefit from their success based on the revenue generated at each new station they build. However, it is premature to allow ratepayer funds in this GRC cycle.

For the above reasons, we deny SoCalGas's request to build a hydrogen refueling station at Pico Rivera without prejudice.

27.1.2.2.8. EV Charging

SoCalGas plans to install 1,200 EV charging ports at its employee-assigned facilities from 2022 to 2024. The cost estimates are based on a zero-based forecasting methodology. By installing EV charging capabilities at SoCalGas employee-assigned facilities, company employees will have access to a

[1997] Sempra Reply Brief at 430.

strategically placed charging network to meet the vehicle charging needs of operations teams across SoCalGas's diverse service territory.

It is just and reasonable to authorize SoCalGas's request.

27.1.2.2.9. Summary of SoCalGas's Capital Costs

SoCalGas's request for $306.741 million for 2022-2024 REF Operations Capital is denied. The decision authorizes the following costs: (1) $202.25 million for Infrastructure & Improvements; (2) $7.164 million for Safety & Compliance; (3) $27.552 million for Sustainability and Conservation; (4) $3.183 million for Fleet Projects; and (5) $18.761 million in Fleet Alternative Refueling Infrastructure.

27.2. SDG&E

27.2.1. SDG&E Real Estate and Facility Operations O&M Costs

SDG&E requests $38.208 million for its Real Estate and Facility Operations Expense (RELF) for the 2024 Test Year.

Table 27.13
SDG&E Real Estate, Land Services & Facilities (In 2021 $ in Thousands)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
Total Non-Shared Services	12,514	15,156	2,642
Total Shared Services (Incurred)	21,930	23,052	1,122
Total O&M	**34,444**	**38,208**	**3,764**

Cal Advocates recommended reductions to O&M specific to additional security personnel resources at five locations. The recommended reduction was $1.01 million, which would result in funding of $37.1 million in the 2024 Test Year. Cal Advocates argues that SDG&E has had resources to add security to these facilities but failed to do so, including after Cal Advocates requested information that justified such added security (from May 2022 to January 25, 2023).

We decline to accept O&M budget reduction to remove the funds needed to hire security personnel. SDG&E is reasonable in planning the hiring of on-site security guards, as it is imperative to its ability to safeguard utility assets and personnel against increased physical threats.[1998]

SDG&E's forecasting methodology for Shared and Non-Shared Real Estate, Land Services, and Facility Operations activities is reasonable. Accordingly, this decision authorizes SDG&E's request for $38.208 million in O&M expenses for 2024 Test Year.

27.2.2. SDG&E Real Estate and Facility Capital Costs

SDG&E requests $65.178 million for 2022, $75.530 million for 2023, and $73.890 million for 2024 Test Year for 2022-2024 RELF Capital forecasts.

SDG&E relies on a three-year average and zero-based budgeting for each cost category to forecast capital expenditures.

Projects under $1 million are part of the Blanket Budgets component, which uses a three-year historical average. SDG&E proposes using uncommitted, available portions of the Blanket Budget for emergent, unknown, unplanned projects less than $1 million.

In addition to Blanket Budget, SDG&E adds capital costs of individually specified, known projects with definitive scope and budgets greater than $1 million.

[1998] SCG Ex-19-R-2E at BKG-33.

The following table shows SDG&E's Real Estate and Facility Operations capital cost categories:[1999]

Table 27.14
Facilities/Other in 2021 ($000s)

Categories of Management	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Land	0	74	74	74
Structures & Improvements	12,866	12,027	20,725	5,343
Safety and Environmental	3,709	2,168	5,508	1,958
Miscellaneous Equipment	2,335	3,385	1,700	1,700
Security Systems	5,060	6,109	3,541	2,713
Infrastructure and Reliability	12,307	8,099	6,593	5,687
Remodel / Relocate /Reconfigure	9,592	13,537	6,069	2,494
Business Unit Expansion	2,121	3,246	23,494	34,631
Clean Transportation Infrastructure	593	1,516	4,068	12,227
Land Services Archibus System	1,659	1,500	1,500	1,500
SDG&E Sustainability Program	4,202	13,517	2,258	5,563
Total	**54,444**	**65,178**	**75,530**	**73,890**

[1999] SDG&E Ex-23-CWP-R at 1.

Cal Advocates was the only intervenor objecting to costs proposed under the Business Unit Expansion cost category for Kearny Master Plan Phase II and Mission Skills Training Center.

27.2.2.1. Kearny Master Plan Phases I and II

SDG&E estimates it will incur $21.776 million for the Kearny Master Plan Phase II. The annual cost estimates are $250,000 in 2022, $2.5 million in 2023, and $19.026 million in 2024.[2000] The business purpose of this phase of the Kearny Master Plan development involves designing and constructing new warehouse facilities and demolishing aged, specialized lab and storage buildings within the center third of the property.

Cal Advocates recommends that upon completion of Phase I, SDG&E should request Phase II in the next rate case and, possibly, Phase III.[2001] While Cal Advocates does not object to Phase I costs, regarding Phase II, it argues that this was initially identified as a storage issue in preparing for the master plan in 2013, and since then, SD&E has reprioritized funds to other projects. It further argues that SDG&E did not conduct any studies to measure the cost savings or benefits of enhancing on-site storage conditions. According to Cal Advocates, the low spending creates uncertainty about whether Phase II will be completed on schedule and raises questions about the completion date in the PTYs.

In response to Cal Advocates' objections to Phase II, SDG&E asserts that nothing in Pub. Util. Code Section 451 requires a cost/benefit analysis to support the Commission's determination of the reasonableness of a given project. It

[2000] Sempra Reply Brief at 441.

[2001] CA Ex-11 at 53.

further argues that it has met its burden of proof through its testimony and workpapers.

After reviewing the record in the proceeding, we do not have sufficient information to authorize the Kearny Master Plan project in this GRC cycle. Our review shows that SDG&E's direct testimony lacks critical project information that should have laid the foundation for its request. SDG&E relied on the rebuttal to introduce critical project information and a timeline.

Regarding cost studies or a cost-benefit analysis, while a cost analysis was not mandated for this project in D.19-09-051, it would be unusual for SDG&E's management not to undertake one, given the project scope and ratepayer funds requested. Although SDG&E claims that these improvements should improve safety and operational readiness, it has not estimated tangible cost savings (direct or avoided). As a result, SDG&E's claims are not convincing and do not demonstrate transparency.[2002] We disagree with SDG&E's argument that Pub. Util. Code Section 451 does not require the Commission to review cost savings or cost-benefit analysis. On the contrary, cost savings and supporting analysis, such as a cost-benefit analysis, are yardsticks that the Commission can rely on to determine just and reasonable rates.

While Cal Advocates does not object to the cost estimates, we agree that the completion date for the project to be considered in rates in this GRC cycle is questionable. Pursuant to D.19-09-051, for the Kearny Master Plan, SDG&E was required to request cost recovery in this GRC cycle due to the project's complexity and scope. SDG&E has provided cost estimates and information on the project's necessity in this GRC cycle, and once approved, they will be added to the rate

[2002] SDG&E Ex-223 at DT-B-8.

base. However, the facilities in the rate base must be used and useful. In drafting this decision, we do not have complete information on the construction and completion timeline of the Kearny Master Plan Phases I and II before authorizing the costs to be included in the rate base. For instance, SDG&E estimated to spend $1.13 million in 2022 on Phase I; however, it recorded $509,000, and for Phase II, it estimated $250,000 but spent $386,000.[2003] For a project with the scope and complexity of the entire Master Plan (Phases I, II, and III), SDG&E's spending does not instill confidence that Phases I and II will be used and useful for approval in this GRC cycle. Based on a data request response, SDG&E states that Phase I will be complete June 22, 2023.[2004] However, the actual project spending does not give us confidence that Phase I progressed as proposed by SDG&E. We also do not know whether Phases I and II are mutually exclusive or interdependent, as there was no mention of multiple phases in D.19-09-051. Though Cal Advocates only objects to Phase II, we also do not find justification for Phase I and its completion within this GRC cycle. SDG&E requests $8.635 million for Phase I and $21.776 million for Phase II.[2005]

Accordingly, we deny, without prejudice, SDG&E's request to include the Kearny Master Plan in this GRC cycle. However, after completing Phases I and II, SDG&E can file a Tier 3 Advice Letter to seek cost recovery for the project or seek cost recovery in the next GRC cycle. Additionally, SDG&E has already included contingency factors of 10 and 20 percent, respectively, for Phases I and II;[2006]

[2003] SDG&E Ex-303 at 67; SDG&E Ex-23-C-R at 310, 314.

[2004] SDG&E Ex-223 at DT-B-20.

[2005] SDG&E Ex-23-CWP-R at 307, 319.

[2006] SDG&E Ex-23-CWP-R at 312, 319.

therefore, if the project costs exceed the forecasted cost, SDG&E shall provide a reasonableness review to analyze why actual costs exceeded the forecast.

27.2.2.2. Mission Hills Training Center

SDG&E requests recovery of capital cost for its Business Unit Expansion/ Mission Hills Training Center as follows: 2022 - $805,000; 2023 - $10.432 million; 2024 - $10.223 million; for a total of $21.460 million.[2007] SDG&E plans to expand its existing Skills Training facility by constructing new classrooms to accommodate the hands-on training needs of its planned additions to FTE instructor staff.[2008]

Cal Advocates opposes this project because it (1) questions whether SDG&E will hire the additional training personnel this project will house; (2) believes the existing facility can be "repurposed" to meet current and future training needs; and (3) does not think the project will be completed by the end of the 2024 Test Year.[2009]

SDG&E argues that it does not want to hire additional personnel without planning for their eventual workspaces.[2010] It contends that citing the number of personnel hired as of Q1 2023 as a basis for rejecting this project is not a valid reason for suggesting the project is not warranted. Regarding whether an alternative was considered for overflow conditions, SDG&E argues that scheduling, reserving, and potentially paying for/renting these spaces can be inefficient for teachers and students and expensive for ratepayers.[2011] As for completing the project within 2024, SDG&E claims that "no one has a crystal ball

[2007] SDG&E Ex-23-CWP-R at 345.

[2008] SDG&E Ex-23-CWP-R at 342.

[2009] Cal Advocates Opening Brief at 235-236.

[2010] SDG&E Ex-223 at DT-8.

[2011] SDG&E Ex-223 at DT-8.

into the future, and while SDG&E respects these thoughts regarding the possibility of future events that may or may not come to fruition, these are not sound reasons for dismissing the need for this project."[2012]

Like the Kearny Master Plan, SDG&E skipped critical project information on the Mission Hills Training facility in its direct testimony and relied on rebuttal testimony to support its position.

It is unclear how a $21 million capital expense for SDG&E's training center will affect rate affordability. We are not convinced that SDG&E needs a new building to supplement the existing buildings with additional functional space to support the 15-20 new, permanent FTEs that will administer its training curriculum.[2013] SDG&E has 48,000 square feet of space that it could have considered retrofitting and upgrading, but we do not see any such initiative. Cal Advocates reasonably argues that SDG&E fails to explain why its current footprint cannot be repurposed to meet an "anticipated" demand.[2014] Furthermore, SDG&E is not replacing its existing facilities and will continue to maintain them, incurring O&M and capital costs and seeking ratepayer funding.

Additionally, there is uncertainty whether the planned need for the upgrade by 2024 will be as extensive as initially thought, potentially resulting in less space being required. It is reasonable to assume that based on SDG&E's design permitting and construction timing, its predicted completion date of December 2024 may move into the PTY due to inevitable construction delays, and

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[2012] SDG&E Ex-223 at DT-9.

[2013] SDG&E Ex-23-CWP-R at 342.

[2014] Cal Advocates Opening Brief at 235.

management may reprioritize projects or find an alternative solution not yet considered to accommodate the increase in FTEs.[2015]

We agree with Cal Advocates that SDG&E fails to demonstrate that its current training facility is costing ratepayers an amount that will justify a $21 million project cost, nor does SDG&E demonstrate why its current footprint could not be repurposed to meet anticipated demand for additional training. The other critical information we do not know is whether SDG&E has the Commission's approval for the 15-20 full-time employees it plans to hire for the new facility. Without this information, we cannot assess whether its request is justified and reasonable.

We decline to adopt the capital expense for building a new Mission Hills Training Center at the expense of ratepayers without complete information and without assessing viable and more cost-effective alternatives. Therefore, if SDG&E plans to pursue the project, it shall provide a cost-benefit analysis of its decision to pursue the project versus upgrading existing facilities. It may submit a Tier 3 Advice Letter or seek cost recovery in the next GRC cycle.

27.2.2.3. Uncontested Capital Costs

Excluding the costs for Business Unit Expansion, we approve the uncontested cost categories listed below. We have reviewed the forecasting and capital adjustments and find them reasonable.

Table 27.15
Uncontested Facilities/Other in 2021 ($000s)

Categories of Management	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Land	0	74	74	74
Structures & Improvements	12,866	12,027	20,725	5,343

[2015] SDG&E Ex-223 at DT-B-20.

Categories of Management	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Safety and Environmental	3,709	2,168	5,508	1,958
Miscellaneous Equipment	2,335	3,385	1,700	1,700
Security Systems	5,060	6,109	3,541	2,713
Infrastructure and Reliability	12,307	8,099	6,593	5,687
Remodel / Relocate /Reconfigure	9,592	13,537	6,069	2,494
Clean Transportation Infrastructure	593	1,516	4,068	12,227
Land Services Archibus System	1,659	1,500	1,500	1,500
SDG&E Sustainability Program	4,202	13,517	2,258	5,563
Total	**52,323**	**61,932**	**52,036**	**39,259**

27.2.2.4. Summary

We decline Business Unit Expansion costs of $2.188 million, $19.434 million, and $30.249 million for 2022, 2023, and 2024, respectively, for inclusion within this GRC cycle.

We authorize the uncontested capital costs of $61.932 million, $52.036 million, and $39.259 million for 2022, 2023, and 2024, respectively.

28. Environmental Services

SoCalGas and SDG&E request cost recovery for their Environmental Services divisions, which provide support regarding compliance with various environmental rules and regulations.[2016]

Both utilities record costs in the New Environmental Regulatory Balancing Account (NERBA), a two-way balancing account established by the Commission in Sempra's 2012 GRC.[2017] Both utilities are authorized to record costs related to AB 32 Administrative Fees, Subpart W of Part 98 of Title 40 of the Code of Federal

[2016] Sempra Opening Brief at 604.

[2017] Sempra Opening Brief at 605.

Regulations, and Leak Detection and Repair to the NERBA.[2018] SDG&E alone may record costs to the NERBA related to Municipal Separate Stormwater Sewer Systems and the phase-out of Polychlorinated Biphenyls.[2019]

28.1. SoCalGas Non-Shared O&M

SoCalGas requests the following costs for Non-Shared Environmental Services O&M totaling $25.809 million (in 2021 $000) for Test Year 2024, a $2.142 million increase over the $23.668 million recorded in 2021.[2020]

Table 28.1
Environmental Services Non-Shared O&M (in $000)

Category	2021 Recorded	2024 Estimated	Change
Non-Shared Environmental Compliance	7,230	9,126	1,896
Non-Shared NERBA	16,438	16,684	246
Total	**23,668**	**25,809**	**2,142**

The breakdown of SoCalGas's Non-Shared Environmental Compliance costs is as follows.[2021]

Table 28.2
SoCalGas Non-Shared Environmental Compliance Costs (in $000)

Category	2021 Recorded	2024 Estimated	Change
Environmental Services Director	272	272	0
Environmental Field Services	1,265	1,552	287
Environmental Programs	2,419	3,024	605
Planning, Cultural, & Natural Resources	1,449	1,936	487

2018 SCG Ex-20 at AJG-3; SDG&E Ex-24 at BAS-20.

2019 SDG&E Ex-24 at BAS-20.

2020 Sempra Opening Brief at 603.

2021 SCG Ex-20 at AJG-11.

Category	2021 Recorded	2024 Estimated	Change
Major Project Support	267	467	200
Air Quality/GHG	1,558	1,875	317
Total	**7,230**	**9,126**	**1,896**

SoCalGas uses a base-year methodology for most of its Environmental Services forecasts.[2022] However, SoCalGas states that it applies year-over-year change average (2010-2021) to forecast the AB 32 Administrative Fees portion of its NERBA costs because it historically undergoes a wide range of year-over-year fluctuations, and applying three- or five-year averages yields unreasonable forecasts.[2023]

28.2. SDG&E Non-Shared O&M

SDG&E requests costs for Non-Shared Environmental Services O&M and the San Onofre Nuclear Generating Station (SONGS) totaling $9.985 million, representing an increase of $1.480 million compared to $8.505 million recorded in 2021.[2024] SDG&E breaks down these costs as follows:[2025]

Table 28.3
SDG&E Non-Shared Environmental Services and SONGS O&M ($000)

Category	2021 Adjusted-Recorded	2024 Estimated	Change
Environmental Services Director	186	186	0
Environmental Field Operations	1,237	1,398	161
Hazardous Materials & Waste Management	1,728	1,874	146
Site Assessment & Mitigation	108	108	0

2022 SCG Ex-20 at AJG-10; SCG Ex-220 at AJG-17; SCG Ex-220 at AJG-17; SCG Ex-220 at AJG-20.

2023 SCG Ex-20 at AJG-18.

2024 Sempra Opening Brief at 603.

2025 SDG&E Ex-24 at BAS-9.

Category	2021 Adjusted-Recorded	2024 Estimated	Change
Environmental Lab	730	852	122
Environmental Programs	636	900	264
Natural Resources and Post Construction	531	802	271
Environmental Permitting & Project Management	256	328	72
Sustainability Program and Strategies	436	586	150
NERBA	1,442	1,403	(39)
SONGS	1,216	1,540	324
Total	**8,505**	**9,976**	**1,471**

SDG&E states that it uses a base-year methodology for most of the Environmental Services forecasts because the most recent year of recorded costs is the most representative of current departmental activity and historical averages would not reflect future needs.[2026] SDG&E states that it uses a zero-base methodology to forecast SONGS-related costs because these represent a pass-through of SCE's recoverable amounts billed to SDG&E.[2027]

28.3. SDG&E SONGS Recovery Proposal

SDG&E requests costs related to SONGS because it retains a 20 percent ownership interest, with SCE owning the other 80 percent.[2028] SONGS closed in June 2013. Thus, the GRC only addresses non-decommissioning costs: Marine Mitigation and Worker's Compensation.[2029] Marine Mitigation costs support efforts at the San Dieguito Wetlands and Wheeler North Reef aimed at addressing turbidity effects caused by the movement of ocean water used to cool SONGS

[2026] SDG&E Ex-24 at BAS-8.

[2027] SDG&E Ex-24 at BAS-24.

[2028] SDG&E Ex-24 at BAS-24.

[2029] SDG&E Ex-24 at BAS-24.

when it was still in operation.[2030] Worker's Compensation expenses include open claims under SCE's Master Insurance Program and self-insured worker's compensation program, over which SDG&E retains responsibility as a co-owner of SONGS.[2031] Historically, SCE has sponsored Marine Mitigation and Worker's Compensation in its GRC, then SDG&E has intervened in SCE's GRC to address its 20 percent ownership interest in SONGS costs.[2032]

However, starting in 2024, SDG&E proposes forecasting and recovering SONGS costs in its own GRC rather than intervening in SCE's GRC.[2033] SDG&E proposes using the approved Post Test Year mechanisms from its GRC case for attrition year recovery. In support of its proposal, SDG&E states that (1) costs are balanced and tracked in the SONGS Balancing Account and Marine Mitigation Memorandum Account wherein over- or under-collection can be refunded to ratepayers; (2) costs can easily be forecast using a zero-based or historical average method; and (3) SDG&E forecasting costs in its own GRC removes its administrative burden of intervening.[2034]

28.4. IT Capital - Environmental Management System

SDG&E requests costs for its Environmental Management System project to maintain compliance documentation and sustainability data in a centralized database.[2035] SDG&E's IT organization sponsors these costs,[2036] which are thus

[2030] SDG&E Ex-24 at BAS-25.

[2031] SDG&E Ex-24 at BAS-26.

[2032] SDG&E Ex-24 at BAS-27.

[2033] SDG&E Ex-24 at BAS-27.

[2034] SDG&E Ex-24 at BAS-27.

[2035] SDG&E Ex-24 at BAS-16.

[2036] SDG&E Ex-24 at BAS-16.

incorporated into this decision's Information Technology section as part of the uncontested discussion and not addressed in this Section.

28.5. Party Positions

No intervenor contests the forecasts or methodologies that SoCalGas and SDG&E provide.[2037]

28.5.1. TURN

TURN recommends changing the NERBA from a two-way balancing account to a one-way balancing account.[2038] This is part of TURN's proposal to generally eliminate two-way balancing accounts, contending that they enable utilities to recover large amounts of above-authorized spending via Advice Letters with little to no review of why costs exceed the amounts authorized in the GRC.[2039] TURN also states that two-way balancing accounts incentivize cost overruns, reduce transparency, and discourage utility management from deploying their acumen to address higher-than-expected costs.[2040] Instead, TURN advocates replacing the two-way NERBA with a one-way balancing account that may be complemented with a memorandum account for above-authorized expenditures when necessary.[2041]

28.5.2. SoCalGas and SDG&E Reply

SoCalGas and SDG&E oppose altering the NERBA, stating that it is necessary to accommodate costs for which there is uncertainty regarding the scope of compliance requirements and the potential for incurring significant

[2037] Sempra Opening Brief at 604.

[2038] Sempra Opening Brief at 605.

[2039] TURN Ex-15 at 12.

[2040] TURN Ex-15 at 14-15.

[2041] TURN Ex-15 at 11.

incremental costs associated with new environmental regulations.[2042] SoCalGas and SDG&E call TURN's criticisms of two-way balancing accounts unfounded, arguing that they protect utilities from undercollection, protect customers from overcollection, provide transparency, and allow utilities to recover actual costs of providing service.[2043] Regarding the standard of review, SoCalGas and SDG&E argue that the Commission and stakeholders have the opportunity to review NERBA costs for reasonableness through the utilities' annual regulatory accounts update advice letter.[2044] Finally, SoCalGas and SDG&E assert that a two-way balancing account reduces the regulatory burden and resolves overcollections and undercollections in a timely manner.[2045]

28.6. Discussion

28.6.1. O&M Costs

We find it reasonable for SoCalGas to use a base-year methodology to forecast most of its Environmental Services costs and a year-over-year change average to forecast the AB 32 component of its NERBA costs. Additionally, we find it reasonable for SDG&E to use a base-year methodology to forecast its Environmental Services costs, with the exception of its $1.540 million SONGS forecast for the reasons discussed in Section 28.6.2 below. No intervenor contests these costs. Accordingly, we adopt SoCalGas's forecast totaling $25.809 million and we reduce SDG&E's forecast of $9.985 million by $1.540 million to $8.445 million for Test Year 2024.

[2042] Sempra Opening Brief at 605-606.

[2043] Sempra Opening Brief at 606.

[2044] Sempra Opening Brief at 606.

[2045] Sempra Opening Brief at 606.

28.6.2. SONGS Recovery

While no intervenor contests SDG&E's SONGS recovery proposal,[2046] the Commission finds that SDG&E has not met its burden of proof to demonstrate that this new SONGS recovery proposal is necessary. In the limited testimony presented on this topic, SDG&E's only stated reason for the requested change is to "eliminate the administrative burden of intervening in SCE's cases" which the Commission deems insufficient.[2047] We have concerns that this proposal could cause confusion in the forecasts for these items and, if there is a mismatch or change in forecasts between SDG&E and SCE GRCs, this process could create increased administrative burden and a risk of over-recovery for one or both of the IOUs. If SDG&E wishes to pursue this proposal in its next GRC, it should at a minimum demonstrate whether the proposal improves SONGS forecast accuracy and whether and how it reduces administrative costs and burdens. SDG&E should additionally detail how it would deal with mismatched or changing forecasts between its own GRC and SCE's. SDG&E's request to implement a new SONGS recovery proposal is denied, as is the requested $1.540 million for Marine Mitigation and Worker's Compensation costs which SDG&E can seek to recover by intervening in the SCE GRC as it has historically done under the existing SONGS cost recovery process.

28.6.3. NERBA

We agree with TURN that converting the NERBA from a two-way balancing account to a one-way balancing account with an associated memorandum account alleviates the possibility of significant above-authorized spending being recovered in rates under a less stringent reasonableness review.

[2046] Sempra Opening Brief at 604.

[2047] SDG&E Ex-24 at BAS-27.

To ensure that the utilities may recover reasonable environmental regulatory costs that are too uncertain to accurately forecast through traditional means, we adopt the NERBA forecasts provided for this GRC cycle and authorize SoCalGas and SDG&E to record any additional costs to a memorandum account.

28.7. Summary

We authorize $25.809 million in costs for SoCalGas's Environmental Services and $8.445 million for SDG&E's Environmental Services. We also deny SDG&E's proposal, beginning in 2024, to incorporate SONGS-related costs for Marine Mitigation and Worker's Compensation into its own GRC instead of intervening in SCE's GRC proceeding. Regarding the NERBA, we will alter the balancing account to become a one-way balancing account, and authorize any costs incurred surpassing the forecast amounts to be recorded in a New Environmental Regulation Memorandum Account.

29. Information Technology

Sempra Utilities requests cost recovery for Information Technology (IT), supporting O&M and capital projects.[2048] The IT O&M costs have been categorized into Applications, Infrastructure, and IT Support.[2049]

29.1. SoCalGas IT O&M

SoCalGas requests $56.783 million for IT O&M (Non-Shared and Shared) costs for the 2024 Test Year, representing a $7.075 million increase from the 2021 Base Year. [2050] SoCalGas uses 2021 costs as a base to estimate future O&M costs, which are incurred to adjust for changes in technology and cloud

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[2048] Sempra Opening Brief at 607.

[2049] Sempra Opening Brief at 607.

[2050] Sempra Opening Brief at 618.

computing.[2051] SoCalGas contends that a Base Year forecasting method is better than historical averages. Its Non-Shared O&M forecasts are $29.521 million, $5.511 million higher than the 2021 Base Year, and Shared O&M forecasts for IT are $27.263 million, $1.564 million more than the 2021 Base Year. [2052] Using a base-year method to account for new technologies is reasonable, and no intervenor has opposed SoCalGas's forecasts.

The decision authorizes $56.783 million in total O&M costs related to SoCalGas IT for the 2024 Test Year.

29.2. SoCalGas IT Capital

29.2.1. SoCalGas IT Capital Summary

SoCalGas forecasts $657.032 million in total IT capital expenses.[2053] Its forecast relies on a zero-based methodology.[2054] Expenses stem from 123 IT capital projects that SoCalGas proposes in its application; the IT division sponsors 48 projects (see Category J), while other business units sponsor the other 75.[2055] Altogether, SoCalGas's IT capital request (in 2021 $000) is as follows:[2056]

Table 29.1
SoCalGas IT Capital Summary

Category	Estimated 2022	Estimated 2023	Estimated 2024	Total
A. Administrative & General	7,953	51,758	32,416	**92,127**

[2051] Sempra Opening Brief at 607-610.

[2052] Sempra Opening Brief at 619.

[2053] Sempra Opening Brief at 618.

[2054] SCG Ex-21-R-E at TLB/WJE-25.

[2055] Sempra Opening Brief at 619.

[2056] SCG Ex-21-R-E at TLB/WJE-23.

Category	Estimated 2022	Estimated 2023	Estimated 2024	Total
B. Customer Services – Field and Advanced Meter Operations	14,007	12,331	18,180	**44,518**
C. Customer Services – Office Operations	14,522	20,657	15,763	**50,942**
D. Customer Services – Information	3,586	2,565	0	**6,151**
E. Gas Distribution	0	1,835	1,835	**3,670**
F. Gas Engineering	1,053	0	0	**1,053**
G. Gas System Staff & Technology	26,295	41,959	34,399	**102,653**
H. Gas Transmission Operations and Construction	1,162	95	0	**1,257**
I. People and Culture Department	6,705	7,503	7,582	**21,790**
J. Information Technology	148,011	71,067	54,510	**273,588**
K. Safety & Risk Management Systems	12,168	8,911	8,439	**29,518**
L. Supply Management & Supplier Diversity	17,697	10,365	1,703	**29,765**
Total	**253,159**	**229,046**	**174,827**	**657,032**

29.2.2. Party Positions

Cal Advocates and TURN recommend reducing costs related to certain IT capital projects. The intervenors' forecasts are summarized (in 2021 $000) and compared with SoCalGas's below.[2057]

[2057] Sempra Opening Brief at 618.

Table 29.2
SoCalGas and Intervenor IT Capital Comparison

	Estimated 2022	Estimated 2023	Estimated 2024	Total	Variance to SoCalGas
SoCalGas	253,159	229,046	174,827	**657,032**	0
Cal Advocates	215,271	186,164	152,265	**553,700**	(103,332)[2058]
TURN	244,883	204,626	146,907	**596,416**	(60,616)

29.2.2.1. Cal Advocates

First, Cal Advocates recommends adopting SoCalGas's actual recorded costs for IT capital projects in 2022, $215.271 million, rather than its forecast totaling $253.159 million.[2059] This results in a downward adjustment of $37.888 million for 2022. Second, Cal Advocates recommends removing costs for the Systems Applications Products (SAP) Transformation Project, sponsored by the Administrative & General division.[2060] This decreases SoCalGas's IT capital request by $42.882 million in 2023 and $22.562 million in 2024.[2061] Cal Advocates argues that SoCalGas did not provide calculations supporting how it determined those amounts nor sufficient business justification. Additionally, Cal Advocates questions whether SoCalGas's timeline for the project is reasonable given its complexity and projected 2024 completion date.[2062]

2058 Cal Advocates Opening Brief at 239. Sempra's Opening Brief shows $247.991 million, which only reflects Cal Advocates' recommended removal of the SAP Transformation Project. The table has been updated to reflect Cal Advocates' recommendation to adopt $215.271 million for 2022 based on actual recorded data and the resulting actual variance totaling $103.332 million.

2059 Cal Advocates Opening Brief at 239.

2060 Cal Advocates Opening Brief at 239.

2061 Cal Advocates Opening Brief at 239.

2062 Cal Advocates Opening Brief at 239.

29.2.2.2. TURN

TURN opposes authorizing the recovery of capital costs for the CCC Technology Modernization Project,[2063] Advanced Meter Head End and Meter Data Management System Next Generation/AclaraONE Project, [2064] and PACER WFM Replacement Project/VistaOne.[2065], [2066]

TURN recommends removing all three projects because SoCalGas fails to provide business cases, cost-benefit analyses, and quantification of potential benefits justifying the expenses.[2067] Furthermore, TURN alleges that SoCalGas's testimony and workpapers exclude projected savings resulting from these projects.[2068] TURN argues that it would be unreasonable to authorize the requested capital costs without including these savings, as shareholders would benefit from the returns on the capital and increased profits from operational efficiencies.[2069] Additionally, TURN points out that SoCalGas requests escalating capital dollars through 2027 even though the projects are expected to end in 2024.[2070]

29.2.2.3. SoCalGas Reply

SoCalGas argues that its zero-based forecast fully justifies its IT capital costs, the Commission's Rate Case Plan dictates basing forecasts on data from a

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2063 SCG Ex-15-R-2E at BMS-47.

2064 SCG Ex-15-R-2E at BMS-47.

2065 Sempra Opening Brief at 622-626.

2066 SCG Ex-14-R at DJR-45.

2067 TURN Ex-09-2R at 8-10, 13-17.

2068 TURN Ex-09-2R at 10, 14, 16.

2069 TURN Ex-09-2R at 16-17.

2070 TURN Ex-09-2R at 10, 14, 16.

time before the application, and Cal Advocates provides no support for adopting recorded costs besides the lower amount.[2071]

Regarding Cal Advocates' proposal to deny costs for the SAP Transformation, SoCalGas argues the project is well-supported using cost estimates from subject matter experts and results from the request for proposals process where applicable.[2072] SoCalGas also rejects Cal Advocates' concern that the estimated project timeline may be unreasonable.[2073]

SoCalGas opposes TURN's recommendations to exclude costs for the CCC Technology Modernization Project, Advanced Meter Head End and Meter Data Management System Next Generation/AclaraONE Project, and PACER WFM Replacement Project/VistaOne.[2074] It argues that its testimony provides sufficient justification and that upgrades are necessary to avoid risks from IT obsolescence.[2075]

29.2.3. SoCalGas IT Capital Discussion

29.2.3.1. Contested Issues

29.2.3.1.1. A&G – SAP Transformation

We agree with Cal Advocates that SoCalGas lacks strong evidence to show how it estimated $70.612 million in capital costs for the SAP Transformation project.

2071 Sempra Reply Brief at 448-450.

2072 Sempra Opening Brief at 621.

2073 Sempra Opening Brief at 622.

2074 Sempra Opening Brief at 622.

2075 Sempra Opening Brief at 623-627.

The SAP Transformation project is sponsored under Administrative and General (Exhibit SCG-29), wherein SoCalGas states that the specific details on project costs can be found in capital workpapers (Ex. SCG-21-CWP, 25 00756L).

SoCalGas projected $5.168 million in capital costs for 2022 ($1.041 million in labor and $4.127 million in non-labor costs). In contrast, the actual spending was approximately 50 percent less than the forecast at $2.128 million ($40,000 in non-labor costs and $2.088 million in labor costs). However, there is a lack of sufficient evidence to show how 2023 and 2024 zero-based budgets were estimated.

The workpaper is a one-page generic description of what an SAP system upgrade entails and the general efficiency gained from such a project.[2076] Merely because SoCalGas believes it developed its project cost estimates based on subject matter experts and proprietary vendor input does not make the cost estimates just and reasonable.[2077] The absence of tangible evidence to justify significant capital expenditure is the core issue, and relying solely on expert opinions and vendor information is inadequate for such a large sum.

Regarding the timeline, SoCalGas asserts that because SAP has announced the end of support for the current SAP platform version by 2027, funding the transition to the new SAP platform is reasonable.[2078] Based on this information, commencing the project in 2021 provides a reasonable time frame to complete the deployment of a new operational SAP core system. [2079] However, Cal Advocates is concerned that the large project scope and significant costs increase the likelihood

[2076] SCG Ex-21-CWP-R at 14.

[2077] CA Ex-11-WP at File 26 – DR PAO-SCE-026-LMW Q1a Attachments SoCalGas Response 1a.

[2078] SCG Ex-221 at BG-WJE–5.

[2079] SCG Ex-21-CWP-R at 14.

of delay.[2080] Our timeline review shows business case approvals, a draft RFP, learning designs, learning realizations, initiation, execution, monitoring, and organizational change management.[2081] This project is forecasted to be complete by year-end 2024 in an environment where SoCalGas proposes starting and completing over 120 projects with distinct IDs and descriptions.

SoCalGas argues that it has demonstrated by a preponderance of the evidence the estimated costs, and the need for the project.[2082]

While we support the project, we aim to strike a fair and reasonable balance for the utility and ratepayers. We decline to remove the SAP Transformation project, as suggested by Cal Advocates, because of SAP's critical role in the utility's day-to-day operations. While SoCalGas has provided some evidence, a more detailed breakdown of the estimated costs is necessary to ensure their accuracy. We are concerned that the proposed costs may be overestimated, especially considering the actual spending and forecasted costs.

Instead, we lower the cost recovery in this GRC to reflect the lack of sufficient evidence to show how the costs were estimated.

Therefore, we authorize a cost cap of $51.212 million in capital costs for the SAP Transformation project: $2.128 million in 2022, $32.162 million in 2023, and $16.922 million in 2024.[2083]

After carefully considering the project's impact, the cost implications for the ratepayers, and SoCalGas's failure to meet its burden of proof to show its forecast

[2080] CA Ex-11 at 65.

[2081] CA Ex-11 at 65, Table 11-33.

[2082] Sempra Opening Comments at 18.

[2083] The cap is based on the 2022 actual costs and a 25 percent reduction to the zero-based budgets for 2023 and 2024.

is just and reasonable by a preponderance of the evidence, we adopt the 2022 recorded costs instead of the forecasted cost estimates. Additionally, we authorize 75 percent of the proposed zero-based budget for 2023 and 2024 for the SAP Transformation project to reflect SoCalGas's lack of support for its estimates.[2084]

29.2.3.1.2. Customer Service Field and Advanced Meter Operations – Portable Automated Centralized Electronic Retrieval Workforce Management System (PACER WFM)

SoCalGas requests $7.024 million in 2022, $11.907 million in 2023, and $13.773 million in 2024 for the PACER WFM system.[2085] The WFM mainframe is the central system for the Customer Service Field Operations and "drives what field work can be done, by whom and when," supporting Capacity Planning, Resource Management, Appointment Booking, Order Routing, and Dispatch.

We agree with TURN that SoCalGas failed to adequately substantiate its opening testimony by not providing the relevant business case information with cost-benefit analysis.[2086]

While we understand the need to upgrade and modernize the workforce management system, these decisions must also consider the cost impact to ratepayers. Based on the utility's data request response on cost-benefit analysis, TURN shows that SoCalGas is expected to reap $176 million of benefits from this project, including $7.1 million in 2026 and $11.7 million in 2027.[2087] According to TURN, if the Commission approves the project, O&M savings in 2026 and 2027

[2084] SCG Ex-21-CWP-R at BG-WJE-8.

[2085] Sempra Opening Brief at 626.

[2086] TURN Opening Brief at 247-248.

[2087] TURN Opening Brief at 245-246.

should be considered, and the 2024 O&M forecast should be proportionally reduced.[2088] We agree with TURN and find it reasonable to reduce the 2024 Test Year forecast by the estimated savings (a fourth of the projected benefit or $3.65 million) while allowing the utility to pursue the project.[2089] Therefore, the decision adopts $7.024 million in 2022, $11.907 million in 2023, and $13.773 million in 2024 for PACER WFM. SoCalGas shall reduce its O&M expense by $3.65 million.

29.2.3.1.3. Customer Contact Center (CCC) Technology Modernization Project

SoCalGas forecasts $1.253 million for 2022, $12.512 million for 2023, and $2.141 million for 2024 for the CCC Technology Modernization project.[2090] The project aims to replace the on-premises contact center technology platforms with a cloud solution, reducing technology complexity and improving maintainability and reliability.[2091] The CCC Technology Modernization mitigates safety risks identified in the 2021 RAMP Report: SCG-CFF-4 Foundational Technology Systems – 2: Network & Voice System Resiliency.[2092] The estimated RAMP capital forecasts for 2022, 2023, and 2024 are $1,253,000, $12,512,000, and $2,141,000, respectively.[2093]

While TURN raised concerns about SoCalGas's forecast, additional documentation included in the data responses to TURN on the business case, cost-benefit analysis, and project timeline demonstrates the value of addressing technical obsolescence and improving capabilities. SoCalGas's internal documents

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[2088] TURN Opening Brief at 247.

[2089] TURN Opening Brief at 247.

[2090] SCG Ex-15-R, Ch. 15 at BMS-48.

[2091] SCG Ex-15-R, Ch. 15 at BMS-48.

[2092] SCG Ex-15-R, Ch. 15 at BMS-48, BMS-49 at Table BMS-45.

[2093] SCG Ex-15-R, Ch. 15 at BMS-49 at Table BMS-45.

(which it did not include in its direct testimony or workpapers) show that SoCalGas is expected to reap $25 million of benefits over five years as a result of this project, including $4.6 million in 2026 and $5.0 million in 2027.[2094]

However, we also agree with TURN that SoCalGas did not account for any operational savings resulting from the project. Ratepayers should benefit from the operational efficiencies that SoCalGas claims will result from this project. Therefore, we agree with TURN's recommendation to reduce the O&M expenses by a fourth of the projected benefit, or $2.4 million.

We adopt capital expenditure of $1.253 million in 2022, $12.512 million in 2023, and $2.141 million in 2024 while reducing the CCC Operations forecast by $2.4 million.

29.2.3.1.4. Advanced Meter HeadEnd and Meter Data Management System Next-Generation (AclaraONE)

The AclaraONE project aims to modernize SoCalGas Advanced Meter systems by upgrading HeadEnd and Meter Data Management System to the next generation of Aclara technology.[2095] AclaraONE mitigates safety risks identified in the 2021 RAMP Report: SCG-CFF-4 Foundational Technology Systems – 4: Gas Operations Systems Resiliency. The estimated RAMP capital forecasts for 2022, 2023, and 2024 are $0, $0, and $12.006 million, respectively.[2096]

TURN opposes the project, stating that SoCalGas did not make a business case, cost-benefit analysis, or quantification of potential benefits.[2097] While we understand TURN's perspective, we find that SoCalGas's request for an

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[2094] TURN Opening Brief at 269-270.

[2095] SCG Ex-15-R, Ch. 15 at BMS-49.

[2096] SCG Ex-15-R, Ch. 15 at BMS-50 at Table BMS-46.

[2097] TURN Opening Brief at 271.

AclaraONE software upgrade to the Cloud is necessitated by the vendor's move to Cloud-based products. The new AclaraONE is now Cloud-based, and the vendor will no longer support the onsite version beyond bug fixes, thus creating reliability and security risks and expensive maintenance and support costs for the end-of-support product.[2098]

Given the need to upgrade SoCalGas's Advanced Meter Systems to the next generation of the Aclara software, we find it reasonable to authorize SoCalGas's request for $12.006 million in 2024 for the capital project.

29.2.3.2. SoCalGas Capital Uncontested Issues

SoCalGas requests IT capital costs for the following projects across various categories. No intervenor opposes the forecasts. Accordingly, we adopt SoCalGas's request for $239.713 million for 2022, $161.744 million for 2023, and $124.345 million for 2024 in uncontested costs.

Table 29.3
SoCalGas: Uncontested Capital Projects

SoCalGas Capital Projects Uncontested Category	2022 Forecast (000's)	2023 Forecast (000's)	2024 Forecast (000's)	Totals
A. A&G ---				
• Financial Risk Mgmt-Risk Based Decision Making	$1,575	$6,752	$5,177	$13,504
• GRC & Regulatory Complex Search	$1,211	$0	$0	$1,211
• SAP S4/HANA Business Optimization	$0	$2,124	$4,677	$6,801
B. CS-FIELD AND ADVANCED METER OPERATION ---				
• Call Ahead SMS/Text-based Customer Notification	$1,129	$0	$0	$1,129
• PACER Mobile Upgrade Phase 2	$2,982	$0	$0	$2,982
• Data Analysis Reporting Tool (DART) Upgrade	$218	$0	$0	$218
• DART Upgrade Phase II	$596	$298	$0	$894
• AM Data Collector Unit Hardware Refresh	$0	$0	$4,407	$4,407
• AM Network Exceptions Mgmt & Operations	$1,025	$0	$0	$1,025
• AM Web Portal for 3rd Party Attachments	$264	$0	$0	$264
• AM Pole Inspection Upgrade	$300	$125	$0	$425
• Meter Set Assembly Inspection Enhancement	$469	$0	$0	$469

[2098] Sempra Opening Brief at 624.

SoCalGas Capital Projects Uncontested Category	2022 Forecast (000's)	2023 Forecast (000's)	2024 Forecast (000's)	Totals
C. CS-OFFICE OPERATIONS ---				
• Centralized Customer Data Mgmt.	$1,753	$1,871	$1,471	$5,095
• Gas Measurement and Analysis System (GMAS)	$3,361	$4,839	$0	$8,200
• Senate Bill 711 Bill Volatility Project	$1,497	$1,182	$0	$2,679
• Project Monaco	$649	$159	$0	$808
• Speech Analytics and Workforce Mgmt Upgrades	$3,729	$0	$0	$3,729
• Major Market to Cloud (M2C) Billing Viewer	$1,175	$0	$51	$1,226
• Advanced Meter HeadEnd and Meter Data Management System (MDMS) Refresh	$412	$0	$0	$412
• Intelligent Workload Distribution (IWD)	$173	$0	$0	$173
• CQMX Replacement	$518	$94	$94	$706
D. CS-Information	$3,586	$2,565	$0	$6,151
E. Gas Distribution	$0	$1,835	$1,835	$3,670
F. Gas Engineering	$1,053	$0	$0	$1,053
G. Gas System Staff & Technology	$26,295	$41,959	$34,399	$102,653
H. Gas Transmission Ops and Construction	$1,162	$95	$0	$1,257
I. People and Culture Department	$6,705	$7,503	$7,582	$21,790
J. Information Technology	$148,011	$71,067	$54,510	$273,588
K. Safety & Risk Management Systems	$12,168	$8,911	$8,439	$29,518
L. Supply Management & Supplier Diversity	$17,697	$10,365	$1,703	$29,765
Total	**$239,713**	**$161,744**	**$124,345**	**$525,802**

29.2.3.3. Summary SoCalGas Capital Contested Costs

Table 29.4
SoCalGas Capital Contested Costs – Adopted Amounts

SoCalGas Capital Projects Contested Category	2022 PD Adopted (000s)	2023 PD Adopted (000s)	2024 PD Adopted (000s)	Totals (000s)
A. A&G - SAP Transformation	$2,128	$32,162	$16,922	$51,212
B. CS-Filed and Advanced Meter Operation - PACER WFM Replacement Project	$7,024	$11,907	$13,773	$32,704
C. CS-Office Operations - CCC Technology Modernization	$1,253	$12,512	$2,141	$15,906
D. CS-Office Operations - Advanced Meter HeadEnd and Meter Data Management System Next-Generation (AclaraONE)	$0	$0	$12,006	$12,006
Total	**$10,405**	**$56,581**	**$44,842**	**$111,828**

29.3. SDG&E IT O&M Summary

SDG&E requested $110.418 million in total IT O&M costs, a 12.7 percent or $12.423 million increase over 2021 Base Year costs.[2099] These costs support applications, hardware, and software used for various business functions.[2100] SDG&E states it applied a base-year methodology to its O&M forecasts to capture new computing trends.[2101]

SDG&E forecasts $27.113 million in Non-Shared IT O&M costs for the 2024 Test Year, an increase of $7.305 million compared to recorded costs of $19.808 million in 2021.[2102] SDG&E forecasts $83.305 million in Shared O&M IT costs, which is $5.118 million above recorded 2021 costs of $78.187 million.[2103]

29.4. SDG&E O&M IT Costs

29.4.1. Non-Shared Costs

This decision adopts the uncontested Non-Shared O&M IT cost forecasted at $6.731 million for Infrastructure activities. The Non-Shared 2024 Test Year forecast is lower by $2.399 million compared to 2021 Base Year costs. We find it just and reasonable to adopt the forecast.

For the contested portion of the Non-Shared O&M IT costs, SDG&E requests $20.382 million for its Non-Shared IT Applications for the 2024 Test Year, which includes $11.015 million for Customer Information System (CIS) Operations resulting from the CIS Replacement project.[2104] SDG&E also requests

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2099 SDG&E Ex-25 at TLB/WJE-1.

2100 SDG&E Ex-25 at TLB/WJE-1-TLB/WJE-2.

2101 SDG&E Ex-25 at TLB/WJE-12.

2102 Sempra Opening Brief at 629.

2103 Sempra Opening Brief at 631.

2104 SDG&E Ex-25-WP at 5.

that the Customer Information System Balancing Account (CISBA)[2105]and Transition, Stabilization and Organizational Change Management Balancing Account (TSOBA) be closed effective December 31, 2023, and any remaining balance be transferred to the Electric Distribution Fixed Cost Account (EDFCA) for electric and the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) for gas.[2106]

Cal Advocates recommends reducing the 2024 Test Year Non-Shared O&M IT cost forecast by $11.015 million because it argues that SDG&E uses the 2021 Base Year of $10.678 million as the forecast and then incrementally increases the forecast by $9.704 million.[2107] Cal Advocates also opposes closing the CISBA and recommends that SDG&E continue booking CIS costs to the CISBA. It further contends that SDG&E did not provide any actual costs for 2022 when asked, nor support its position with actual 2022 costs, and continues to base its estimate on a partial year of 2021 costs.[2108]

The issues before us are whether SDG&E's 2024 Test Year forecast for Non-Shared IT Applications, including CIS costs, is reasonable and whether it is reasonable to close the CISBA and TSOBA effective December 31, 2023, and transfer any remaining balance to the EDFCA for electric and the CFCA and NFCA for gas.

2105 Pursuant to D.18-08-008, the CISBA tracked actual O&M costs, actual capital expenditures, Allowance for Funds Used During Construction, Construction Work in Progress, and property taxes until the new CIS was placed in service and the CISBA balance was converted to a revenue requirement.

2106 SDG&E Ex-16 at TCS-6-7.

2107 Cal Advocates Opening Brief at 241-242.

2108 Cal Advocates Opening Brief at 241.

To address these questions, we must first review the status of the CIS Replacement program. In D.18-08-008, we authorized the CIS Replacement program and required SDG&E to create and establish a CISBA and TSOBA to record implementation costs for the new CIS.[2109] SDG&E selected the SAP Customer Relationship and Billing system to replace its legacy CIS and related subsystems as part of the CIS Replacement.[2110] The new CIS went live in April 2021, and amortization of the revenue requirement into rates was approved on February 10, 2022.[2111]

The Q1 2022 undercollected balance for CISBA was $7.571 million.[2112] The Q1 2022 undercollected balances for TSOBA were $19.606 million for electric and $10.557 million for gas.[2113]

We agree with SDG&E's response that ongoing O&M and capital costs for the new CIS should not be recorded to the CISBA now that the CIS is operational.[2114] We also agree that since the implementation activities were complete in 2021, the account is closed to new charges, and beginning in the 2024 Test Year, SDG&E should recover the revenue requirement currently recovered through CISBA in base rates.[2115] It is reasonable to close the CISBA and TSOBA accounts and transfer their remaining balances to EDFCA, CFCA, and NFCA. As of the effective date of this decision, the entire CISBA balance and TSOBA balance

[2109] SDG&E Ex-16 at TCS-2.

[2110] SDG&E Ex-16 at TCS-3.

[2111] SDG&E Ex-16 at TCS-4.

[2112] SDG&E Ex-43-R-E at JK-3.

[2113] SDG&E Ex-43-R-E at JK- 7-8.

[2114] Sempra Opening Brief at 630.

[2115] Sempra Opening Brief at 630; SDG&E Ex-16 at TCS-6.

for electric will be transferred to EDFCA, and the TSOBA balance for gas will be transferred to CFCA/NFCA.[2116]

Therefore, the question remaining is whether SDG&E's forecasting methodology for Non-Shared IT Applications, including CIS operations, is just and reasonable for the 2024 Test Year forecast.

SDG&E claims that ongoing Non-Shared O&M IT costs for the new CIS are incorporated into the 2021 Base Year and subsequent forecasts.[2117] Because the Base Year only included three months of actual O&M costs post-CIS implementation, SDG&E normalized the Base Year to reflect a full year's cost for CIS operations.[2118] Based on the available information, we find it reasonable to normalize the 2021 Base Year costs.

However, SDG&E fails to justify the substantial upward adjustments adequately.[2119] While SDG&E outlines the functions supported by its Non-Shared IT cost request, it does not provide a detailed breakdown of how these funds are allocated across various cost categories.[2120] Merely stating that "adding the ongoing costs for CIS replacement on top of the amount included in the Base Year" does not meet the burden of proof to justify the reason for upward adjustment for ratepayers to fund the expenses.[2121] Additionally, the near-doubling of FTEs from 2021 to 2022 lacks sufficient explanation in the workpapers and testimony. In comments on the proposed decision, SDG&E states that costs

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[2116] SDG&E Ex-43 at JK-3, JK-8.

[2117] Sempra Opening Brief at 630.

[2118] SDG&E Ex-225-E at BG-WJE-8-9.

[2119] SDG&E Ex-25-WP at 6-8.

[2120] SDG&E Ex-25-WP at 5 [*see* Activity Description without supporting cost details].

[2121] SDG&E Ex-25-WP at 6-8.

related to the external call center that was utilized due to the pause in hiring during the implementation of the new Customer Information System (CIS) to help address staffing needs were charged to the CIS replacement project until the end of 2021.[2122] This would result in an over-estimate because SDG&E plans to move away from the external call center setup. However, there is no evidence that SDG&E removed this expense from the forecast as it does not expect the external call center to continue.

Given the lack of transparency and justification, the Commission finds it reasonable to base the Non-Shared O&M IT Applications cost forecast on a six-year average, incorporating actual 2022 costs and normalized 2021 Base Year expenses, which include ongoing CIS operational costs. This method provides a more fair and reasonable cost estimate for future operations. Accordingly, we adopt $12.501 million instead of $20.382 million.

In summary, we adopt the following 2024 Test Year O&M IT cost forecast:

Table 29.5
2024 Test Year O&M Cost Forecast

Category ($000s)	2021 Adjusted-Recorded	SDG&E 2024 Test Year Estimated	PD Authorized
Applications	10,678	20,382	12,501
Infrastructure	9,130	6,731	6,731
Total	**19,808**	**27,113**	**19,232**

This decision authorizes SDG&E to close the CISBA and TSOBA accounts effective December 31, 2023, and to transfer any remaining balance to the EDFCA for electric and the CFCA and NFCA for gas.

[2122] Sempra Opening Comments at 17, SDG&E Ex-218 at 9-12.

29.4.2. Shared Costs

The forecast methodology developed for IT costs is the 2021 Base Year recorded, plus adjustments. The Shared SDG&E IT infrastructure costs also support all other Company-specific activities such as end-user computing, IT service management, and office productivity tools. The forecasting methodology and cost drivers for the incremental costs are reasonable. However, we agree with Cal Advocates that since we are removing the Smart Meter 2.0 capital project, it is reasonable to normalize Shared IT costs and remove corresponding O&M costs.[2123] SDG&E forecasted $2.176 million for Smart Meter 2.0 as part of the Shared O&M, and we deny the Smart Meter 2.0 project in this proceeding. Accordingly, SDG&E's IT Infrastructure costs are reduced to reflect this change.

The remaining costs are uncontested and should be approved.

Table 29.6
Remaining Uncontested Costs

Category	2021 Adjusted-Recorded ($000)	SDG&E 2024 Test Year Estimated ($000)	Cal Advocates Recommendation ($000)	Variance from SDG&E (Contested)
Applications	31,946	34,587	34,587	0
Infrastructure[2124]	35,845	37,634	35,458	2,176
Support	10,396	11,084	11,084	0
Total	**78,187**	**83,305**	**81,129**	**2,176**

This decision adopts $81.129 million in uncontested Shared IT O&M costs, but it removes costs related to Smart Meter 2.0, as explained below.[2125]

[2123] CA Ex-11 at 60. The O&M costs are discussed under the Customer Services–Field Operations Section of the decision.

[2124] SDG&E Ex-25 at TLB/WJE-19.

[2125] SDG&E Ex-25 at TLB/WJE-16.

29.5. SDG&E IT Capital

SDG&E forecasts $642.991 million in IT capital costs, including 58 projects sponsored by the IT division (see Category N in the table below) and 56 sponsored by other divisions.[2126] SDG&E uses a zero-based forecast methodology for IT capital projects.[2127]

29.5.1. SDG&E IT Capital Summary

In total, SDG&E's capital request (in 2021 $000) is as follows:[2128]

Table 29.7
SDG&E's Capital Request (in 2021 $000)

Category	Estimated 2022	Estimated 2023	Estimated 2024	Total
A. Administrative & General	1,800	1,265	1,265	**4,330**
B. Clean Transportation	1,125	1,459	1,612	**4,196**
C. Customer Service – Field Operations	22,833	52,849	81,418	**157,100**
D. Customer Service – Office Operations	19,233	31,353	33,557	**84,143**
E. Customer Service – Information	4,969	4,367	0	**9,336**
F. Clean Energy Innovations	1,068	2,040	897	**4,005**
G. Energy Procurement	1,915	3,060	1,811	**6,786**
H. Electric Distribution – Capital	6,782	718	0	**7,500**
I. Electric Distribution – O&M	11,963	8,728	7,578	**28,269**
J. Electric Distribution – Wildfire Mitigation and Vegetation Management	1,884	6,546	1,678	**10,108**
K. Fleet Services	466	618	330	**1,414**
L. Gas Distribution	371	632	0	**1,003**
M. Safety, Risk, and Asset Management System	20,198	24,049	21,781	**66,028**
N. Information Technology	125,405	71,109	62,259	**258,773**
Total	**220,012**	**208,793**	**214,186**	**642,991**

[2126] Sempra Opening Brief at 633.

[2127] SDG&E Ex-25 at TLB/WJE-24.

[2128] SDG&E Ex-25 at TLB/WJE-22.

29.5.2. Party Positions

Cal Advocates, TURN, and UCAN contest SDG&E's IT capital forecast and recommend adopting the following (in 2021 $000):[2129]

Table 29.8
Cal Advocates', TURN's, and UCAN's
Recommended Capital Forecast (in 2021 $000)

	Estimated 2022	Estimated 2023	Estimated 2024	Total	Variance to SDG&E
SDG&E	220,012	208,793	214,186	**642,991**	0
Cal Advocates (Opening Brief & CA Ex-11)[2130]	199,326	172,346	161,998	**533,670**	(109,321)
Cal Advocates (2022 actuals)	170,804[2131]	172.346	161,998	**505,148**	(137,843)
TURN	183,087	131,115	102,874	**417,076**	(225,915)
UCAN	Unclear	Unclear	Unclear	**Unclear**	

29.5.2.1. Cal Advocates

First, Cal Advocates recommends disallowing SDG&E's 2022 IT capital costs forecast of $220.012 million and adopting its actual-recorded 2022 costs totaling $170.804 million.[2132]

Second, Cal Advocates recommends reducing capital costs for projects sponsored by the Customer Services—Field Operations division.[2133] For Smart Meter 2.0, Cal Advocates argues that SDG&E does not substantiate the need for

[2129] Sempra Opening Brief at 633.

[2130] Cal Advocates Opening Brief at 243.

[2131] SDG&E provided actual-recorded costs for 2022 on March 13, 2023. Due to timing, Cal Advocates was not able to incorporate 2022 actuals into its initial forecast, but recommends that the recorded cost, $170.804 million, be adopted for 2022.

[2132] Cal Advocates Opening Brief at 243.

[2133] Cal Advocates Opening Brief at 208.

requested costs and recommends authorizing 50 percent of the utility's forecast.[2134]

For Field Service Delivery Scheduling & Dispatch/Data, Cal Advocates recommends removing costs for Phase 2 of the project because its estimated completion date is during the Post-Test Year period in February 2025.[2135] Finally, Cal Advocates recommends reducing costs for the Smart Meter Product/Upgrade project by adopting SDG&E's recorded 2022 costs for 2023, and disallowing costs for 2024.[2136] Cal Advocates claims that SDG&E fails to justify costs because it did not perform a cost-benefit analysis and declines to provide original dates of purchase for the software it seeks to upgrade.[2137] Cal Advocates' recommended adjustments to SDG&E's Field Operations total IT capital forecast are summarized as follows (in 2021 $000).[2138]

Table 29.9
Cal Advocates' Recommended Adjustments to SDG&E's Field Operations Total IT Capital Forecast (in 2021 $000)

	Cal Advocates			SDG&E		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**
Smart Meter 2.0	2,146	16,401	29,229	4,292	32,802	58,459
Field Service Delivery	13,400	13,400	13,400	13,400	13,839	19,296
Smart Meter Product/Upgrade	5,141	5,141	0	5,141	6,208	3,663
Total	**20,687**	**34,942**	**42,629**	**22,833**	**52,849**	**81,418**

2134 Cal Advocates Opening Brief at 209.

2135 Cal Advocates Opening Brief at 210.

2136 Cal Advocates Opening Brief at 212.

2137 Cal Advocates Opening Brief at 213.

2138 Cal Advocates Opening Brief at 208.

29.5.2.2. TURN

TURN recommends removing IT capital costs for SDG&E's Customer Services – Field Operations division.[2139] TURN states that it opposes authorizing recovery of costs related to Smart Meter 2.0 because: 1) SDG&E fails to provide a business case or cost-benefit analysis; 2) shareholders would unduly profit during an affordability crisis; 3) the gas modules and smart meters to be replaced have not reached the end of their intended 20-year useful lifespan; 4) SDG&E does not demonstrate that it is not responsible for the smart meters' increased failure rates; 5) SDG&E does not demonstrate cost effectiveness of Smart Meter 2.0; and 6) the gas modules and smart meters to be replaced retain over $100 million of book value.[2140] TURN also recommends disallowing $104 million in capital costs for Field Service Delivery Scheduling & Dispatch/Data because SDG&E has failed to justify the expense by neglecting to conduct a cost-benefit analysis and incorporate reduced operating costs resulting from the project into its forecast.[2141]

Regarding Customer Service—Office Operations, TURN recommends declining IT capital costs for the Contact Center of the Future project and the Customer Information System Replacement.[2142] TURN states that SDG&E does not demonstrate reasonable costs because it does not provide a cost-benefit analysis or business case for the Contact Center of the Future, and its proposal would allow shareholders to profit from both capital earnings and the associated cost savings.[2143] TURN offers similar critiques regarding the Customer

[2139] TURN Ex-09-2R at 23.

[2140] TURN Ex-09-2R at 23-26.

[2141] TURN Ex-09-2R at 27-28.

[2142] TURN Ex-09-2R at 30-32.

[2143] TURN Ex-09-2R at 31.

Information System Replacement and contends that the alleged ratepayer benefits duplicate those that should have resulted from the system replacement authorized in 2018.[2144]

TURN's recommended adjustments to SDG&E's IT capital forecast are summarized as follows (in 2021 $000).

Table 29.10
TURN's Recommended Adjustments to SDG&E's IT Capital Forecast

	TURN			SDG&E		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**
Smart Meter 2.0[2145]	0	0	0	4,292	32,802	58,459
Field Service Delivery[2146]	0	0	0	13,400	13,839	19,296
Contact Center of the Future[2147]	0	0	0	0	11,285	9,789
CIS Replacements[2148]	0	0	0	19,233	19,752	23,768
Total	**0**	**0**	**0**	**36,925**	**77,678**	**111,312**

29.5.2.3. UCAN

UCAN recommends adjustments to the IT capital request for Customer Service – Field Operations.[2149] Regarding Smart Meter 2.0, UCAN states that SDG&E failed to take steps like remediation to minimize stranded costs of Smart Meter 1.0, the vendor anticipates a delay due to supply chain issues, Smart Meter 2.0 meters would not be operational until at least 2026, the meters will become obsolete too soon, and SDG&E does not demonstrate ratepayer benefits or cost-

[2144] TURN Ex-09-2R at 32.

[2145] TURN Ex-09-2R at 23.

[2146] TURN Ex-09-2R at 27.

[2147] TURN Ex-09-2R at 30.

[2148] TURN Ex-09-2R at 32.

[2149] UCAN Opening Brief at 152.

effectiveness.[2150] UCAN suggests that the Commission disallow SDG&E's replacement approach because it would be more cost-effective to remove, fix, and reinstall old meters.[2151] UCAN also asks the Commission to deny SDG&E's request for a Smart Meter 2.0 balancing account, reject any request to recover costs of Smart Meter 1.0 equipment in rates, and order SDG&E to make day-of advanced meter infrastructure data publicly available.[2152] Additionally, UCAN proposes removing costs for Field Service Delivery because it contends that the beneficiaries are utility employees, not non-utility Distributed Energy Resource providers or customers.[2153]

Finally, UCAN proposes adjusting costs for several IT capital expenditures, arguing that the technology will become obsolete within two years at most.[2154] UCAN's proposed disallowances include the entire Customer Service – Office Operation category (other than Customer Energy Network), Microgrid Portal, Electric Distribution O&M Reliability & Capacity, Distributed Energy Resource Management System, Electric Grid Operations Small Capital 2024 costs, Clean Transportation IT Team 2023-2024 costs, and the entire Information Technology category except for Foundational Analytics for Safety, Compliance, and Efficiency.[2155]

[2150] UCAN Opening Brief at 152-161.

[2151] UCAN Opening Brief at 168.

[2152] UCAN Opening Brief 168-169.

[2153] UCAN Opening Brief at 169.

[2154] UCAN Opening Brief at 174-176.

[2155] UCAN Opening Brief at 174-176.

29.6. SDG&E Reply

In response to the recommendation to adopt 2022 recorded costs, SDG&E states that Cal Advocates provides no justification besides the lower actual costs and asserts that its zero-based forecast methodology is reasonable.[2156]

SDG&E also argues that Cal Advocates' IT capital recommendations should be rejected because its forecasts are inconsistent: the forecast in Exhibit CA-11 posits removing all costs for the Field Service Delivery Scheduling & Dispatch/Data and Smart Meter Product/Upgrade, while the forecast in Exhibit CA-10 only recommends removing costs for Smart Meter Product/Upgrade in 2024.[2157] Regardless, SDG&E advocates for disregarding all variations on Cal Advocates' recommended reduction because it argues that it provides sufficient evidence in testimony and workpapers to justify its forecast.[2158]

Regarding intervenors' proposals for Smart Meter 2.0, SDG&E claims that Cal Advocates' recommendation to approve only partial costs would impede efforts to prevent catastrophic gas module and electric meter failure and remediate Smart Meter 1.0 system failure.[2159] Regarding TURN's and UCAN's recommendations to remove all costs related to Smart Meter 2.0, SDG&E claims that doing so would leave thousands of customers experiencing Smart Meter 1.0 failures without a remedy and that using gas module battery replacements is not cost-effective or time-efficient.[2160] If the Commission does not grant cost recovery

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[2156] Sempra Reply Brief at 464.

[2157] Sempra Reply Brief at 466.

[2158] Sempra Reply Brief at 466.

[2159] Sempra Opening Brief at 492.

[2160] Sempra Opening Brief at 492-493.

as requested, SDG&E alternatively requests authorization to establish a balancing account to track expenditures related to mitigating Smart Meter 1.0 failures.[2161]

For Field Service Delivery Scheduling & Dispatch/Data costs, SDG&E states that Cal Advocates' recommended reduction is arbitrary and that TURN's and UCAN's desired disallowance increases risk of threats from obsolescent technology such as customer data breaches.[2162]

SDG&E opposes intervenors' proposals to reduce Smart Meter Product/Upgrade costs. It argues that Cal Advocates' decreased forecast for 2022 and 2023, as well as its suggested disallowance for 2024, does not comport with the thorough evidence SDG&E has provided and would be devastating for customers reliant on Smart Meter 1.0 systems.[2163] Similarly, SDG&E states that UCAN's proposal would force a return to manual meter reading, leading to less efficient service.[2164]

SDG&E asks the Commission to disregard TURN's and UCAN's recommendations to remove costs for the Customer Information System Replacement.[2165] SDG&E refutes TURN's contention that these system changes should have occurred with the 2018 system replacement, stating that the replacements are needed to meet new regulatory directives and could not have been known until 2021.[2166] SDG&E also claims a business case is unnecessary

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[2161] Sempra Opening Brief at 494.

[2162] Sempra Opening Brief at 496.

[2163] Sempra Opening Brief at 497.

[2164] Sempra Opening Brief at 498.

[2165] Sempra Opening Brief at 535.

[2166] Sempra Opening Brief at 534.

because the project lacks a finite timeline.[2167] SDG&E claims that, by including post-implementation costs in the GRC application, it is properly acting per the Settlement Agreement to which TURN was a party.[2168] SDG&E also calls UCAN's contention that the assets will become stranded unsubstantiated and reiterates that it could not have made these requests before April 2021, when the Customer Information System became operational.[2169]

Regarding capital costs for the Contact Center of the Future, SDG&E disagrees with TURN's proposed complete disallowance and UCAN's recommendation to remove costs for 2024.[2170] SDG&E argues that TURN ignores the benefits of replacing an out-of-date system and that its focus on the lack of business cases is misplaced because those are formed later in SDG&E's IT capital approval process.[2171] SDG&E calls UCAN's proposal unsubstantiated and criticizes its lack of alternative solutions for customers.[2172]

SDG&E disagrees with UCAN's remaining proposed removals because its costs are well-supported, and UCAN does not provide evidence that the assets requested will become obsolete during the GRC period.[2173] SDG&E also accuses UCAN of improper litigation tactics and recommends that the Commission strike portions of UCAN's opening brief containing new arguments that were not

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[2167] Sempra Opening Brief at 534.

[2168] Sempra Opening Brief at 534.

[2169] Sempra Opening Brief at 535.

[2170] Sempra Opening Brief at 533.

[2171] Sempra Opening Brief at 532.

[2172] Sempra Opening Brief at 533.

[2173] Sempra Opening Brief at 637-638.

provided in the testimony.[2174] SDG&E specifically addresses two IT division-sponsored projects, stating that the computers and virtual desktop solutions to be replaced in the Digital Workspace Project and Virtual Desktop Infrastructure Expansion Project Phase 2 pose security risks due to their impending obsolescence and thus must be replaced.[2175]

29.7. SDG&E Capital Costs

29.7.1. Contested Costs for Customer Service–Field Operations – Smart Meter 2.0

Under the Smart Meter 2.0 project, SDG&E plans to proactively replace 1.5 million electric and 900,000 gas meters with attached gas Advanced Metering Infrastructure (AMI) modules.[2176] SDG&E first seeks to replace its gas modules and then transition to electric meter replacements.[2177] SDG&E forecasts Smart Meter 2.0 for 2022, 2023, and 2024 at $4.292 million, $32.802 million, and $58.459 million, respectively, in capital costs. Smart Meter 2.0 replaces the utility's initial AMI system (Smart Meter 1.0), deployed from 2009 to 2010.[2178] Additionally, SDG&E proposes using the direct capital-related costs to establish revenue requirements for 2025-2027 and escalating those costs to be consistent with all capital costs.[2179] SDG&E forecasts PTY costs at $59.989 million, $69.169 million, and $54.163 million for 2025, 2026, and 2027, respectively.[2180] The testimony only requested $278.874 million in capital from 2022 through 2027 for

[2174] Sempra Reply Brief at 470.

[2175] Sempra Opening Brief at 637-638.

[2176] SDG&E Ex-17-R at DHT-43.

[2177] Sempra Opening Brief at 491.

[2178] SDG&E Ex-17-R at DHT-41.

[2179] SDG&E Ex-17-R at DHT-43-44.

[2180] SDG&E Ex-17-R at DHT-44.

its Smart Meter 2.0 project. Based on TURN's data request response, SDG&E's internal presentations show that the project cost is estimated at $641 million.[2181]

SDG&E proposes that if the Commission does not approve its Smart Meter 2.0 Project, the Commission should approve a two-way balancing account to track expenditures attributable to Smart Meter 1.0 failures.[2182]

This decision declines the Smart Meter 2.0 project for various reasons, including insufficient evidence of gas module failure, uncertainty of the supply chain status of Smart Meter 2.0 modules, inadequate information on replacing versus repair options, a supply chain issue of modules allowing interim repair options, and a lack of supporting evidence for analyzing and assessing project costs. Instead, SDG&E may file a separate application seeking recovery of costs for replacing Smart Meter 1.0 modules, but no revenue requirement is authorized in this proceeding.

Below is a detailed explanation of our reasoning.

Evidence presented during evidentiary hearings indicated that supply chain disruptions could delay and impact the timing and implementation of the Smart Meter 2.0 project.[2183, 2184] Additionally, it was revealed that SDG&E was aware of the possibility of replacing Smart Meter 1.0 gas module batteries prior to filing its GRC application.

SDG&E argued that it did not consider existing Smart Meter 1.0 gas module battery replacements as an alternative to its Smart Meter 2.0 request because

[2181] TURN Opening Brief at 252.

[2182] SDG&E Ex-217 at DHT-29.

[2183] *See* July 31, 2023 SDG&E's Motion in Compliance with ALJ's Request on Smart Meter Costs and Tr. Vol. 23:4015-4016.

[2184] TURN Opening Brief at 257; UCAN Opening Brief at 152.

battery replacement would not be cost-effective or serve as more than a short-term solution for the need to replace technology that is prematurely failing and is otherwise nearing the end of life.[2185] Only when the supply chain disruption for the Smart Meter 2.0 gas modules became evident did the witness acknowledge that replacing gas module batteries was being evaluated as a short-term fix due to the supply constraint for replacement Smart Meter 1.0 gas modules.

Despite the above, both battery replacement and complete gas module replacement options can face significant delays. Under these circumstances, where the optimal solution remains uncertain, approving a revenue requirement for the Smart Meter 2.0 project is not just and reasonable.

SDG&E proposes proactively replacing its current electric smart meters and gas modules, claiming a 17-year project life based on D.07-04-043.[2186] Some replacements could be premature, as SDG&E acknowledges that the manufacturer designs these meters for a 20-year lifespan.[2187] While various factors can reduce this lifespan, SDG&E has failed to justify immediately replacing 900,000 meters in this GRC cycle without sufficient evidence of gas module failures. SDG&E proposes to replace 42,500 gas modules in 2023 when the gas modules and smart meters are only 13-14 years old, 430,754 gas modules in 2024 when they are 14-15 years old, and 430,575 in 2025 when they are 15-16 years old.[2188] By proposing to replace tens of thousands of gas modules annually when they have a reasonable useful remaining life of five to six years, SDG&E disregards both rate affordability and the potential for more cost-effective

[2185] *See* July 31, 2023 SDG&E's Motion in Compliance with ALJ's Request on Smart Meter Costs.

[2186] SDG&E Ex-217 at DHT-B-53.

[2187] SDG&E Ex-217 at DHT-B-53.

[2188] TURN Opening Brief at 253.

solutions like possible battery replacements. A comprehensive cost-benefit analysis comparing various replacement strategies is essential to ensure that ratepayers are not unduly burdened with unnecessary costs.

TURN questions SDG&E's management of its vendor relationship related to smart meter failures. TURN states that through discovery, it came to light that SDG&E has not attempted to hold the vendor accountable by asking for replacements, refunds, or credits for the modules or meters that have failed prematurely.[2189] Given the substantial expenditures on vendor products and services and SDG&E's further procurement from the same vendor, TURN argues that SDG&E's management approach deviates from standard procurement practices.[2190] This raises concerns about SDG&E's stewardship of ratepayer funds.

Regarding rate affordability and cost impacts, SDG&E provided no supporting evidence on mitigating stranded assets and resulting costs. SDG&E's current business plan fails to fully substantiate the significant level of funding requested for this program in this GRC cycle.[2191] We agree with UCAN that SDG&E fails to provide information on cost-reduction steps.[2192] UCAN correctly points out that cost reductions associated with this project can be achieved in two ways: minimizing expenses related to outdated Smart Meter 1.0 technology before the deployment of Smart Meter 2.0, and expediting the transition to Smart Meter 2.0 most cost-effectively.[2193]

[2189] TURN Opening Brief at 257-258.

[2190] TURN Opening Brief at 259.

[2191] Cal Advocates Opening Brief at 209.

[2192] UCAN Opening Brief at 153.

[2193] UCAN Opening Brief at 153.

SDG&E argues that there is no viable alternative to Smart Meter 2.0 – whether pursued today or addressed after mass failures, technology life is finite.[2194] While that might be accurate, UCAN's comments warrant further assessment and understanding in light of potential advancements like smart inverters.[2195] Although the technical consideration of technology is beyond the scope of this proceeding, a more comprehensive evaluation of SDG&E's decision to procure and implement a Smart Meter 2.0 system is necessary. This analysis should assess SDG&E's proposal for long-term viability, the potential for stranded assets, and whether a competitive procurement process would have yielded a better outcome.[2196]

We also lack visibility on the transition plan for SDG&E to maintain its current infrastructure while implementing the new electric meters and have procedural questions that were not raised in this proceeding. For example, we are unclear about the separate cost of AMI gas module replacement compared to electric meters. We do not know why SDG&E prefers to replace gas modules before electric meter replacements. SDG&E should explain these details in its application.

While we do not approve the Smart Meter 2.0 project, we want to address the potential disruption to customer bills and services. To mitigate the impact of the current system failing because it will negatively impact customer bills, requiring SDG&E to estimate and/or delay bills, we authorize SDG&E to maintain a memorandum account as an interim means to deploy meter and module replacements or to service existing equipment. SDG&E may seek a cost

[2194] Sempra Opening Brief at 493.

[2195] UCAN Opening Brief at 161-162.

[2196] UCAN Opening Brief at 162.

reasonableness review when it files a separate application seeking cost recovery for replacing or repairing failing meters and modules.

In summary, SDG&E has failed to provide sufficient evidence to justify either a short-term battery replacement or a full-scale meter replacement on gas modules. The utility has not demonstrated the cost-effectiveness of proactive replacement, nor has it conducted a comprehensive analysis of the potential costs and benefits of a battery replacement. Based on the information presented, there is insufficient justification for approving ratepayer funding for this project in this GRC application. SDG&E may file a separate application seeking recovery of costs for replacing Smart Meter 1.0 systems and gas modules, addressing the above-mentioned concerns, but no revenue requirement is authorized in this proceeding. In addition to filing a separate application, SDG&E shall file a Tier 2 Advice Letter to establish a Smart Meter 2.0 memorandum account. The memorandum account shall be effective from January 1, 2024. SDG&E shall record its O&M and capital expenses (including depreciation, taxes, and return) in this memorandum account for a cost-reasonableness review when it files a separate Smart Meter 2.0 project application. The account shall remain open and the balance in the account shall be reviewed in subsequent GRC proceedings until a Commission decision closes the account.

Correspondingly, we deny the request for IT O&M incremental costs of $2.176 million related to Smart Meter 2.0 deployments.[2197] A discussion of this issue is presented under the SDG&E Customer Services – Field Operations Section of the decision, where an additional $2.125 million in incremental O&M

[2197] SDG&E Ex-17-R at DHT at 3 Table DHT-3 [Summary of Smart Meter 2.0 O&M costs (in 2021 $000s); SDG&E 2024 Test Year funding request of $13.287 million for the Smart Meter Operations cost category, an increase of $4.421 million compared to 2021 Base Year].

costs associated with Customer Field Operations and Smart Meter Operations is denied.[2198]

29.7.2. Field Service Delivery - Scheduling & Dispatch Phase/Data & Analytics Platform

SDG&E's forecasts for the Field Service Delivery Scheduling & Dispatch Phase/Data & Analytics Platform for 2022, 2023, and 2024 are $13.400 million, $13.839 million, and $19.296 million, respectively. SDG&E states that Field Service Delivery will replace end-of-life and unsupported software, consolidate software applications, and improve customer experience and satisfaction.[2199] It contends that inaction or retaining the status quo of an aging and unsupported system could only lead to increased inefficiencies.

Cal Advocates recommends a capital cost forecast of $13.400 million each for 2022, 2023, and 2024.[2200] TURN and UCAN recommend denying SDG&E's Field Service Delivery project and the associated O&M costs.[2201, 2202]

While both sides of the argument have merit, we agree with SDG&E that the project is needed to replace outdated technology that is near or at the end of life, has limited support, or is no longer supported by the vendor. However, we decline to authorize the forecasted cost estimates because there is insufficient

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2198 SDG&E Ex-17-R at DHT at 3 Table DHT-3 [A total of $4.421 million in incremental costs was requested for Smart Meter 2.0. Of this total amount, $0.090 million was requested for Customer Field Operations and $2.035 million for Smart Meter Operations in Customer Services – Field Operations; $0.120 million was for Marketing, Communications, Research and Analytics in Customer Services – Information; and $2.176 million was for IT O&M in Information Technology. $0.120 million is not denied because a settlement is adopted for CSIN].

2199 Sempra Opening Brief at 495.

2200 Cal Advocates Opening Brief at 210.

2201 TURN Opening Brief at 249.

2202 UCAN Opening Brief at 162.

evidence to support the cost request.[2203] Instead, we reduce the cost estimates by 20 percent for cost reasonableness. The 20 percent reduction is derived from the projected $17 million savings as a percentage of the total cost of $85 million of the Field Service Delivery project. SDG&E's documentation shows the reduction in Field Service Delivery-related spending by shifting from working on organizational silos to a strategic approach focused on common capabilities. [2204]

SDG&E has failed to justify the reasonableness of its cost estimates. Its reliance on the Field Service Delivery project, approved in the 2019 GRC decision, is insufficient to authorize ratepayer cost recovery. [2205] While SDG&E claims the Commission previously approved capital projects without cost-benefit analyses,[2206] this does not justify its failure to provide evidence to support its current cost request. Past decisions cannot serve as a precedent for ratepayer funding in this GRC cycle. [2207]

SDG&E claims that this multi-year project started in 2020. However, its testimony and workpapers do not show any costs booked in 2020 and 2021, so the cost categories and the total incurred costs remain unknown.[2208] It proposes zero-based budgeting as the appropriate forecasting methodology, but upon reviewing

[2203] TURN Opening Brief at 261-262.

[2204] TURN Ex-09-R-Atch1 at 219.

[2205] Sempra Reply Brief at 354.

[2206] Sempra Reply Brief at 353.

[2207] The Commission finds it difficult to effectively review projects when utilities frequently modify cost categories and project designations between GRCs. To ensure consistent project tracking and cost monitoring, SDG&E must maintain consistent cost categories and references across all GRCs or reference the projects across reporting periods.

[2208] SDG&E Ex-25-CWP-R at 48.

the 2022 actual costs, we find that SDG&E incurred $9.187 million, whereas it projected $13.4 million.[2209]

We agree with TURN and Cal Advocates that if SDG&E does not show cost-benefit or customer savings for a strategic investment project estimated to cost $85 million,[2210] the Commission cannot then review whether the spending is cost-effective. SDG&E argues that it only maintains documentation on current service levels, but without showing quantifiable improvements and benefits for a project of this scale, it cannot justify increased costs for ratepayers.[2211] According to TURN, SDG&E's internal documents show that the project is expected to result in a gain of 80,000 annual value-add hours, but SDG&E failed to forecast any cost savings for this GRC.[2212] Additionally, our review shows that the project cost estimates may be based on the conceptual proposal.[2213]

In summary, SDG&E's cost estimates show inconsistencies and a lack of rigorous financial analysis. The utility has failed to establish a link between project expenditures and expected cost savings. Based on the evidence and the need to balance the SDG&E process improvement goals with ratepayer affordability, we find it reasonable to authorize a cost forecast with a 20 percent reduction for 2023 and 2024 and adopt 2022 incurred cost data. Therefore, we

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[2209] SDG&E Ex-302.

[2210] TURN Ex-09-R-Atch1 at 180.

[2211] Cal Advocates Opening Brief at 211.

[2212] TURN Opening Brief at 262.

[2213] TURN Ex-09-R-Atch1 at 209; SDG&E states that "this project will leverage this opportunity to transform the scheduling and dispatching functions by implementing leading technology and processes. We propose a migration either directly to the cloud-based solution for schedule and dispatch or replacement with an alternate product. A final decision on mobile strategy will be made during the course of this Concept."

adopt $9.187 million for 2022, $11.071 million for 2023, and $15.436 million for 2024.

29.7.3. Smart Meter System Upgrade

SDG&E's request for $5.141 million, $6.208 million, and $3.663 million in funding for Smart Meter system upgrades in 2022, 2023, and 2024, respectively, is denied.[2214]

SDG&E fails to provide sufficient evidence to support its cost estimates. Inconsistencies between projected and actual expenditures and a lack of detailed cost breakdowns by activity undermine the reasonableness of the funding request. SDG&E may request cost recovery along with its proposal for the Smart Meter 2.0 project application, showing the Commission how it will address the existing Smart Meter 1.0 upgrade while phasing out the meters with Smart Meter 2.0.

We explain our decision in detail below.

SDG&E argues that funding is needed because Smart Meter systems are a critical set of applications that configure, collect, manage, and validate data from meters for Billing, Load Research, Outage Management, Customer OnLine Presentment, and many other operational processes.[2215] While generally reasonable, we find inconsistencies in SDG&E's evidence because, on the one hand, it states that the risk of not performing the upgrade is that SDG&E would be left with technology obsolescence through unsupported operating system, database, and Itron application versions.[2216] SDG&E then provides a table with a list of planned updates and ongoing activities the Smart Meter Product Team

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2214 Sempra Opening Brief at 496.

2215 SDG&E Ex-225 at BG-WJE-19.

2216 SDG&E Ex-225 at BG-WJE-19-20.

plans to accomplish each year, but it does not provide the cost per activity.[2217] Assuming it plans to accomplish all the listed activities in 2022, its projected capital expenditure is $5.141 million for 2022. However, on the other hand, it only incurred $1.826 million in 2022. This creates a disconnect between its assertions and the actual actions. Therefore, we cannot accept SDG&E's request as just and reasonable.

Moreover, if SDG&E plans to replace Smart Meter 1.0, we do not know if it expects to upgrade all 1.5 million electric and 900,000 gas modules. Since SDG&E has not provided a cost breakdown or a count of how many meters are projected to be upgraded before Smart Meter 2.0 is implemented, it is challenging to assess the cost reasonableness of its request. SDG&E has indicated that Smart Meter system upgrades are ongoing and contingent upon vendor support and the eventual replacement with Smart Meter 2.0.[2218] While routine maintenance and upgrades may be necessary, the utility has failed to demonstrate a comprehensive plan for managing these costs in conjunction with the Smart Meter 2.0 project. The Commission expects SDG&E to develop a strategic approach that optimizes resource allocation and minimizes costs to ratepayers by coordinating upgrade activities with the broader meter replacement initiative. Failure to coordinate activities may result in unnecessary costs to ratepayers.

In its comments on the proposed decision, SDG&E argues that the proposed decision errs by conflating the Smart Meter Upgrade and Smart Meter 2.0, but provides no explanation for how the issues are conflated.[2219] On the contrary, the decision is clear in identifying that the two costs to implement Smart

[2217] SDG&E Ex-225 at BG-WJE-20-21.

[2218] Cal Advocates Opening Brief at 212.

[2219] Sempra Opening Comments at 18.

Meter Upgrade and Smart Meter 2.0 are separate but there needs to be a coordinated synergy between the activities to avoid wasteful spending. SDG&E argues that Smart Meter Upgrade costs were authorized in the last GRC decision, D.19-09-051, as the basis of continuing the trend to authorize the costs. It also states that the last upgrade occurred in 2017.[2220] We find these conflicting arguments as a reason to require more transparency and accountability. It is unclear why the last upgrade was made in 2017 if the utility was granted funds for upgrades in the last GRC, culminating in 2019. We disagree with SDG&E because we are reviewing Smart Mater Upgrade costs and Smart Meter 2.0 replacement costs in context of its projects and scope relevant to this proceeding. We have provided SDG&E the direction to coordinate its Smart Meter Upgrade with Smart Meter deployment, and it may request cost recovery along with its proposal for the Smart Meter 2.0 project application.

29.7.4. CIS Regulatory & Enhancements 2022-2024

SDG&E's capital cost CIS enhancements in 2022, 2023, and 2024 are $19.233 million, $19.752 million, and $23.768 million, respectively, and are granted.[2221]

SDG&E asserts that the new CIS is the technological platform that will enable continual operational improvements, simplify the customer and employee experience, and support compliance with regulatory and legislative requirements.[2222]

2220 Sempra Opening Comments at 18.

2221 Sempra Opening Brief at 534.

2222 SDG&E Ex-18-R at SFB-40.

TURN recommends denying SDG&E's request for additional capital funds for CIS enhancement.[2223] It argues that SDG&E had received approval for funds in 2018, and now, just four years later, it is requesting over $130 million for enhancements, which is over 50 percent of its original cost. TURN argues that the requested enhancements sound similar to the benefits that were supposed to be delivered by the CIS system approved in 2018 and that SDG&E did not provide sufficient support for why these enhancements could not have been accomplished within the original budget. TURN also argues that SDG&E did not conduct a business case or cost-benefit analysis for this project.

SDG&E contends that the CIS enhancements are required to meet new regulatory directives and orders that were unknown before April 2021, when the CIS went live.[2224] It argues that TURN's argument is flawed because this is not a project with a finite timeline, which would warrant a business case. Lastly, SDG&E asserts that TURN was a party to the Settlement Agreement, which authorized ongoing support costs that fall within SDG&E's current GRC cycle and directed SDG&E to include post-implementation costs outside of the settlement in subsequent GRC applications.[2225]

Regarding UCAN's argument that "SDG&E's lack of foresight means it will invest in many capital assets that will be obsolete if not stranded almost immediately…,"[2226] SDG&E contends that UCAN provides no factual evidence to

[2223] TURN Opening Brief at 277-279.

[2224] SDG&E Ex-225-E in Tables BG-WE-7, BG-WE-8, and BG-WE–9.

[2225] TURN Opening Brief at 277-279.

[2226] Sempra Opening Brief at 535.

support its disallowance, nor does it substantiate its assertion that these assets will be stranded.[2227]

SDG&E's argument, that unforeseen regulatory requirements necessitated the additional funding, is reasonable. Based on our review of CIS enhancements and the category of work listed in Exhibit SDG&E-225-E in Tables BG-WE-7, BG-WE-8, and BG-WE–9, we find that these requirements were indeed unforeseen in 2018, and they necessitate the proposed enhancements. For instance, new regulatory and compliance enhancements have resulted from decisions issued after 2018. This includes system changes to support the acceleration of Climate Credit distribution as authorized under D.23-02-014 and changes to implement the cost allocation method as authorized under D.19-11-016.

It is reasonable for SDG&E to claim that the CIS is an ongoing project without a finite timeline, but it is still accountable for providing a clear project scope and cost estimates when planning its cost request for the GRC. In the future, SDG&E should be prepared to offer better estimates of labor and non-labor expenses and historical costs incurred to allow the Commission to assess the reasonableness of time and resources needed for enhancements and addressing regulatory requirements when filing GRC requests.

Given the reasonableness of the CIS enhancements needed, we authorize $19.233 million, $19.752 million, and $23.768 million for 2022, 2023, and 2024, respectively.

In its comments on the proposed decision, TURN argues that if the Commission approves the proposed project, it should at a minimum order SDG&E to account for the projected cost savings in an Advice Letter and require

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[2227] Sempra Opening Brief at 535.

that the savings be passed along to ratepayers. TURN argues that many of the reasons provided by SDG&E for this "enhancement" are very similar to the benefits that were supposed to be delivered by the new CIS system when SDG&E received approval for $245.89 million to replace its aging Customer Information System in 2018.

While we acknowledge that ratepayer benefits should arise from CIS enhancements, it is unclear how an Advice Letter mechanism will incorporate these benefits and result in a reduced revenue requirement. Procedurally, it is easier to review and incorporate ratepayer benefits once the enhancements have occurred and the information is reviewed in context of related costs. Instead, SDG&E shall show benefits of these enhancements in its next GRC application, either lowering O&M costs or lowering future capital costs resulting from CIS enhancements.

29.7.5. Contact Center of the Future (CCotF)

SDG&E's forecast for CCotF for 2022, 2023, and 2024 at $0, $11.285 million, and $9.789 million, respectively, is granted.[2228]

We agree with SDG&E that the proposed capital project is needed to upgrade its customer contact center system. The utility argues that the Customer Contact Center systems have nearly reached the End-of-Life and End-of-Support stages. After this time, the vendors will not provide enhancements, security patches, or bug fixes, nor will they support essential services to maintain system reliability, security, and customer service. Furthermore, one vendor has entered bankruptcy, and the other only supports cloud-based solutions, so we find SDG&E's request reasonable in light of the evidence.

[2228] Sempra Opening Brief at 531.

29.7.6. UCAN's protest

In addition to the projects discussed above, UCAN opposes other IT projects for obsolescence within this GRC cycle, which we decline to accept because there is insufficient support for its recommendation based on the individual merits of any particular IT capital project proposed by SDG&E.[2229] We also agree with SDG&E that the IT costs related to Energy Procurement are needed to ensure that SDG&E can operate safely and effectively in the CAISO market and meet its compliance needs.

Accordingly, we authorize SDG&E's proposed IT capital cost estimates related to Clean Transportation and Energy Procurement.

We adopt Clean Transportation IT costs of $1.125 million, $1.459 million, and $1.612 million in 2022, 2023, and 2024, respectively, and for Energy Procurement we adopt $1.915 million, $3.060 million, and $1.811 million in 2022, 2023, and 2024, respectively.

Regarding Clean Energy Innovation IT costs, we agree with UCAN that there is insufficient evidence on how local area distribution controller (LADC) software and hardware will be deployed. We have denied O&M and capital costs associated with the Clean Energy Innovations – SDG&E Section of the decision for Borrego Springs Microgrid, AES, Hydrogen Storage, and ITF. Accordingly, we deny related IT capital costs. Regarding Borrego Microgrid 3.0, under the Clean Energy Innovations Section of the decision, we have clarified that it is not a new capital project but an addition to the existing microgrid facility that would allow SDG&E to connect additional DERs. We do not have information about additional IT capital costs requested for this existing project and without a defined need that

[2229] We disregard UCAN's dollar amount adjustments to projects listed in SDG&E Ex-225-E, Table BG-WE-15, and Table BG-WE-16.

cannot be met within the existing IT infrastructure and a cost breakdown, it is unreasonable to grant additional IT costs.

29.7.7. Contested Costs Summary

The table below summarizes our disposition on contested costs discussed above.

Table 29.11
Disposition on Contested Costs

Categories of Management – Contested ($000s)	2022	2023	2024
B. Clean Transportation	1,125	1,459	1,612
C. Customer Service – Field Operations	9,187	11,071	15,436
• Smart Meter 2.0	0	0	0
• Field Service Delivery Scheduling & Dispatch Phase / Data & Analytics Platform	9,187	11,071	15,436
• Smart Meter Product / Upgrade	0	0	0
D. Customer Service – Office Operations	19,233	31,037	33,557
• Contact Center of the Future		11,285	9,789
• CIS Regulatory & Enhancements 2022-2024	19,233	19,752	23,768
F. Clean Energy Innovations	0	0	0
G. Energy Procurement	1,915	3,060	1,811
Total – Contested	**31,460**	**46,627**	**52,416**

29.7.8. Uncontested IT Capital Costs

In addition to our review and decision on specific contested projects above, SDG&E requests IT capital costs for the following projects across various categories. Based on our review of the evidence, we adopt SDG&E's uncontested request, as shown below.

Table 29.12
SDG&E's Uncontested Request for Projects Across Various Categories

Categories of Management – Uncontested ($000s)	2022	2023	2024
A. Administrative and General	**1,800**	**1,265**	**1,265**
D. Customer Service – Office Operations		**316**	
E. Customer Service – Information*	**4,969**	**4,367**	**0**

Categories of Management – Uncontested ($000s)	2022	2023	2024
H. Electric Distribution - Capital*	**6,783**	**718**	**0**
• Electric Material Traceability	1,098	86	0
• Microgrid Portal	594	389	0
• Builder Services Customer Portal - Phase 3	1,522	243	0
• Construction Management Software Integration with SAP	972	0	0
• Automated Utility Design (AUD)	2,597	0	0
I. Electric Distribution – O&M*	**11,962**	**8,728**	**7,578**
• Reliability & Capacity	1,325	1,570	1,409
• Electric System Operations	8,442	5,828	5,947
• Compliance Management	2,195	1,329	222
J. Electric Distribution – Wildfire Mitigation and Vegetation Management	**1,884**	**6,546**	**1,678**
• Geospatial Field Improvement (IT Capital WP # 00920AN) Improvement	1,884	792	0
• Vegetation Management - Work Management (IT Capital WP # 00920R) Improvement	0	5,753	1,678
K. Fleet Services	**466**	**618**	**330**
L. Gas Distribution	**371**	**632**	**0**
M. Safety, Risk, and Asset Management System	**20,198**	**24,049**	**21,781**
• Engineering & Construction Doc Centralization and Compliance (Capital WP Group 00921N)	597	608	608
• EAMP Asset Data Foundation (Capital WP Group 00920BM)	4,389	4,269	2,347
• Asset Investment Prioritization (AIP) (Capital WP Group 00920E)	1,873	5,502	9,256
• Asset Investment Prioritization (AIP) (Capital WP Group 00920BL)	3,314	5,694	3,731
• Work Management Enhancements (Capital WP Group 00920AH and 00920F)	1,743	1,643	1,971
• Field Hardware Replacement (Capital WP Group 00920AM and 00920H)	4,713	3,989	3,544
• GIS Modernization (Capital WP Group 00920AW and 00920M)	1,734	2,344	324
• Field Mobility Development (Capital WP Group 00920AS)	1,835	0	0

Categories of Management – Uncontested ($000s)	**2022**	**2023**	**2024**
N. Information Technology	**125,405**	**71,109**	**62,259**
Total – Uncontested	**173,838**	**118,348**	**94,891**

* A portion of the cost supports the SDG&E Grid Modernization Plan. Refer to Ex. SDG&E-12, Appendix C, to the category workpaper for details.

29.7.9. Summary IT Capital Costs

As shown above, we adopt the following total IT Capital costs:

Table 29.13
Total IT Capital Costs Adopted

($000s)	**2022**	**2023**	**2024**
Total – Contested	31,460	46,627	52,416
Total – Uncontested	173,838	118,348	94,891
Total Cost	**205,298**	**164,975**	**147,307**

30. Cybersecurity

The Cybersecurity Department manages the cybersecurity risk of the information and operational technologies for SoCalGas, SDG&E, and the Sempra Corporate Center by using recognized security and risk management frameworks,[2230] along with the laws and regulations established by various federal and state agencies.[2231] The Cybersecurity Department also provides cybersecurity technical support and training to business groups and employees.[2232]

[2230] The NIST Cyber Security Framework (CSF), CIS Critical Security Controls (CIS Controls), NIST 800-53, CISA Cybersecurity Performance Goals (CPG) and the MITRE ATT&CK framework.

[2231] Commission, Cybersecurity and Infrastructure Security Agency, Department of Homeland Security, FERC, Transportation Security Administration, and DOE.

[2232] Sempra Opening Brief at 640.

SoCalGas and SDG&E request approval of O&M and capital costs for cybersecurity risk management activities. SoCalGas requests adoption of:

- $3.970 million Shared Services O&M 2024 Test Year forecast;
- $28.842 million, $36.788 million, and $42.915 million in capital costs for the forecast years 2022, 2023, and 2024.

SDG&E requests adoption of:

- $0.019 million Non-Shared Services 2024 Test Year O&M forecast;
- $16.358 million Shared Services 2024 Test Year O&M forecast; and
- $8.424 million, $9.660 million, and $9.660 million in capital costs for the forecast years 2022, 2023, and 2024.

30.1. Cybersecurity O&M

Both SoCalGas and SDG&E request that the Commission adopt their 2024 Test Year O&M forecasts for cybersecurity. SoCalGas and SDG&E assert that their requested O&M forecasts are reasonable and necessary to provide cybersecurity risk management controls and activities to address risks associated with safety, operations, compliance, and financial. They stress that the requested funding levels are needed for RAMP-related activity areas, including: (1) Perimeter Defenses; (2) Internal Defenses; (3) Sensitive Data Protection; (4) OT Cybersecurity; and (5) Obsolete IT Infrastructure and Application Replacement.

30.1.1. SoCalGas

SoCalGas requests adoption of a 2024 Test Year forecast of $3.970 million for Cybersecurity Shared Services O&M. It indicates that the forecast is reasonable and unopposed by any party. While Cal Advocates addresses cybersecurity funding levels in several areas, it does not propose any adjustments to SoCalGas's 2024 Test Year cybersecurity O&M request.

We find that SoCalGas's 2024 Test Year forecast of $3.970 million for Cybersecurity Shared Services is reasonable and adopt it.

30.1.2. SDG&E

SDG&E requests the adoption of a 2024 Test Year forecast of $0.019 million for Cybersecurity Non-Shared Services and $16.358 million for Cybersecurity Shared Services O&M. It contends that the forecasts are reasonable and needed for cybersecurity activities.

Cal Advocates does not oppose the 2024 Test Year forecast of $0.019 million for Cybersecurity Non-Shared Services but proposes $13.826 million for the Cybersecurity Shared Services 2024 Test Year O&M forecast due to uncertainty and lack of factual justification for these costs. Cal Advocates asserts that a $2.532 million[2233] downward adjustment is appropriate because SDG&E's request is $2.585 million above its 2021 recorded expenses for Cybersecurity despite SDG&E not hiring or using the authorized forecasts for labor and non-labor expenses in 2022.[2234] Cal Advocates contends that although SDG&E forecasted $15.677 million for 2022, it only spent $13.174 million. It argues that SDG&E's failure to use previously authorized funding indicates that SDG&E's need for the increased funding is "inexistent or at the very least, highly questionable."[2235] Cal Advocates argues that the approval of any increases is unnecessary and could create an overcollection that is unfavorable to ratepayers.

SDG&E opposes Cal Advocates' adjustment to its Cybersecurity Shared Services 2024 Test Year O&M forecast, claiming it is unsupported. SDG&E

2233 The $2.532 million consists of a $1.632 million reduction to labor and $0.900 million reduction to non-labor O&M.

2234 The labor portion of SDG&E's authorized forecast for 2022 included hiring of 6.8 full time employees. Cal Advocates Opening Brief at 246.

2235 Cal Advocates Opening Brief at 246.

acknowledges the difficulty in filling all its previously allocated cybersecurity personnel positions but emphasizes that this is the result of an extremely competitive marketplace.[2236] It indicates that it has needed to temporarily fill the positions with contractors but has continued actively recruiting cybersecurity personnel throughout 2022. SDG&E cites the impact of high attrition rates in the energy and utility industries, and the higher salaries offered by privately-owned companies due to the increase in cybersecurity threats. In light of these challenges, SDG&E contends that its inability to fill its open positions by the end of 2022 should not determine its 2024 Test Year incremental increase of $1.632 million for O&M labor and $900,000 in non-labor.[2237]

SDG&E also argues that Cal Advocates' use of a single year (2022) as the proxy for a 2024 Test Year forecast is inappropriate based on Commission precedent as well as in the context of the cybersecurity operational environment, which does not remain static between years.[2238] SDG&E asserts that its forecast methodology derived from 2021 Base Year recorded costs, plus adjustments, is the appropriate methodology.

We find that the unopposed 2024 Test Year O&M forecast of $0.019 million for SDG&E's Cybersecurity Non-Shared Services is reasonable and adopt it. We also find that the 2024 Test Year O&M forecast of $16.358 million for SDG&E's Cybersecurity Shared Services is reasonable and adopt it. SDG&E has provided sufficient evidence that the requested expenses are reasonable due to the competitive marketplace for cybersecurity personnel that has driven salaries higher. SDG&E has also demonstrated that contract hires are necessary to meet

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[2236] Sempra Opening Brief at 648.

[2237] Sempra Opening Brief at 649.

[2238] Sempra Opening Brief at 649; Sempra Reply Brief at 481.

expanding cybersecurity needs, while it seeks to hire full-time employees for cybersecurity work. We also find that deriving the 2024 Test Year Cybersecurity Shared Services O&M from 2021 recorded costs plus adjustments is appropriate in an environment where the complexity and frequency of cybersecurity issues are likely to increase.

30.2. Cybersecurity Capital Costs

Both SoCalGas and SDG&E request that the Commission adopt their requested Cybersecurity capital costs for 2022 to 2024. They indicate that the requested funding is necessary to address current cybersecurity threats and to plan for the broad range of potential risk drivers, including: (1) rapid changes in technology; (2) innovations in business capabilities; (3) evolving threats in terms of sophistication, automation, and aggressiveness; and (4) increasing system interdependencies.[2239] SoCalGas and SDG&E contend that the requested capital costs are needed to improve or replace existing cybersecurity capabilities.

30.2.1. SoCalGas Capital Costs

SoCalGas requests the adoption of Cybersecurity capital costs of $28.842 million, $36.788 million, and $42.915 million for the forecast years 2022, 2023, and 2024 respectively.[2240] On October 24, 2023, the Applicants and Cal Advocates filed a joint motion for adoption of settlement agreements on various issues in the 2024 GRC. This settlement included an agreement on Cybersecurity capital costs for SoCalGas. Since we have denied the joint motion on the various issues, we now address SoCalGas Cybersecurity capital costs.

SoCalGas asserts that it has shown that its requested Cybersecurity capital costs are needed to prepare and protect its systems and services from the current

[2239] Sempra Opening Brief at 650.

[2240] Sempra Opening Brief at 651.

and rapidly evolving cybersecurity threats and risks. SoCalGas's forecasted Cybersecurity capital costs cover various mitigation categories, which are summarized in the table below.

Table 30.1
SoCalGas Cybersecurity Capital Costs

CYBERSECURITY RISK MITIGATION CATEGORIES	Estimated 2022 ($000s)	Estimated 2023 ($000s)	Estimated 2024 ($000s)	Estimated Total ($000s)
Perimeter Defenses	4,898	7,523	12,592	25,013
Internal Defenses	15,578	7,363	11,530	34,471
Sensitive Data Protection	7,560	9,264	6,026	22,850
Operational Technology Cybersecurity	806	5,204	5,257	11,267
Obsolete Information Technology Infrastructure and Application Replacement	0	7,434	7,510	14,944
Total	**28,842**	**36,788**	**42,915**	**108,545**

Cal Advocates recommends adopting the actual recorded costs for 2022 ($18.146 million) with a two-year balancing account for 2023 and 2024 costs. Cal Advocates argues that this downward adjustment is appropriate because SoCalGas has not adequately supported an increase that is significantly greater than what was spent from 2019 to 2021.[2241] Cal Advocates notes that SoCalGas spent approximately $47 million from 2019 to 2021, and is requesting an increase of $61 million over that figure for 2022 to 2024.[2242] Cal Advocates indicates that SoCalGas's recorded adjusted capital expenditures for 2022 contradict SoCalGas's forecasts, with it recording $18.146 million in costs despite a forecast of

[2241] Cal Advocates Opening Brief at 244.

[2242] Cal Advocates Opening Brief at 244.

$28.842 million. Cal Advocates asserts that this significant gap supports its recommendation for a two-way balancing account for 2023 and 2024.[2243]

SoCalGas argues that adoption of Cal Advocates' recommended level of capital costs lacks justification and "would severely underfund cybersecurity protections, placing company systems, infrastructure and customers at risk[.]"[2244]

First, SoCalGas contests the appropriateness of Cal Advocates' determination of forecast years based on the actual costs from a single year (2022). SoCalGas argues that the zero-based forecast methodology is the most appropriate methodology because it responds to the rapidly changing cybersecurity threat environment by basing estimates on specific projects, assets, and tasks needed for cybersecurity risk management and mitigation.[2245] SoCalGas contends that its development of a forecast using data from before filing its GRC application is consistent with the Commission's Rate Case Plan. SoCalGas argues that while recorded data may reflect lower spending than forecasted in some areas, recorded data may also reflect higher spending than forecasted in other areas.[2246]

Second, SoCalGas asserts that Cal Advocates' recommendations are inconsistent with the Commission's directive to incorporate a risk-based framework into the GRC. SoCalGas emphasizes that cybersecurity is a top safety risk and that its requests in this GRC result from an assessment of key safety risks in the 2021 RAMP Report.

[2243] Cal Advocates Opening Brief at 245.

[2244] Sempra Opening Brief at 652.

[2245] Sempra Opening Brief at 483.

[2246] Sempra Reply Brief at 483.

Lastly, SoCalGas argues that Cal Advocates' proposed methodology does not properly account for the rapidly increasing number and type of cybersecurity risks. SoCalGas indicates that the dependence of its daily operations on automation and rapidly evolving technology mandate the use of robust cybersecurity measures.[2247] To support its argument, SoCalGas cites to several recent examples of cyberattacks on the energy and utilities industry and emphasizes that significant investment is necessary to effectively protect its systems and technologies from these threats.[2248]

We find that SoCalGas is proposing a significant increase in capital costs. While we recognize the importance of cybersecurity investments in maintaining critical infrastructure and protecting customer data, we find SoCalGas's proposed increase in capital costs to be substantial. Given the utility's historical spending patterns and the discrepancy between its forecasted and actual capital expenditures in 2022, a more balanced approach is reasonable.

Based on our review of the evidence, we adopt a balanced approach to SoCalGas's requested capital costs for Cybersecurity. We adopt the recorded adjusted capital expenditures for 2022 and average the requested cost estimates for 2023 and 2024 ($36.79 million and $42.92 million, respectively), thereby arriving at a more reasonable cost estimate of $39.85 million for each of those years.

We decline to adopt a balancing account treatment as proposed by Cal Advocates. Authorizing a revenue requirement in this rate case cycle will provide

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[2247] Sempra Reply Brief at 484.

[2248] Sempra Reply Brief at 485.

greater cost certainty and allow for steady investment in cybersecurity, ultimately benefiting both the utility and its ratepayers.

The authorized funding strikes a fair balance between the need for robust cybersecurity and ratepayer impact by considering both historical data and future projections.

Accordingly, we adopt the following cost estimates:

Table 30.2
SoCalGas's Cybersecurity Capital Costs ($000s)

($000s)	2022	2023	2024	Total
SoCalGas	$18,150	$39,850	$39,850	$97,850

30.2.2. SDG&E Capital Costs

SDG&E requests adoption of Cybersecurity capital costs of $8.424 million, $9.660 million, and $9.660 million for the forecast years 2022, 2023, and 2024.[2249] SDG&E asserts that its requested level of Cybersecurity capital spending is consistent with historic levels.[2250] No party, including Cal Advocates, opposes the SDG&E's requested capital expenditures.[2251]

We find that SDG&E's unopposed Cybersecurity capital costs requests of $8.424 million, $9.660 million, and $9.660 million for 2022, 2023, and 2024 are reasonable and adopt them.

31. Corporate Center General Administration Utility Allocations

Sempra forecasts $130.063 million for the 2024 Test Year in allocated General Administration costs related to its Corporate Center, which provides corporate governance, policy direction, and other centralized operations for

[2249] Sempra Opening Brief at 658.

[2250] Sempra Opening Brief at 658; CA Ex-11 (Waterworth) at 81:14 and 82, Table 11-49.

[2251] Cal Advocates Opening Brief at 246.

SoCalGas and SDG&E.[2252] Compared to the 2021 Base Year, this is a $5.913 million decrease in expenses.[2253]

Sempra states that its Corporate Center performs functions most effectively as a centralized operation, which would otherwise require additional staffing and O&M costs at SoCalGas and SDG&E.[2254] For the 2024 Test Year, 46 percent of all forecasted, unescalated Corporate Center shared service costs are allocated to SDG&E and SoCalGas. Corporate Center shared service costs not allocated to SDG&E and SoCalGas are not included in this request.[2255]

The breakdown of Sempra's Test Year costs for Corporate Center General Administration allocated to SoCalGas and SDG&E is provided below ($000):[2256]

Table 31.1
Test Year Costs for Corporate Center General Administration Allocated to SoCalGas and SDG&E

Corp. Center Service Area	Utility Allocated 2021 Base Year Costs	Change	Utility Allocated Forecasted 2024 Test Year Costs
A. Finance	37,097	3,936	41,033
B. Human Resources and Administration	13,196	820	14,016
C. Legal, Compliance, and Governance	31,317	1,180	32,497
D. External Affairs	5,286	322	5,608
E. Executive	0	0	0
F. Facilities and Assets	19,747	(2,019)	17,728
G. Pension and Benefits	29,333	(10,152)	19,181
Total	**$135,976**	**($5,913)**	**$130,063**

[2252] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-1.

[2253] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-1.

[2254] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-1.

[2255] Sempra Opening Brief at 659.

[2256] Sempra Opening Brief at 659. Table 29.1 in the Sempra Opening Brief incorrectly shows Pension and Benefits amount as $19,333,000 when it should be $29,333,000.

Sempra states that it based its forecasts on a blend of forecasting methods; when possible, it used a zero-based method for costs such as salaries, contract fees, and actuarial calculations.[2257] It forecasted Outside Legal costs based on five-year historical costs.[2258]

31.1. SoCalGas's Corporate Center General Administration Allocated Costs

SoCalGas's 2024 Test Year Corporate Center General Administration Allocation (in 2021 $) request is as shown below ($000):

Table 31.2
SoCalGas's 2024 Test Year Corporate Center General Administration Allocation (in 2021 $) ($000)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
A. Finance[2259]	17,822	20,223	2,401
B. Human Resources and Administration[2260]	7,734	8,166	432
C. Legal, Compliance, and Governance[2261]	18,742	17,774	(968)
D. External Affairs[2262]	2,955	3,060	105
E. Executive[2263]	0	0	0
F. Facilities and Assets[2264]	9,250	8,241	(1,009)
G. Pension and Benefits[2265]	15,988	10,284	(5,704)
Total	72,491	67,749	(4,742)

2257 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-11.

2258 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-11.

2259 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-13.

2260 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-29.

2261 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45.

2262 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-55.

2263 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-62.

2264 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-63.

2265 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-69.

31.2. SDG&E's Corporate Center General Administration Allocated Costs

SDG&E's 2024 Test Year Corporate Center General Administration Total Utility Allocation Request (in 2021 $000) is as shown below:

Table 31.3
SDG&E's 2024 Test Year Corporate Center General Administration Total Utility Allocation Request (in 2021 $000)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
A. Finance[2266]	19,275	20,810	1,535
B. Human Resources and Administration[2267]	5,463	5,850	388
C. Legal, Compliance, and Governance[2268]	12,575	14,723	2,148
D. External Affairs[2269]	2,331	2,547	217
E. Executive[2270]	0	0	0
F. Facilities and Assets[2271]	10,497	9,487	(1,010)
G. Pension and Benefits[2272]	13,345	8,897	(4,448)
Total	63,485	62,314	(1,171)

2266 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-13.

2267 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-29.

2268 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45.

2269 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-55.

2270 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-62.

2271 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-63.

2272 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-69.

31.3. Sempra Utilities Corporate Center General Administration Allocation Cost Categories

31.3.1. Finance

Sempra states that the increase in Finance costs is driven by higher fees for rating agencies, trustees, cash management, travel and training expenses, contract labor and consulting costs, and labor costs.[2273] However, Sempra also states that voluntarily excluding CFO and Controller costs from the forecast reduces the request by $1.3 million.[2274]

31.3.2. Human Resources and Administration

Sempra attributes the increase in Human Resources and Administration costs to higher costs for training, travel, catering, consulting contract labor, labor, and computers.[2275] It also states that voluntarily excluding expenses related to its Chief Administrative Officer and Chief Human Resources Officer reduces costs by $1.4 million.[2276]

31.3.3. Legal, Compliance, and Governance

This division provides legal and governance services to all Sempra companies and coordinates oversight of outside law firms.[2277] It comprises the office of the Chief Legal Officer, the Corporate Center Law Department, Corporate Compliance, the Board of Directors, and Outside Legal.[2278]

[2273] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-14.

[2274] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-14.

[2275] Sempra Opening Brief at 667.

[2276] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-29.

[2277] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45.

[2278] Sempra Opening Brief at 668.

SoCalGas requests an allocation of $17.774 million for Test Year 2024 for Legal, Compliance, and Governance.[2279] This represents a decrease of $969,000 from recorded expenses totaling $18.743 million in Base Year 2021. SoCalGas's Test Year 2024 Corporate Center General Administration Legal, Compliance, and Governance Allocation Request (in 2021 $000) is as follows:

Table 31.4
Test Year 2024 Corporate Center General Administration Legal, Compliance, and Governance Allocation Request (in 2021 $000)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
Chief Legal Officer[2280]	2	408	406
Litigation & Compliance[2281]	3,195	3,275	80
Corporate Law & Governance[2282]	2,109	2,215	107
Board of Directors[2283]	1,560	1,599	39
Outside Legal[2284]	11,877	10,277	(1,599)
Total	18,743	17,774	(969)

SDG&E forecasts $14.723 million in allocated Legal, Compliance, and Governance costs for Test Year 2024, a $2.148 million increase from its Base Year 2021 allocation of $12.575 million.[2285] SDG&E's Test Year 2024 Corporate Center General Administration Legal, Compliance, and Governance Allocation Request (in 2021 $000) is as follows:

[2279] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45.

[2280] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-46.

[2281] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-47.

[2282] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-50.

[2283] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-53.

[2284] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-54.

[2285] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45.

Table 31.5
SDG&E's Test Year 2024 Corporate Center General Administration Legal, Compliance, and Governance Allocation Request (in 2021 $000)

	2021 Adjusted-Recorded	2024 Test Year Estimated	Change
Chief Legal Officer[2286]	1	284	283
Litigation & Compliance[2287]	2,223	2,439	216
Corporate Law & Governance[2288]	1,511	1,525	14
Board of Directors[2289]	1,242	1,331	89
Outside Legal[2290]	7,598	9,144	1,546
Total	**12,575**	**14,723**	**2,148**

Sempra attributes the large increase in expenses related to its Chief Legal Officer to the hiring of a new Chief Legal Officer, who supervises Sempra lawyers, oversees outside counsel, and provides legal advice to senior management.[2291]

Sempra classifies its divisions for Litigation & Compliance and Corporate Law & Governance as its Corporate Center Legal Division, which coordinates outside counsel and provides Sempra Utilities with legal services in areas of the law not covered by lawyers within the individual companies' legal departments.[2292]

2286 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-46.

2287 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-47.

2288 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-50.

2289 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-53.

2290 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-54.

2291 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-46.

2292 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-47.

Regarding Outside Legal, Sempra Utilities states that it retains outside counsel when neither the Corporate Center Legal Division nor the relevant subsidiary's law department can provide necessary services.[2293] Sempra bases its forecast for Outside Legal costs on a five-year trend methodology, adjusted for non-recoverable, significant, and non-recurring matters.[2294]

31.3.4. External Affairs

Sempra states that External Affairs oversees policy guidance for its companies' interactions with constituents to ensure compliance with enterprise-wide objectives and laws.[2295] This cost category supports the Corporate Affairs Officer, Corporate Citizenship, Corporate Communications, Corporate Sustainability, Board Events and Marketing, and Federal Government Affairs.[2296]

Sempra attributes the higher expenses for External Affairs to increased costs for overall reporting, consulting, and travel.[2297]

31.3.5. Executive

The Executive department includes costs related to Sempra's high-level leadership, including the Chairman, President, CEO, and Sempra Group President.[2298] Sempra states that these expenses are all retained at the Corporate Center and, thus, excluded from the utilities' allocation requests.[2299]

2293 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-54.

2294 SCG Ex-23-R-E_SDG&E Ex-27-R-E at DRC-11.

2295 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-55.

2296 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-55.

2297 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-55.

2298 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-62.

2299 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-62.

31.3.6. Facilities and Assets

This cost category comprises Depreciation & Amortization, Property Taxes, and Other Facilities and Assets.[2300]

Sempra attributes the decrease to lower depreciation and rate of return, primarily due to IT assets transferring from the Corporate Center to the individual utilities.[2301] However, Sempra claims that higher property taxes offset the decrease by raising expenses by $200,000.[2302]

31.3.7. Pension and Benefits

Expenses related to Pension and Benefits include Employee Benefits, Payroll Taxes, Incentive Compensation, Long-Term Incentives, and Supplemental Retirement.[2303]

The net reduction in allocated Pension and Benefits costs for Test Year 2024 compared to 2021 Base Year totals $10.2 million, attributable to Sempra excluding costs related to Long-Term Incentives and Supplemental Retirement from its Test Year 2024 forecast.[2304] However, higher employee benefits costs and payroll taxes add about $600,000 in new expenses.[2305]

31.4. Party Positions

Intervenors Cal Advocates, CEJA, and TURN recommend reducing Sempra’s proposed Corporate Center General Administration cost requests.[2306]

[2300] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-63.

[2301] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-63.

[2302] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-63.

[2303] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-69.

[2304] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-70.

[2305] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-70.

[2306] Sempra Opening Brief at 662.

The table of comparison for Corporate Center General Administration costs is as follows:

Table 31.6
Total Operations and Maintenance Costs – Constant 2021 ($000)

	2021 Base Year	2024 Test Year
SoCalGas and SDG&E	136,632	130,063
Cal Advocates	136,184	130,532
TURN	136,632	121,727
CEJA	136,030	130,286

31.4.1. Cal Advocates

Although Cal Advocates states that it does not contest forecasted costs for the Corporate Center General Administration category, it recommends removing historical costs from Audit Services, a subcategory of Finance.[2307] Cal Advocates contends that Sempra claims privilege over 21 SoCalGas and 15 SDG&E internal audits, to which Cal Advocates was not granted access to review to determine whether costs are justifiably assigned to ratepayers.[2308] Cal Advocates proposes removing costs from SoCalGas's Finance's Audit Services subcategory related to the purportedly privileged audits as follows:[2309]

Table 31.7
Proposed Cost Removals from SoCalGas's Finance's Audit Services Subcategory Related to the Purportedly Privileged Audits

(in 2021 $000)	2017	2018	2019	2020	2021
SoCalGas Recorded Cost	1,701	2,021	1,935	1,250	804
Cal Advocates Recommendation	(381)	(593)	(344)	(117)	(114)
Cost after Cal Advocates Recommendation	1,320	1,428	1,591	1,133	690

2307 Sempra Opening Brief at 664.

2308 CA Ex-19 at 9.

2309 CA Ex-19 at 11.

Similarly, Cal Advocates suggests the following reductions to SDG&E's Audit Services costs:[2310]

Table 31.8
Cal Advocates' Suggested Reductions to SDG&E's Audit Services

(In 2021 $000)	2017	2018	2019	2020	2021
SDG&E Recorded Cost	1,682	1,297	1,881	1,753	1,447
Cal Advocates Recommendation	(233)	(101)	(218)	(546)	(334)
Cost After Cal Advocates Recommendation	1,449	1,196	1,663	1,207	1,113

Regarding outside legal expenses, Cal Advocates supports CEJA's proposed disallowance of the 2024 Test Year forecast for Sempra Utilities' ($10.277 million for SoCalGas and $9.254 million for SDG&E) outside legal costs.[2311]

Cal Advocates contends that SoCalGas and SDG&E legal costs between 2016 and 2022 recorded in their GO 77-M Reports reflect that both utilities have booked nearly every law firm payment to Account 107 (Construction Work in Progress) and Account 184 (Clearing Accounts) for at least the last seven years.[2312] It further recommends an accounting investigation.[2313]

Arguing that the current evidence shows that SoCalGas continued to book legal costs associated with political advocacy to ratepayer accounts in 2020, 2021, and 2022, Cal Advocates states that SoCalGas's GO 77-M Reports show that, between 2014 and 2021, the utility never recorded outside legal costs to any FERC

2310 CA Ex-19 at 13.

2311 Cal Advocates Reply Brief at 3.

2312 Cal Advocates Opening Brief at 384-386.

2313 Cal Advocates Opening Brief at 386.

426 accounts.[2314] Cal Advocates raises concerns about Sempra Utilities capitalizing law firm costs and recommends an investigation of both SoCalGas and SDG&E accounts going back at least ten years.[2315] It further states that the only accounting errors the utility has ever discovered have resulted from Cal Advocates or CEJA data requests showing the utility has improperly booked political activity costs to ratepayers.[2316]

31.4.2. CEJA

CEJA recommends removing all costs allocated to the utilities for outside legal services because it alleges that Sempra has developed a pattern of improperly using ratepayer funds to support political activities.[2317] Alternatively, CEJA recommends reducing the Outside Legal allocation for SoCalGas by $790,394 for Test Year 2024 to account for costs related to its litigation against the CEC and $5.086 million (or $1.587 million in Test Year 2024 costs) for additional outside counsel expenses that CEJA argues should not be assigned to ratepayers.[2318]

CEJA asserts that Sempra should not be able to recover legal costs related to (1) challenges to state decarbonization policy; (2) defending against Attorney General enforcement of environmental laws; (3) shareholder-funded activities such as marketing; (4) furthering shareholder interests; and (5) influencing agency decision-making.[2319] In support of this recommendation, CEJA alleges that

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[2314] Cal Advocates Opening Brief at 396.

[2315] Cal Advocates Reply Brief at 2.

[2316] Cal Advocates Reply Brief at 2.

[2317] CA Ex-19 at 94.

[2318] CEJA Opening Brief at 100-102.

[2319] CEJA Opening Brief at 95.

Sempra has a history of assigning costs for political activities to ratepayers, being caught in the act, and falsely claiming to have made a mistake.[2320]

Regarding litigation against the CEC, CEJA provides several reasons it opposes letting SoCalGas recover $790,394 in Outside Legal costs.[2321] First, CEJA argues that the subject of the lawsuit, SoCalGas's allegation that the CEC did not sufficiently encourage the use of natural gas, is not a recoverable ratepayer expense.[2322] Second, CEJA contends that SoCalGas ratepayers did not benefit from the litigation, especially because Sempra did not obtain relief in the ultimate settlement agreement.[2323] Third, CEJA predicts that allowing Sempra to recover such legal costs with ratepayer funds will encourage future frivolous litigation against state climate policy.[2324]

In support of further reductions to the outside legal expense allocation, CEJA alleges that SoCalGas carried out a deceptive marketing campaign—prompting an enforcement action from the Attorney General—and is improperly seeking ratepayer funds for its legal defense.[2325] CEJA argues that, since the promotional advertising costs behind the campaign were assigned to shareholders, the resulting legal costs should be as well.[2326] It recommends that the Commission apply this approach for all Outside Legal costs resulting from

[2320] CEJA Opening Brief at 96.

[2321] CEJA Opening Brief at 100.

[2322] CEJA Opening Brief at 100-101.

[2323] CEJA Opening Brief at 101.

[2324] CEJA Opening Brief at 101.

[2325] CEJA Opening Brief at 102.

[2326] CEJA Opening Brief at 103.

shareholder-funded activities or defense against Attorney General enforcement actions.[2327]

CEJA recommends removing outside counsel expenses for SoCalGas's First Amendment claim that Cal Advocates may not review shareholder-funded contracts.[2328] CEJA claims that this is self-serving advocacy that would allow utilities to illicitly contract with firms for purposes contrary to ratepayer interests and undermine state climate objectives.[2329]

Finally, CEJA argues that SoCalGas improperly seeks to recover funds for activities aimed at influencing public officials, such as legal research related to proposed agency actions, and recommends that shareholders shoulder the full cost of these expenses.[2330]

CEJA recommends denying outside legal costs in their entirety and that, at a minimum, the Commission reduce SoCalGas's outside legal request as shown below.

Table 31.9
CEJA's Outside Legal Costs Recommendation ($000)

SoCalGas Outside Legal Allocation Forecast[2331]	10,277
CEJA Reduction for CEC Litigation[2332]	(790)
CEJA Reduction for AG Enforcement, Shareholder First Amendment, Political Activity[2333]	(1,587)
Total After CEJA Recommendation	**7,900**

2327 CEJA Opening Brief at 103.

2328 CEJA Opening Brief at 103.

2329 CEJA Opening Brief at 103.

2330 CEJA Opening Brief at 104.

2331 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-54.

2332 CEJA Opening Brief at 100.

2333 CEJA Opening Brief at 100.

CEJA recommends crediting these outside legal costs back to ratepayers and argues that removing them from the forecast for Test Year 2024 would not be a sufficient remedy for the misallocation of funds to political activities that have already occurred.[2334]

31.4.3. TURN

TURN opposes SoCalGas's and SDG&E's Corporate Center General Administration allocations for the Incentive Compensation Plan, a subcategory of Pension and Benefits expenses.[2335] The Incentive Compensation subcategory refers to Sempra's variable pay plans, in which achieving performance measures is made a prerequisite for employees to receive a portion of their compensation.[2336]

TURN recommends removing 100 percent of costs requested, totaling $8.805 million, because it considers ratepayers assuming costs aimed at incentivizing financial goals to be inappropriate and unjustified when shareholders primarily benefit.[2337] TURN points to the Commission's statement in D.21-08-036 that it has "repeatedly rejected arguments" requiring ratepayers to fund incentive compensation "without a clear and demonstrable benefit to ratepayers, including in cases where the utility has argued that the total compensation package was at market."[2338] TURN also points to D.19-09-051, in

[2334] CEJA Opening Brief at 97. For example, CEJA contends that SoCalGas's removal of costs from future forecasts, for its retention of outside counsel at Reichman Jorgensen while the firm was challenging the City of Berkeley's ban on gas connections in new construction, is not a sufficient remedy because it does not correct the past misuse of funds nor make ratepayers whole.

[2335] TURN Ex-10-R at 43.

[2336] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-72.

[2337] TURN Ex-10-R at 43. TURN's recommendation was based on Sempra's original forecast.

[2338] TURN Ex-10-R at 18.

which the Commission found that financial metrics primarily aim at reaching a certain level of income, whereas ratepayer benefits are only an incidental effect.[2339]

31.5. Sempra Reply

In response to Cal Advocates' proposed adjustment to Audit Services expenses, Sempra argues that the audit reports are protected under attorney-client privilege and/or the attorney work-product doctrine.[2340] Sempra notes that the Commission previously found costs for privileged audits recoverable in D.19-09-051. Additionally, Sempra states that adjusting historical values will not impact the Test Year 2024 Audit Services forecast because it was based on the annual Audit Plan, not a historical average.[2341]

Regarding the contracts with which Cal Advocates takes issue, Sempra claims that Cal Advocates improperly focuses on activities from 2017-2019 while ignoring evidence about SoCalGas's process for excluding political costs, which was implemented in 2020.[2342] SoCalGas asserts that costs related to its political activities are recorded in its FERC 426 account, totaling $8.040 million in 2020, $10.080 million in 2021, and $12.147 million in 2022.[2343]

Regarding capitalizing outside legal firm costs, SoCalGas states that Cal Advocates did not oppose the reassignments in its specific chapters regarding capital reassignment. It further asserts that SoCalGas's and SDG&E's proposed capital reassignment process is the same as prior GRCs, which were examined

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[2339] TURN Ex-10-R at 23.

[2340] Sempra Opening Brief at 665.

[2341] Sempra Opening Brief at 666.

[2342] SCG Ex-245-E at SPM-4-SPM-5.

[2343] SCG Ex-245-E at SPM-6.

and approved by the Commission. SoCalGas argues that Cal Advocates' last-minute suggestion of potential impropriety is based on pure speculation and should be dismissed.[2344]

Regarding CEJA's proposed reduction, Sempra argues that Outside Legal costs are considered ordinary business expenses generally recoverable in rates for GRC purposes.[2345] Sempra asserts that SoCalGas justified its Outside Legal cost forecast and corrected all bona fide errors, leading to a decrease of $2.871 million.[2346] Sempra maintains that additional reductions to SoCalGas's allocation or refunding credit to ratepayers would be unwarranted.[2347]

Sempra states that credit cannot be refunded to ratepayers because the activities occurred from 2017 to 2021, applying costs authorized in a previous GRC.[2348] The current GRC can only determine reasonable costs and rates for 2024-2027.[2349] It argues that the Outside Legal costs challenged by intervenors were all incurred during this GRC's 5-year historical data and did not impact the rates in a way that can be credited back or refunded.[2350]

Sempra argues that a GRC considers whether costs were reasonably incurred, a standard that does not depend on whether legal activities were successful or involved a government entity.[2351] It also asserts that it is in

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[2344] Sempra Reply Brief at 678.

[2345] Sempra Opening Brief at 671.

[2346] Sempra Opening Brief at 675.

[2347] Sempra Opening Brief at 671.

[2348] Sempra Reply Brief at 498.

[2349] Sempra Reply Brief at 498.

[2350] Sempra Reply Brief at 498.

[2351] Sempra Opening Brief at 674.

ratepayers' interests for a regulated utility to petition the government or respond to requests for information.[2352] Sempra claims that preventing utilities from recovering legal costs for such activities from ratepayers would raise First Amendment concerns and prevent utilities from conducting their business.[2353] Sempra provides specific responses to CEJA's critiques regarding SoCalGas's litigation with the CEC, defense against the Attorney General's enforcement action, First Amendment claims, and activities allegedly meant to influence public officials.[2354] First, Sempra states that SoCalGas's action against the CEC was aligned with state policy because it sought to enforce the law, particularly the Natural Gas Act's provision requiring an annual report on maximizing natural gas benefits.[2355] Second, Sempra points out that SoCalGas reached a settlement with the Attorney General in which there was no finding of wrongdoing and argues that the advertisement underlying the case being a below-the-line activity has no bearing on whether the legal costs are as well.[2356] Third, Sempra claims that it only incurred Outside Legal costs for its First Amendment claims because Cal Advocates requested an unprecedented amount of information from SoCalGas in excess of its statutory authority.[2357] Finally, Sempra counters CEJA's arguments regarding activities allegedly meant to influence public officials

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[2352] Sempra Opening Brief at 674.

[2353] Sempra Opening Brief at 674.

[2354] Sempra Reply Brief at 505.

[2355] Sempra Reply Brief at 505.

[2356] Sempra Reply Brief at 506.

[2357] Sempra Reply Brief at 507.

because CEJA has not presented evidence that the activities constituted imprudent legal support.[2358]

Sempra disagrees with TURN's proposal to eliminate Corporate Center allocations for the Incentive Compensation Plan (ICP).[2359] Sempra asserts that incentive compensation should not be treated differently from base salary so long as the total compensation level is "at market" and thus reasonable.[2360] Sempra also states that, regardless of accompanying shareholder benefits, ratepayers benefit from employees being incentivized to meet company goals related to safety and financial health.[2361]

31.6. Discussion

We review this section for incremental cost requests and the contested issue of outside legal expenses.

31.6.1. Incremental Cost Request

Overall, there is a decrease in Corporate Center Administrative and General cost requests of $5.913 million, and there are requests for incremental cost increases of sub-cost categories from the 2021 Base Year, including Finance, Human Resources and Administration, Legal Compliance and Governance, and External Affairs.

Except for outside legal expenses, which use a five-year historical average, the underlying forecasting method for incremental cost increases is not evident in the actual cost requests. Sempra Utilities Corporate Center uses a hierarchy to allocate its costs to SoCalGas, SDG&E, and Infrastructure: Direct Assignment,

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[2358] Sempra Reply Brief at 508-511.

[2359] Sempra Reply Brief at 533.

[2360] Sempra Reply Brief at 535.

[2361] Sempra Reply Brief at 539.

Causal/Beneficial, and Multi-Factor method. The lack of supporting evidence, for how cost centers within a division are applying forecasting methods and the reason for incremental cost requests, makes it unduly challenging for regulators to assess how the utilities arrived at their requested amounts. While there is no problem with using multiple forecasting methods based on available data, Sempra Utilities fails to disaggregate and disclose how those methods are used to allocate each utility's division-level forecasts.

Proving reasonableness by a preponderance of the evidence calls for transparency around each cost center, not only blanket statements about "most cases" or the "blend of forecasting methods" generally applied across subcategories.[2362]

Additionally, Sempra Utilities' request for incremental funding lacks specific justification. It cites generic statements about complying with "existing and potentially new" regulations but fails to demonstrate a direct connection to the requested expense increase.[2363] While Sempra Utilities mentions infrastructure growth demands, it does not link this to a specific workload increase within the Corporate Center. Sempra Utilities' request for increased funding lacks strong supporting evidence. It has not demonstrated how its expense forecasts directly correlate to the workload in the Corporate Center's departments.

For example, Sempra Utilities does not demonstrate a forecasting methodology or explain the reason behind the $3.936 million incremental cost increase under the Finance division. Simply citing generic categories like "higher rating agency fees," "increased travel and training," or "higher consulting and

[2362] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-11.

[2363] Sempra Opening Brief at 660.

contract labor costs" does not justify cost increases. We need to understand why these specific costs are rising for Sempra Utilities and how they justify increasing revenue requirements and, ultimately, the rates.

Without proper justification, Sempra Utilities has failed to meet its burden of proof to show cost reasonableness consistent with Pub. Util. Code Section 451. Therefore, it is reasonable to deny the following cost increases because we do not know the underlying forecasting methodology for the cost categories and the reason for the cost increases:

- Increased funding for higher rating agencies, trustees, and cash management fees at SoCalGas ($2,438,000) and SDG&E ($452,000) lacks supporting evidence.
- Increased travel and training of $1,165,000 and $1,036,000 for SoCalGas and SDG&E, respectively, lacks supporting evidence.
- Sempra Utilities does not explain why the increase in labor costs by $421,000 for SoCalGas and $1,407,000 for SDG&E is justified.
- Consulting and contract labor costs, primarily within Audit Services and Tax Services, of $656,000 at SoCalGas and $831,000 at SDG&E lacks supporting evidence.
- A net increase in outside legal services and fees includes a $1,957,000 increase at SDG&E. These increases are not supported by evidence of why the cost estimate increased and whether the costs are reasonable.
- The $406,000 and $283,000 allocated for the appointment of a Chief Legal Officer for SoCalGas and SDG&E, respectively, are not supported by evidence that the costs are reasonable. The witness states that this cost increase is primarily due to hiring a new Chief Legal Officer and represents a variance between the 2021 Base Year and the 2024 Test Year as the

reason for its cost request.[2364] We do not know the justification for hiring and charging costs to ratepayers.

- Higher labor overheads (pension and benefits, payroll taxes, and ICP) of $199,000 for SoCalGas and $486,000 for SDG&E lack supporting evidence.

Furthermore, SoCalGas claims to allocate costs based on the audit plan, but it does not explain the annual audit plan.[2365]

According to Sempra Utilities' comment on the proposed decision "denying incremental costs constitutes legal error."[2366] Sempra Utilities states that "staff and intervenors rigorously examined this evidence, as in past cases, and proposed no cuts."[2367] While past cases can provide guidance, facts presented in this case are weighed on their own merit. As discussed above, Sempra Utilities has only provided a partial justification for the incremental cost increases, focusing primarily on the requested amount without adequately explaining the underlying reasons for the increases. The decision gives a breakdown of cost categories and highlights specific instances as examples where insufficient data was provided to support the requested increases. Sempra Utilities has not met the burden of proof to establish supporting evidence to show the need for incremental cost increases for cost categories within the Corporate Center division. Therefore, it is reasonable to deny incremental cost requests for the following departments and adopt the following 2024 Test Year forecast, which is the same as 2021 Base Year Costs:[2368]

[2364] Sempra Opening Brief at 669.

[2365] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-25-26.

[2366] Sempra Opening Comments at 19.

[2367] Sempra Opening Comments at 19.

[2368] Sempra Opening Brief at 659.

Table 31.10
Adopted 2024 Test Year Forecast

Cost Departments	$000
A. Finance	37,097
B. Human Resources and Administration	13,196
C. Legal, Compliance, and Governance	11,842[2369]
D. External Affairs	5,286

31.6.2. Contested Issues

31.6.2.1. Finance- Audit Services

Cal Advocates recommended the removal of historical costs related to Sempra Utilities' 36 audit reports.[2370] Cal Advocates' proposal is based on its inability to review the audits' contents to determine whether the costs to perform these audits were justifiably assigned to ratepayers.[2371]

Sempra Utilities disagrees with Cal Advocates' recommendation. It claims attorney-client privilege, asserting precedent from D.19-09-051, which declined a similar request from Cal Advocates. Additionally, it argues that Cal Advocates' proposal does not impact SoCalGas's and SDG&E's audit services because it does not include historical costs.[2372]

We disagree with Sempra Utilities' arguments for the following reasons. In summary, D.19-09-051 is not binding in this context, and we find Sempra Utilities'

[2369] The decision reduces the Legal, Compliance, and Governance costs by removing costs for Outside Legal Expenses, as explained further in the decision.

[2370] For SDG&E, Cal Advocates recommends the removal of $233,000 in 2017, $101,000 in 2018, $218,000 in 2019, $546,000 in 2020, and $334,000 in 2021; and for SoCalGas, Cal Advocates recommends the removal of $381,000 in 2017, $593,000 in 2018, $344,000 in 2019, $117,000 in 2020, and $114,000 in 2021.

[2371] Cal Advocates Opening Brief at 360.

[2372] Sempra Opening Brief at 664-667; SCG Ex-223-R-E/SDG&E Ex-227-R-E at DRC-6.

claim that historical costs are not included in the forecast for Audit Services contradictory.

Prior decisions hold weight, but they are not binding in this case. This GRC has different facts and circumstances than the previous application. We can review prior decisions and rulings for consistency. However, they do not dictate the outcome.

Sempra Utilities cites D.19-09-051 as justification for including the costs of 36 audits in their forecast. However, Cal Advocates' argument citing D.09-03-025 is more persuasive for disallowing these costs. The burden lies with Sempra Utilities to demonstrate why their "privileged audits" are reasonable expenses for ratemaking purposes. Sempra Utilities fails to meet its burden of showing how these audits benefit ratepayers pursuant to Pub. Util. Code Section 451. Moreover, given the context, misclassifying costs as ratepayer expenses is a major concern in this GRC review. This highlights the importance of carefully evaluating Sempra Utilities' cost allocations.

The other reason for declining Sempra Utilities' arguments and accepting Cal Advocates' adjustments is that there seems to be a contradiction in Sempra Utilities' claim about historical costs. Sempra Utilities states that the allocation of these forecasted costs within the Audit Services[2373] department is based on the annual audit plan.[2374] Sempra Utilities has not explained the methodology for its annual audit plan. Our review shows that the audit plan itself might include

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2373 SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-25-26. Sempra Utilities explains that the Audit Services department is responsible for internal audits and compliance with the Sarbanes-Oxley Act (SOX). Under internal audits, the allocation of costs for audit services, audit quality programs, and audits for health, safety, and environmental are based on the annual audit plan. For SOX compliance, the allocation of costs is a weighted average of each employee's workload based on an annual time study.

2374 Sempra Opening Brief at 667; SCG Ex-223-R-E/SDG&E Ex-227-R-E at DRC-6.

historical costs, which contradicts Sempra Utilities' claim that historic costs are not relevant.[2375] Sempra states that it relies on the Multi-Factor method to reallocate a portion of services attributable to the Corporate Center.[2376] The Multi-Factor allocation method, according to Sempra Utilities, relies on data from prior years for the following year's allocations.[2377] Consequently, if the cost of privileged audits is this historical expense, that would influence the forecast. The evidence provided by Sempra Utilities contains inconsistencies because it relies on data from previous years to make forecasts despite claiming that historical costs are not used for forecasting.

Due to the lack of clarity and inconsistency in its explanation, Sempra Utilities has not demonstrated that these costs are justified and reasonable for ratemaking purposes.

31.6.3. Pension and Benefits

We agree with TURN that Sempra has not met its burden to clearly demonstrate how ratepayers benefit from the Corporate Center ICP when the goals that it incentivizes are wholly financial. As Sempra acknowledges, the Commission reduced the ICP request in its 2019 GRC by "10 percent . . . or the amount representing the financial metrics."[2378] This was because the Commission found that financial metrics are not primarily aimed at benefitting ratepayers. Sempra's claims that the financial metrics lowered ratepayers' interest rates were not substantiated or quantified.[2379]

[2375] SCG Ex-23/SDG&E Ex-27 WP-R-E at 100-117.

[2376] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-25-26.

[2377] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-9.

[2378] Sempra Reply Brief at 539.

[2379] TURN Ex-10-R at 23.

Here, Sempra indicates that the ICP for Corporate Center focuses 100 percent on achieving financial goals.[2380] Although Sempra alleges that ratepayers benefit from a financially strong utility's ability to attract external funding and enhanced flexibility in financing, these claims are not substantiated or quantified in the record. Therefore, we adopt TURN's recommended reduction of $8.754 million.[2381] After that adjustment, this decision authorizes $10.427 million in allocated costs for the Pension and Benefits Test Year 2024 forecast cost.

31.6.4. Outside Legal Expenses

Outside legal expenses are presented under the Corporate Center's Legal, Compliance, and Governance Department. The department provides legal, compliance, and governance services to all Sempra companies and coordinates the retention and oversight of outside law firms, including negotiating outside legal fee arrangements.[2382] The Corporate Center Law Department within the Legal, Compliance, and Governance Department coordinates the retention and oversight of outside legal services for the operating company law departments, including SoCalGas and SDG&E, at the direction of the Chief Legal Officer and Deputy General Counsels. The costs for such outside legal services are directly assigned based on the matter.[2383]

[2380] TURN Ex-10-R at 43.

[2381] The request for Corporate Center ICP was updated to $8.754 million as shown in Sempra Opening Brief at 681, Table 29.9. TURN recommended 100% removal of ICP costs.

[2382] Sempra Opening Brief at 668.

[2383] SCG Ex-23-R-E/SDG&E Ex-27-R-E at DRC-45-54.

Sempra Utilities requested $19.531 million for outside legal expenses for 2024 Test Year costs, of which SDG&E requested $9.254 million and SoCalGas requested $10.277 million.[2384]

SoCalGas's witness stated that it is the responsibility of each individual attorney, in consultation with SoCalGas's accounting and finance team, to determine whether a new matter should be accounted for as above the line or below the line as they engage and open new matters with outside counsel.[2385] The witness stated that "as a general matter, outside legal costs are treated above the line, and the below the line evaluation is somewhat of an exception analysis for whether there should be an exception to that."[2386]

SoCalGas and SDG&E are required to demonstrate that outside legal expenses are eligible for recovery (above the line) and necessary for the company's operational needs to serve its customers for forecast costs to be included in rates.[2387] CEJA and Cal Advocates claim that SoCalGas's treatment of outside legal counsel expenses is part of its pattern and practice of misclassifying political activities to ratepayer accounts and only admitting to the error after resource-intensive discovery and motions practice.[2388] The issue of lobbying and advocacy expenses being either above-the-line or below-the-line costs goes beyond the outside legal expenses, as outside legal expenses are only a subset of the accounting procedures. The intervenors claim it reflects a company-wide practice of booking costs under inappropriate FERC Accounts. SoCalGas's pattern

2384 SCG Ex-223/SDG&E Ex-227 at DRC-B-3.

2385 Tr.Vol.16:2793:10-22.

2386 Tr.Vol.16:2858-2859.

2387 Pub. Util. Code Section 451; 18 C.F.R. Section 367.9230 – Account 923.

2388 CEJA Opening Brief at 94.

of booking political activities to ratepayer accounts is extensively discussed under the Other Issues Section of the decision. The Commission finds that SoCalGas's pattern of misclassification of costs in the past requires corrective measures and future reporting requirements.

For specific outside legal expenses contested by CEJA and Cal Advocates, we reviewed the reasonableness of including them as ratepayer expenses in the 2024 Test Year forecast and whether they should be considered above the line or below the line, as discussed below.[2389]

31.6.4.1. SoCalGas's Contested Outside Legal Expenses in the 2024 Test Year Forecast

For SoCalGas's 2024 Test Year forecast, CEJA and Cal Advocates make compelling arguments that ratepayers should not bear outside legal expenses incurred for the CEC litigation,[2390] for the response to an inquiry from the California Attorney General's office,[2391] and for the litigation against Cal Advocates' investigation of SoCalGas's lobbying and advocacy work.[2392]

The issue is whether outside legal expenses for SoCalGas's litigation and preparing responses to a government agency are reasonably included in the 2024 Test Year forecast and whether, moving forward, SoCalGas should book such costs as above- or below-the-line expenses.

[2389] CEJA Opening Brief at 100-104: Litigation Challenging State Climate Policy; SoCalGas Lawsuit Against California Energy Commission; Legal Costs Resulting from Shareholder-Funded Activities/Attorney General Enforcement Actions; Legal Defense for SoCalGas Violations of Green Marketing Laws; Outside Legal Expenses to Further Shareholder Interests; Cal Advocates Investigation; and Legal Costs Related to Influencing Decisions of Public Officials.

[2390] CEJA Opening Brief at 100-102; Cal Advocates Opening Brief at 377-381.

[2391] CEJA Opening Brief at 102-103; Cal Advocates Opening Brief at 383-384.

[2392] CEJA Opening Brief at 103-104.

We disagree with SoCalGas's framing of the issue as whether the Commission disallowing the recovery of litigation expenses against government entities or responding to government inquiries would have a chilling effect.[2393] The Commission is making no such broad rule. Based on the material facts of the litigation, a distinction should be made between hiring outside law firms for routine information requests, defense against accusations of wrongdoing, or litigation to advance shareholder interests. We will review these external legal expenses in detail below.

While SoCalGas acknowledges that past litigation success should not solely determine future revenue requirements, it argues that past legal activities, such as CEC litigation, reflect recurring costs associated with service provision.[2394] SoCalGas asserts that its litigation against the CEC was intended to ensure that the CEC honored the Legislature's intention and its integrated energy policy reports.[2395] Given these assertions, it appears SoCalGas envisions similar litigation in the future. Such litigation is far too tenuously and abstractly related if at all to service-provision to benefit ratepayers, let alone to be funded by ratepayers. We do not comment on SoCalGas's decision to engage in similar litigation in the future; it can do so at its shareholders' expense. However, regarding the cost forecasts before us, we deny recovery of costs for the CEC litigation expense for the reasons explained below.

SoCalGas has not demonstrated how ratepayers benefited when they funded outside legal firm fees to address concerns with the CEC instead of directly raising them through in-house lawyers. We agree with CEJA that the

[2393] Sempra Opening Brief at 674.

[2394] Sempra Opening Brief at 674

[2395] Sempra Opening Brief at 677.

lawsuit may have been used to influence the CEC's decisions.[2396] Moreover, SoCalGas acknowledges that there was a dramatic difference and robustness in CEC's subsequent IEPR report regarding the role of natural gas and gas infrastructure in achieving decarbonization goals.[2397] The lawsuit supported "influencing the decisions of public officials," favoring scenarios with higher natural gas consumption. Therefore, these litigation costs should not be included in forecasts for future cost recovery from ratepayers because these outside legal expenses were used to influence decision-makers, which is a below-the-line expense under FERC Account 426.4.[2398]

Additionally, Cal Advocates persuasively argues that SoCalGas's classification of litigation costs against the CEC as "nonutility operations" undermines its assertion that these costs stem from its normal business operations.[2399] Booked as non-utility operating expenses outside of SoCalGas's day-to-day operations, these expenses do not contribute to providing safe and reliable service to its customers.

Therefore, $790,394 related to litigation against the CEC should be removed from ratepayer accounts used to forecast the 2024 Test Year outside legal expenses.[2400]

Regarding outside legal expenses to respond to the Attorney General's inquiry on false advertisement, SoCalGas attempts to deflect the issue by

[2396] CEJA Opening Brief at 100-101.

[2397] Sempra Opening Brief at 676-677.

[2398] CEJA Opening Brief at 101.

[2399] Cal Advocates Opening Brief at 380.

[2400] CEJA Opening Brief at 5, 100; Sempra Reply Brief at 505.

highlighting that the inquiry was settled without admitting wrongdoing.[2401] This fact has no bearing on the central issue: should future rates reflect the legal costs incurred in responding to this inquiry? Pub. Util. Code Section 796(a) and the federal Public Utility Regulatory Policies Act of 1978 (PURPA)[2402] require the Commission to disallow costs for advertising encouraging increased energy consumption, ensuring fair treatment for consumers.[2403] Consequently, any defense of such advertising should not receive ratepayer funding. Similar to the CEC litigation, SoCalGas does not demonstrate how ratepayers benefitted from hiring these outside legal firms and how these costs contribute towards providing safe and reliable service. The full outside legal costs for this matter included in SoCalGas's GRC forecast are $100,865 in 2020 and $66,145 in 2021, which should not be booked as above-the-line expenses, and which SoCalGas should exclude from the historical average for forecasting 2024 Test Year legal expenses.[2404]

Regarding outside legal expenses for litigation against Cal Advocates' investigation of SoCalGas's lobbying and advocacy work, forecasting outside litigation costs to be paid for by ratepayers should not include such costs incurred on behalf of its shareholders and their First Amendment rights. This litigation protected shareholders' lobbying and advocacy interests.[2405] Ratepayers should not fund litigation against ratepayer advocates, which prioritizes and protects shareholder interests. As a monopoly natural gas transportation utility company, SoCalGas is shifting the burden of its litigation to its ratepayers.

[2401] Sempra Reply Brief at 506.

[2402] 15 U.S.C. Section 3203(b)(2) and Section 3204(b).

[2403] Cal Advocates Opening Brief at 368-369.

[2404] Sempra Reply Brief at 506.

[2405] CEJA Opening Brief at 103.

There is no evidence in the record that these activities directly benefit ratepayers. When questioned about the benefit to ratepayers and cost reasonableness, the witness stated that "these were reasonable and prudently incurred and, therefore, appropriately included in the forecast that will result in just and reasonable rates."[2406] We disagree with the utility because these costs may seem reasonable from a shareholder's perspective as their interests are protected but are unreasonable when placed on ratepayers. The witness's claim that these costs are "just and reasonable" ignores the fact that ratepayer funds are intended to support core utility operations and functions, not shareholder's political and lobbying activities. Therefore, it is reasonable to deny SoCalGas recovery for outside litigation expenses incurred to protect its shareholder interests over ratepayer interests from ratepayer accounts.

We agree with SoCalGas that rates cannot be retroactively adjusted based on the retroactive ratemaking principle. However, we can ensure that future forecasts exclude unreasonable costs. Sempra Utilities claims it does not forecast specific legal matters when developing forecasts for outside legal costs.[2407] Rather, it reviews historical information, makes adjustments as necessary, and uses that adjusted-recorded historical data to forecast dollars (not legal matters) for this GRC.[2408] While this approach is reasonable, the five-year historical average will only yield results based on underlying costs. Therefore, the future Test Year costs in subsequent GRC applications should be adjusted to remove the effect of extraordinary events not normally expected in the future,[2409] or if the utility is

[2406] Tr.Vol.16:2840:16-19.

[2407] SCG Ex-23-E-R/SDG&E Ex-23-E-R at DRC-7-8.

[2408] SCG Ex-23-E-R/SDG&E Ex-23-E-R at DRC-7-8.

[2409] Tr. Vol. 16:2820:18.

aware of ongoing litigation under normal business, it would be reasonable to make that adjustment. Adjusting forecasts for known events and expenses allows for reasonable cost estimates that can be recovered through rates.

In summary, we disagree with SoCalGas that the above litigations are normal business operations that should be used in forecasts used to determine future rates.[2410] We accept CEJA's recommendation to remove these litigation costs from SoCalGas's outside counsel cost forecast. Accordingly, we authorize $7.9 million for SoCalGas's outside legal expenses.

31.6.5. Accountability and Reporting Requirements

To avoid inappropriately charging outside legal expenses to FERC accounts as above-the-line expenses, it is important to improve Sempra Utilities' reporting and accountability for classifying outside legal costs. Since future legal issues are unpredictable and cannot be definitively categorized before they are incurred, it is reasonable to adopt an accounting and reporting mechanism where costs incurred in the future are reported and, therefore, properly justified for use in forecasts used to support future ratepayer recovery of costs in this category.

SoCalGas is requesting $10.277 million, and SDG&E is seeking $9.421 million in the 2024 Test Year. Based on our review of the substantial outside legal expenses booked above the line in 2022 by SoCalGas ($54.198 million) and SDG&E ($10.344 million), with none booked below the line in previous years, we require information to allow a better understanding and tracking of these costs to inform future GRCs.[2411] This raises the question of why

[2410] Tr. Vol. 16:2820:14-21.

[2411] On August 14, 2023, Cal Advocates filed a motion seeking official notice of 17 documents. Cal Advocates requested that the Commission take official notice of Exhibits CA-137 through CA-153, or in the alternative, admit them into the record of the proceeding pursuant to the Commission's Rules of Practice and Procedure and California Public Utilities Code Section 1701.

Footnote continued on next page.

SoCalGas incurred such high outside legal expenses in 2022. While these 2022 expenses do not impact the 2024 Test Year forecast, they raise concerns about the overall trend and potential implications for future rate cases. We require additional information to understand and track these costs over time to ensure proper oversight and accountability.

Additionally, Cal Advocates raises concerns about SoCalGas booking legal costs to FERC Accounts 923, 928, and 417, as well as Account 107. The lack of transparency raises concerns for ratepayers funding legal work, especially without clear matter descriptions recommended by CEJA. SoCalGas's discovery of an error in their 2024 outside legal cost forecast while preparing discovery responses highlights the need for improved practices. This error prompted a review of legal costs across individual matters (2017-2022) for SoCalGas, SDG&E, and Sempra (allocated costs).[2412, 2413]

During cross-examination, the SoCalGas witness was asked about the company's procedures for accounting for outside counsel costs following corrections to their accounting practices. The witness claimed that Sempra Utilities had established a formal process to identify expenses that could be classified as below the line. [2414]Additionally, Sempra Utilities stated that it had added additional language and controls to the overall process to ensure

Official Notice of Exhibits 137-138 was granted, as utility reports submitted under a duty of candor to the Commission per GO 77-M are public records subject to official notice.

2412 Sempra Opening Bried at 669 and Reply Brief at 491; this resulted in a decrease of $4.308 million in 2024 forecast for both companies ($1.437 million for SDG&E and $2.871 million for SoCalGas).

2413 Allocated Costs means costs that are assigned to the parent company and its subsidiary companies.

2414 Tr. Vol. 16:2811.

reevaluation.[2415] While we acknowledge these claimed improvements, we do not know the details of process improvement. Therefore, it is essential for Sempra Utilities to demonstrate concretely how these procedures have been implemented and how they have enhanced the company's ability to audit and justify the classification of outside legal expenses as below the line when it files its next GRC application. Accordingly, in the next GRC application, SoCalGas and SDG&E shall each provide the following information for their Sempra Corporate Center Outside Legal expenses:

1. A description of the process used to audit outside legal firm expenses to ensure they are properly recorded above the line, including improvements made from the process used to develop the 2024 Test Year forecast.
2. Recorded costs booked into each FERC account (including FERC Account 426.4) must include a description of the costs.[2416] If costs are booked to a capital account, explain the reason for capitalizing outside legal expenses.
3. An explanation of how the recorded costs are just and reasonable pursuant to Public Utilities Code Section 451 in a manner that is consistent with the attorney client privilege and work product protections and are necessary to provide natural gas and electric service. The matter descriptions should sufficiently justify cost recovery, including identifying specific matters for which outside legal costs are incurred.
4. A year-by-year summary of billing statements/invoices for the recorded costs of outside attorneys and law firms that provide service. Each invoice should be associated with a docket, a proceeding before a state agency, or identification of other matters not associated with a filing. The summary of billing statements should be subdivided by matter. .

[2415] Tr. Vol. 16:2811.

[2416] The template can be the same as General Order 77-M Reports.

31.7. Summary

This decision authorizes Corporate Center General Administration costs to SoCalGas and SDG&E, as shown in the table below. We accept SDG&E's updated request of $9.254 million for outside legal expenses. SoCalGas's request has been revised to exclude the expense of hiring external law firms for litigation, as discussed above. Therefore, we authorize $7.9 million for SoCalGas's outside legal expenses for the 2024 Test Year.

We accept the uncontested costs for Facilities and Assets, which are lower than the 2021 Base Year cost.

Table 31.11
Uncontested Costs for Facilities and Assets ($000s)

Service Areas	2021 Adjusted-Recorded	2024 Test Year Forecast Requested	2024 Test Year PD Authorization
A. Finance	37,097	41,033	37,097
B. Human Resources and Administration	13,196	14,016	13,196
C. Legal, Compliance, and Governance (excluding outside legal expenses)	11,842	13,076	11,842
D. Outside legal expense	19,475	19,421	17,154
E. External Affairs	5,286	5,608	5,286
F. Executive	0	0	0
G. Facilities and Assets	19,747	17,728	17,728
H. Pension and Benefits	29,333	19,181	10,427
Total	**135,976**	**130,063**	**112,730**

32. Compensation and Benefits

SoCalGas and SDG&E assert that their total compensation and benefits programs for employees, retirees, and their dependents are structured to attract, motivate, and retain a skilled, high-performing workforce and reflect the impacts of the marketplace, collective bargaining, and government regulation. These programs include the following components: base pay; short-term incentives (also referred to as "ICP" or "variable pay"); long-term incentives; special recognition awards; health and welfare benefits; retirement benefits; and other benefit programs.[2417]

Sempra asserts that it uses compensation metrics and key performance indicators to drive improved safety performance. Sempra states that compensation and benefit programs also promote employee health and welfare, which in turn contribute to SoCalGas's and SDG&E's safety performance and culture.

Sempra states that its holistic and competitive approach to total rewards has allowed SoCalGas and SDG&E to maintain an experienced, productive workforce while maintaining a labor cost structure that is in line with the market. This approach to total rewards, according to SoCalGas and SDG&E, also extends to the Sempra Corporate Center (Corporate Center), ensuring that total compensation costs for the services provided to SoCalGas and SDG&E by the Corporate Center are reasonable and competitive.[2418]

Compensation programs are designed to focus employees on the Companies' key priorities, the most important of which is safety. SoCalGas and SDG&E assert that safety is a core value for each IOU, and a strong safety culture directly influences the safety performance of an organization.[2419] SoCalGas and SDG&E also assert compensation and benefits programs are designed to support the Companies' commitment to diversity, equity, inclusion, and sustainability.[2420]

[2417] Sempra Opening Brief at 709-710.

[2418] Sempra Opening Brief at 710-711.

[2419] Sempra Opening Brief at 710-711.

[2420] Sempra Opening Brief at 711.

Examples provided by SoCalGas and SDG&E of benefits programs that support diversity, equity, and inclusion include the educational assistance program, which provides tuition reimbursement to help employees advance in their careers, and the enhancement of the employee assistance program to include mental health service providers that self-identify across a broad range of racial, gender, sexual, and other cultural identities.[2421]

Consistent with directives from prior GRCs, SoCalGas and SDG&E have completed and submitted a total compensation study (TCS) as part of this GRC. It includes a detailed analysis of "total compensation," which is defined as the aggregate value of annualized base pay, short-term incentive compensation, and benefits programs. For short-term incentive compensation, both actual and target data were analyzed. Long-term incentive compensation was excluded from both SoCalGas's and SDG&E's cost forecasts.[2422]

Sempra views its TCS as a conservative assessment of the market, as it is based on 2021 market survey data that may not fully capture current market conditions. The TCS describes the current U.S. labor market as continuing to be volatile driven by upticks in early and planned retirements, openness of employees to take new opportunities, pressures on talent supply, as well as the demand for workers with new and emerging skills. The TCS states that SoCalGas's actual total compensation (defined as base salaries, short-term incentives, and benefits) is within 1.9 percent of market (using actual ICP) and target total compensation (using target ICP) is within 0.7 percent of market, and

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2421 Sempra Opening Brief at 711.

2422 Sempra Opening Brief at 713.

SDG&E's total compensation is within 3.4 percent of market based on actual total compensation and target total compensation is within 1.9 percent of market.[2423]

32.1. Short-Term Incentive Compensation

According to SoCalGas and SDG&E, short-term incentive compensation creates focus on and accountability for desired results, improves performance, and facilitates ideas and operational improvements. Variable pay plans are a prevalent market practice and are a key component of a competitive compensation package.[2424]

SoCalGas and SDG&E assert that the short-term ICP has been a longstanding part of their total compensation strategies for all of their non-represented workforce. The evidence presented shows that the ICP places a portion of employee compensation at-risk, subject to achievement of the plan's performance measures, motivating employees to meet or exceed important safety, customer service, supplier diversity, reliability, and financial goals. Performance measures are reviewed and updated annually. ICP performance results are reviewed by the Sempra Audit Services department prior to board approval.[2425]

The SoCalGas and SDG&E ICP plans for non-executive employees include a company performance component, which trains employee focus on the achievement of company goals related to safety, reliability, customer satisfaction, and financial health. In addition, the plans include an individual performance component, which is based on the employee's contributions toward these company goals and achievement of their individual performance objectives.[2426]

[2423] Sempra Opening Brief at 713-714.

[2424] Sempra Opening Brief at 715.

[2425] Sempra Opening Brief at 715, citing SCG Ex-25-R-E/SDG&E Ex-29-R at 9.

[2426] Sempra Opening Brief at 715.

The company performance component and individual performance component each is weighted at 50 percent of employees' target ICP award. Safety measures comprise 80 percent of the company performance component of non-executive ICP for SoCalGas and 68 percent for SDG&E, which makes safety the top priority for purposes of the ICP for SoCalGas and SDG&E.[2427] The weighting of each metric is different for each utility, and for executives. Non-executives have an individual performance component while executives do not.[2428] Sempra also does not request ratepayer funding for long-term incentives in this GRC.[2429] For total non-executive and executive ICP for 2024, SoCalGas forecasts $112.372 million and SDG&E forecasts $81.661 million.[2430]

32.1.1. Party Positions and Recommendations

Cal Advocates and TURN recommended disallowance of a portion of SoCalGas's and SDG&E's ICP costs and UCAN recommended zero funding for SDG&E's ICP. Cal Advocates', TURN's and UCAN's proposals for funding SoCalGas's and SDG&E's ICP are shown in the tables below.[2431]

[2427] Sempra Opening Brief at 715-716.

[2428] SCG Ex-25-R-E/SDG&E Ex-29-R-E at 10-11.

[2429] Cal Advocates Opening Brief at 254.

[2430] Sempra Opening Brief at 716.

[2431] Sempra Opening Brief at 716, Table 31.3 and Table 31.4. Cal Advocates' proposals shown here do not reflect Sempra's latest Update Testimony.

Table 32.1
SoCalGas's And SDG&E's ICP

ICP ($000s)	SoCalGas	Cal Adv	Variance Cal Adv	TURN	Variance TURN
Non-Executive	109,509	45,353	(64,156)	92,262	(17,247)
Executive	2,863	888	(1,975)	1,832	(1,031)
Total	**112,372**	**46,241**	**(66,131)**	**94,094**	**(18,278)**

ICP ($000s)	SDG&E	Cal Adv	Variance Cal Adv	TURN	Variance TURN	UCAN	Variance UCAN
Non-Executive	79,794	33,180	(46,614)	54,740	(25,054)	0	(79,794)
Executive	1,867	612	(1,255)	1,167	(700)	0	(1,867)
Total	**81,661**	**33,792**	**(47,869)**	**55,907**	**(25,754)**	**0**	**(81,661)**

Cal Advocates recommends 1) the removal of the financial health component of Sempra's ICP plan funding request;[2432] and 2) the remaining (non-financial) portions of the ICP be shared equally between ratepayers and shareholders. After the labor inflation rate adjustment and removal of the financial health metric, Cal Advocates' ICP recommendation for SoCalGas and SDG&E is $54.401 million and $33.180 million, respectively.[2433] Cal Advocates bases its recommendation on the following: 1) its forecast for 2024 ICP-eligible employees that does not include Sempra's headcount projections for projects that are incremental to the funding requested in this GRC testimony;[2434] and 2) precedent for shareholder funding of significant amounts of short-term incentives.

TURN recommends a reduction to the ICP forecast by excluding ICP costs for (1) financial goals; (2) SDG&E Operational Goals; and (3) some

[2432] Cal Advocates Opening Brief at 256.

[2433] Cal Advocates Opening Brief at 257.

[2434] Sempra Opening Brief at 254-256.

Customer/Stakeholder goals because these costs are inappropriately assigned to ratepayers by SDG&E and SoCalGas.[2435] As a result, TURN reduces SoCalGas's forecast for utility ICP spending by $19.928 million, and reduces SDG&E's forecast for utility ICP spending by $26.986 million.[2436]

UCAN recommends zero funding for SDG&E's ICP by contesting the weighting of the financial health measures in SDG&E's ICP (10 percent weighting for non-executive and 28 percent weighting for executive in the 2022 ICP) and the inclusion of "difficult to quantify" measures such as public opinion surveys and progress toward a renewable natural gas goal. In addition, UCAN asserts that funding for the ICP should be denied unless SDG&E designs a plan based on employee efforts to control costs and reduce customer rates.[2437]

32.1.2. Sempra's Reply

Sempra contends that the intervenors' recommendations are not based in law, policy, or the facts of this case, for several reasons.[2438] First, Sempra claims that precedent supports authorizing compensation that falls between plus or minus five percent of the market.[2439] Second, incentive pay is part and parcel of the overall compensation scheme, and the allocation of total cash compensation between salaries and incentives should be left to each utility's discretion.[2440] Third, Sempra contends that its ICP performance goals benefit customers and the

[2435] TURN Opening Brief at 342-345, 337.

[2436] TURN Opening Brief at 337.

[2437] UCAN Ex-02 at 21.

[2438] Sempra Reply Brief at 535.

[2439] Sempra Reply Brief at 534; D.15-11-021 at 265.

[2440] Sempra Reply Brief at 535; D.92-12-057 at 81.

community, including goals related to safety, reliability, customer satisfaction, and financial health.[2441]

32.1.3. Discussion

The Commission has authorized recovery for the cost of short-term incentive compensation in prior GRCs, including the last Sempra GRC.
In this GRC, all the intervenors recommend zero funding for Financial Health metrics based on the argument that they provide no benefits to ratepayers. Sempra also does not request ratepayer funding for long-term incentives in this GRC,[2442] and Sempra acknowledges removal of such costs from forecasts that are solely tied to financial incentives as an outcome in this GRC consistent with D.19-09-051.[2443] In D.19-09-051, the Commission found that performance metrics provide tangible benefits to ratepayers, except for financial metrics because they primarily benefit utilities and their shareholders.[2444] Since then, the Commission has denied funding for financial metrics for other large investor-owned utilities, including SCE[2445] and PG&E.[2446] Based on the above, the Commission continues this policy and denies funding for costs associated with financial metrics.

For other metrics, Cal Advocates recommends equal cost-sharing between ratepayers and shareholders; TURN recommends adjustments to specific ICP programs; and UCAN recommends denying ratepayer funding for all ICP programs.

[2441] Sempra Reply Brief at 539.

[2442] SCG Ex-25-R-E/SDG&E Ex-29-R-E at 20.

[2443] Sempra Reply Brief at 550.

[2444] D.19-09-051 at 542-543.

[2445] D.21-08-036.

[2446] D.23-11-069.

Sempra generally opposes all of the intervenors' positions as being inconsistent with Commission precedent, policy, and the law.[2447] However, Sempra's opposition to Cal Advocates' recommendation to share equally the cost of ICP programs between ratepayers and shareholders is inconsistent with the Commission's decision in SCE's GRC in which the Commission reduced the costs associated with 50 percent of the utility's short-term incentive program associated with financial and policy-shaping goals.[2448] The Commission reasoned that for such programs shareholders may receive some benefits from the program goals that primarily benefit ratepayers and are fully ratepayer-funded, and ratepayers may receive some benefits from the program goals that primarily benefit shareholders and are fully shareholder-funded.[2449]

In D.21-08-036, the Commission stated that it has repeatedly rejected arguments that cost-of-service ratemaking principles require ratepayers to fully fund incentive compensation where elements of the program essentially benefit shareholders without a clear demonstrable benefit to ratepayers, including in cases where the utility has argued that the total compensation package was at market.[2450] The Commission finds the policy adopted in recent decisions to continue to be reasonable given the decreasing affordability of rates. The worsening utility rate crisis supports additional focus on harnessing the purpose of incentive compensation to drive accountability for improvements in affordability. Under these circumstances, the Commission has the discretion to make adjustments, such as those made to ICP during the economic downturn

[2447] Sempra Reply Brief at 541.

[2448] D.21-08-036 at 433

[2449] D.21-08-036 at 433.

[2450] D.21-08-036 at 428.

around 2012, as noted by Sempra.[2451] Based on the above, the Commission finds Cal Advocates' recommended reductions to be the most reasonable, consistent with recent Commission decisions, and the most aligned with the pertinent facts. Accordingly, the Commission adopts Cal Advocates' forecasts for total Non-Executive and Executive ICP for SoCalGas and SDG&E of $45.568 million and $33.287 million respectively.[2452]

UCAN recommends denying authorization for ICP unless Sempra designs a plan based on employee efforts to control costs and reduce customer rates. The Commission finds that this recommendation is pertinent to existing circumstances and Sempra's ICP performance goals because the Commission finds them to be lacking in measures that may improve customer affordability. Sempra claims that its financial incentives provide the ratepayer benefit of providing employees with an incentive to run the company efficiently while still focusing on safety, customers, and stakeholders. However, the Commission finds little evidence in this GRC that any Sempra incentives provide employees with the incentive to run the company more efficiently. In fact, the Commission finds that Sempra could improve significantly in valuing the goal of providing its services in a cost-effective manner.[2453]

[2451] Sempra Reply Brief at 538.

[2452] Cal Advocates' position as stated in testimony and opening briefs is based on outdated numbers. Using Sempra's latest figures and Cal Advocates' methodology as shown in CA Ex-13-E at 9–10, the forecast is adjusted as follows:

SoCalGas: $44.680 million (Non-Executive) + $0.888 million (Executive) = $45.568 million; and

SDG&E: $32.676 million (Non-Executive) + $0.612 million (Executive) = $33.287 million.

[2453] Sempra Opening Brief at 727.

For example, in this GRC, the Commission finds evidence of management inefficiency and lack of cost-effectiveness in the number of unsubstantiated forecasts and the number of audits initiated to evaluate some of Sempra's requests. As a result, the Commission finds it reasonable to require Sempra to perform an independent study for both utilities to be filed in the next GRC to assess their management efficiency, including evaluating how ICP metrics can better incentivize cost-effectiveness, without compromising safety, with specific recommendations for controlling costs. In future GRCs, Sempra's executive ICP and compensation can be evaluated partly based on Sempra's progress in meeting cost-effectiveness metrics, without compromising safety.

32.2. Remaining ICP

The remaining components of SoCalGas's and SDG&E's ICP programs, such as Spot Cash and Employee Recognition Programs, are uncontested.[2454]

Based on each utility's methodology and cost drivers in its supporting documents, the Commission finds each utility's remaining ICP programs to be reasonable and adopts $2.649 million for SoCalGas and $1.907 million for SDG&E.

32.3. SDG&E Total Compensation

As discussed above, SDG&E states that its total compensation study shows that its total compensation is within 3.4 percent of market based on actual total compensation, and target total compensation is within 1.9 percent of market.

UCAN argues that SDG&E is significantly overpaying some of its employees and recommends reducing the ratepayer contribution to compensation for these employees by a total of $2.508 million.[2455] More specifically, UCAN recommends this adjustment to the Compensation and Benefits account for 128

[2454] Cal Advocates Opening Brief at 254.

[2455] UCAN Ex-01 at 24–25.

employees identified as receiving compensation that is significantly higher than the stated industry norm target level of 111 percent of the average of the external market.

In response, SDG&E claims that UCAN is "cherry picking" and misunderstands the purpose of the total compensation study. However, SDG&E's arguments, including that its compensation is within the market in the aggregate, do not address the number of individual employees whose compensation is significantly above market levels.[2456] Stating that total compensation is within industry norms of what the industry considers to be competitive does not demonstrate why it is just and reasonable for ratepayers to incur the cost of compensation for individual employees outside the range of competitive compensation. For example, UCAN documents that 6 Master Meter Customer Program Advisors are paid $242,000, which is 21 percent above the target market level, and proposes an adjustment of $305,000. In the absence of evidence supporting the necessity and reasonableness of the above market compensation for the 128 employees documented, the Commission finds UCAN's recommendation to be reasonable and adopts an additional reduction of $2.508 million from the amount of SDG&E's ICP of $33.287 million. Therefore, after that reduction, the Commission finds SDG&E's ICP of $30.779 million to be reasonable and adopts it.

32.4. Benefits

Sempra offers a comprehensive and balanced employee benefits program that includes the following benefits:[2457]

[2456] SDG&E Ex-229 at 19-20.

[2457] Sempra Opening Brief at 728-729.

- Health benefits: medical, dental, vision, wellness, employee assistance program (EAP), and mental health and substance abuse benefits;
- Welfare benefits: long-term disability, workers compensation, life insurance, accidental death and dismemberment (AD&D) insurance, and business travel accident insurance;
- Retirement benefits: pension and retirement savings plans; and
- Other benefit programs.

32.4.1. Health Benefits

Sempra provides employees with group health benefits, including medical, dental, vision, employee assistance, and wellness programs. Medical, dental, and vision insurance costs are shared between Sempra and its employees. The level of cost sharing varies according to the type of benefit and the level of coverage selected. Certain basic benefits are provided at no cost to the employee, including basic life, basic AD&D, long-term disability, EAP, and business travel accident insurance.[2458] Cal Advocates notes that each utility medical health plan enrollment is lower than 100 percent, with SoCalGas employees being 88 percent enrolled and SDG&E employees being 89 percent enrolled.

For 2024 health benefits, SoCalGas's and SDG&E's forecasts are $129.823 million and $72.746 million, respectively, compared to $92.340 million and $54.545 million for Base Year 2021, respectively.[2459] Sempra attributes the increases between 2021 and 2024 to forecasted medical rate escalation and anticipated changes in headcount.[2460] Sempra also calculates its medical forecast

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[2458] SCG Ex-25-R-E/SDG&E Ex-29-R-E at 22-23.

[2459] SCG Ex-401/SDG&E Ex-401 at 13-14.

[2460] SCG Ex-401/SDG&E Ex-401 at 23-24.

using the actual 2022 benefit enrollment elections made during the annual enrollment in 2021, which was high compared to historical data.[2461]

Cal Advocates recommends a lower 2024 health benefit forecast of $103.690 million for SoCalGas and $55.209 million for SDG&E.[2462] Cal Advocates bases its medical benefits forecast on an estimate of each utility's medical enrollment elections using employee headcounts for 2017-2020. Cal Advocates did not use 2021 headcounts because the 2021 actual headcounts provided by Sempra substantially deviated from the 2017-2020 historical trends.[2463] Cal Advocates does not oppose Sempra's projected medical escalation rate of 6.25 percent per year for 2023 and 2024.[2464]

Sempra disputes that its medical benefits forecast is based on 100 percent enrollment.[2465] However, since Sempra's projected medical enrollment headcounts for years 2022-2024 for medical costs are identical to Sempra's ICP-eligible employee headcount forecast for years 2022-2024, the Commission finds Cal Advocates' medical benefits forecast to be more accurate. Accordingly, the Commission finds Cal Advocates' recommendations to be reasonable and adopts a medical benefits forecast of $101.522 million for SoCalGas and $57.593 million for SDG&E.

Considering the arguments above regarding the methodologies and data used, the Commission also finds Cal Advocates' dental and vision forecasts to be more accurate. Accordingly, the Commission finds Cal Advocates'

2461 Cal Advocates Opening Brief at 258-259.

2462 Cal Advocates Opening Brief at 259.

2463 Cal Advocates Opening Brief at 258-259.

2464 Cal Advocates Opening Brief at 259.

2465 Sempra Opening Brief at 729-730; Sempra Reply Brief at 552.

recommendations to be reasonable and adopts a 2024 dental benefits forecast for SoCalGas and SDG&E of $4.387 million and $3.487 million, respectively. For vision benefits, the Commission finds Cal Advocates' recommendations to be reasonable and adopts a 2024 vision cost forecast for SoCalGas and SDG&E of $0.490 million and $0.278 million, respectively.[2466]

32.4.2. Retirement Benefits

Sempra provides retirement benefits to all regular employees which include a defined benefit pension plan, a defined contribution (401k) retirement savings plan, and postretirement health and welfare benefits. Approximately 93 percent of Sempra employees participate in the defined contribution retirement savings plan, and the average elective deferral contribution rate is 12 percent of eligible pay. Employees are eligible to participate in the plan upon hire with company matching contributions vesting after one year of service. The basic company matching contribution is equal to one-half of the first 6 percent of the employee's contributions of eligible pay. In addition, employees receive a "stretch match" equal to one-fifth of the next 5 percent of the employee's contributions.[2467]

32.4.2.1. Nonqualified Retirement Savings Plan and Supplemental Pension

The nonqualified retirement savings plan, or deferred compensation plan, allows pre-tax contributions for employees, subject to IRS compensation and contribution limits. Company matching contributions mirror the company matching contributions provided under the Retirement Savings Plan (RSP).

[2466] Cal Advocates' recommendations were based on Sempra's request before the July 2023 Update Testimony. The adopted amounts are based on the latest updated forecasts, reduced using Cal Advocates' methodology of: 1) An adjustment which reduces SoCalGas's and SDG&E's forecast by 15% and 9%, respectively; and 2) An additional adjustment which further reduces SoCalGas's and SDG&E's forecast by 8% and 13%, respectively.

[2467] SCG Ex-25-R-E/SDG&E Ex-29-R-E at 36-37.

Participants are eligible for company matching contributions after one year of service. Projected costs are based on actual 2021 costs adjusted for labor inflation. SoCalGas's and SDG&E's forecasted TY 2024 costs for company matching contributions under the nonqualified retirement savings plan are $0.317 million and $0.268 million, respectively.[2468]

SoCalGas and SDG&E offer two supplemental pension plans, the Supplemental Executive Retirement Plan, which covers a small number of senior executives, and the Cash Balance Restoration Plan. The Cash Balance Restoration Plan restores benefits for employees whose earnings or benefits exceed the limitations established by the Employee Retirement and Income Security Act, allowing employees who exceed the limits to continue to accrue benefits. Benefits are accrued under the same formula and are subject to the same vesting conditions as the broad-based retirement plan, which restores benefits that would otherwise be lost due to statutory limits under broad-based retirement plans.[2469]

Cal Advocates recommends a reduced forecast for each utility's 2024 nonqualified retirement savings plan in the amounts of $0.135 million and $0.122 million for SoCalGas and SDG&E, respectively.[2470] For supplemental pension plans, Cal Advocates recommends 2024 amounts of $1.103 million for SoCalGas and $0.973 million for SDG&E.[2471] Cal Advocates bases this forecast on the same methodology used for the ICP forecast above. Cal Advocates also

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[2468] SCG Ex-25-R-E/SDG&E Ex-29-R-E at 37.

[2469] Cal Advocates Opening Brief at 263-264.

[2470] Cal Advocates Opening Brief at 263.

[2471] Cal Advocates Opening Brief at 264.

recommends ratepayer funding of no more than 50 percent of nonqualified retirements savings plans, consistent with GRC precedent.[2472]

Sempra corrected its original testimony due to the double counting of certain employees on leave.[2473] Sempra's conclusory arguments and deferrals to testimony[2474] do not persuasively rebut the reasonableness of Cal Advocates' recommendation. In Sempra's 2019 GRC, the Commission upheld equal sharing of these costs between ratepayers and shareholders based on the finding that these plans are generally applicable only to executives and other high-income employees.[2475] Given that these plans benefit both shareholders and ratepayers, the Commission continues to find it reasonable to share these costs equally. Accordingly, the Commission adopts Cal Advocates' recommendations for $0.135 million and $0.125 million for SoCalGas's and SDG&E's Nonqualified Retirement Savings Plan, respectively, and $1.103 million and $0.973 million for SoCalGas's and SDG&E's Supplemental Pension.

32.4.3. Remaining Health, Welfare, Retirement, and Other Benefits

The remaining components of SoCalGas's and SDG&E's health, welfare, retirement, and other benefit programs are uncontested.[2476] Based on each utility's methodology and cost drivers in its supporting documents, the Commission finds each utility's remaining health, welfare, retirement, and other benefit programs to

[2472] Cal Advocates Opening Brief at 263.

[2473] Sempra Opening Brief at 731.

[2474] Sempra Opening Brief at 732; Sempra Reply Brief at 553.

[2475] D.19-09-051 at 553.

[2476] Cal Advocates Opening Brief at 261, 264.

be reasonable and adopts $45.294 million for SoCalGas and $27.800 million for SDG&E.

33. Pension and Post-Retirement Benefits Other Than Pensions

SoCalGas's and SDG&E's Pension and post-retirement Benefits Other than Pensions (PBOP) are components of a total compensation program designed to enable SoCalGas and SDG&E to attract, motivate, and retain a high-performing workforce. Sempra states that the Commission has a longstanding practice of providing funding for pension and PBOP benefits that are offered as part of a reasonable total compensation program.[2477]

SoCalGas's and SDG&E's projected costs for 2024[2478] for Pension and PBOP are $170.718 million for SoCalGas and $35.275 million for SDG&E.[2479] These forecasts are based on the following:[2480] 1) Continuing to recover pension costs based on the structure of the 2019 Test Year GRC Decision, with an adjustment to the PBOP shortfall/surplus amortization period from fourteen to seven years;[2481] and 2) Continuing to recover post-retirement health and welfare benefits expenses based on costs determined pursuant to Subtopic 715 in the FASB Accounting Standard Codification (ASC 715).[2482] These costs are maintained in a two-way balancing account due to cost variability resulting from external

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[2477] Sempra Opening Brief at 733.

[2478] Sempra Opening Brief at 734, Table 32.1.

[2479] Sempra Opening Brief at 735.

[2480] Sempra Opening Brief at 734.

[2481] Sempra Opening Brief at 734.

[2482] Sempra Opening Brief at 734.

economic and regulatory variables, which are outside the control of SoCalGas and SDG&E.[2483]

The table below provides a summary of SoCalGas's and SDG&E's Pension and PBOP recorded in the 2019 Base Year and estimated for 2024.[2484]

Table 33.1
Summary of 2019 vs. 2024 Pension Benefit and PBOP Costs ($000s)

	Benefit Description	2019 Actual	2024 Projected	2019-2024 Change
SoCalGas	Pension	150,465	170,718	20,253
	PBOP	0	0	0
SDG&E	Pension	50,668	34,928	(15,740)
	PBOP	0	347	347

Cal Advocates submitted direct testimony reviewing SoCalGas's and SDG&E's testimony and workpapers, historical data, and actuarial reports supporting this forecast. No party opposes the forecast.[2485] The total change for both utilities shown in Table 33.1 represents a 2.4 percent increase in these costs from 2019 to 2024. Based on Sempra's forecasting methodology and the resulting change described in supporting documents,[2486] the Commission finds SoCalGas's and SDG&E's forecasts for the above pension and PBOP to be reasonable and adopts them.

34. People and Culture Department

At SoCalGas and SDG&E the People and Culture Department has three key areas of responsibility: (1) sourcing, hiring, developing, training, and retaining

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2483 Sempra Opening Brief at 734.

2484 Sempra Opening Brief at 734.

2485 Sempra Opening Brief at 735.

2486 SCG Ex-37-R at 2-14; SCG Ex-401, Table RH-1 A-1.

employees; (2) establishing, implementing, and managing employee-related programs, policies, and guidelines to ensure compliance and alignment to best practices; and (3) administering and managing long-term disability programs, wellness programs, drug and alcohol testing/compliance programs, leave of absence policies, and self-insured workers' compensation programs.[2487] The Executive Offices for each utility provide guidance and strategic direction for implementing the mission, vision, and values of this department.[2488]

34.1. SoCalGas

34.1.1. Human Resources and Employee Services

The Human Resources and Employee Services (HR&ES) department supports the entire SoCalGas organization and is comprised of multiple teams: Compensation, Employee Care Services, Ethics & Workplace Investigations, Human Resources (HR) Business Partner, HR Research & Analysis, HR Services Operations, Human Resources Information Systems & Employee Care Services (ECS) Systems, and Staffing.[2489]

SoCalGas requests $12.171 million in 2024 for O&M costs associated with the HR&ES department, reflecting a $1.338 million increase over 2021 adjusted recorded costs of $10.833 million.[2490] SoCalGas bases this forecast on its 2021 Base Year recorded costs plus adjustments for increased labor based on the following: 1) increases in statutory and regulatory requirements; 2) an increase in the number of employee transactions and requests for employee data; 3) expansion of

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2487 SCG Ex-28-R-E at 1:17-25; SDG&E Ex-32-2E at 1:15-22.

2488 Sempra Opening Brief at 735-736.

2489 Sempra Opening Brief at 741.

2490 Sempra Opening Brief at 741.

the Ethics & Investigations Team;[2491] and 4) digitization of employee personnel files and related documents to improve data efficiency.[2492] SoCalGas revised its 2024 Test Year forecast from $12.451 million to $12.171 million after incorporating updated data described in its rebuttal testimony.

Cal Advocates recommends $11.113 million for SoCalGas's HR&ES O&M expenses, which is $1.338 million less than SoCalGas's forecast of $12.451 million in its original testimony.[2493] Cal Advocates bases its recommended forecast on SoCalGas's 2021 Base Year costs because Cal Advocates contends that SoCalGas provides insufficient detail to support an increase above 2021 recorded costs for the following reasons:[2494] 1) SoCalGas's 2021 recorded costs are the highest recorded amount for the 2017-2021 period; 2) SoCalGas did not demonstrate that 2021 costs are insufficient to address 2024 activities; and 3) SoCalGas failed to demonstrate why its current staffing level is incapable of supporting the anticipated increase in 2024 Test Year program activities.[2495]

In reply, SoCalGas states that Cal Advocates' position does not consider SoCalGas's updated data in rebuttal testimony and new programs and activities. SoCalGas clarifies that when using correct numbers, the difference between SoCalGas's 2024 Test Year forecast and 2021 adjusted-recorded costs is $1.339 million. Therefore, Cal Advocates' position using updated numbers should be a forecast of $10.833 million.[2496]

[2491] SCG Ex-28-R-E at 19.

[2492] Sempra Opening Brief at 741-742; SCG Ex-28-R-E at 15:23-29.

[2493] Cal Advocates Opening Brief at 267.

[2494] Cal Advocates Opening Brief at 267-268.

[2495] Cal Advocates Opening Brief at 267.

[2496] Sempra Reply Brief at 563-564.

The Commission finds SoCalGas's methodology, its application, and revised forecast to be more accurate than Cal Advocates' reduced forecast of Base Year 2021 adjusted recorded costs. Accordingly, the Commission finds SoCalGas's revised forecast for 2024 HR&ES to be reasonable and adopts $12.143 million.[2497]

34.1.2. SoCalGas Long-Term Disability and Workers' Compensation

Long-Term Disability (LTD) is an income replacement benefit that pays an employee a portion of their income if they are unable to work due to illness or injury for an extended period of time.[2498] SoCalGas's LTD Plan allows eligible employees to receive income replacement benefits when they are unable to work due to a qualifying serious medical condition.[2499] SoCalGas's Workers' Compensation (WC) benefits are mandated benefits provided to employees working in the State of California who are injured on the job.[2500]

SoCalGas requests $23.475 million for 2024 WC and LTD O&M expenses.[2501] SoCalGas bases this forecast on 2021 recorded costs and escalates them for estimated changes in labor costs, medical premiums, and year-over-year percentage changes in the number of employees.[2502] SoCalGas claims that this

[2497] The adopted forecast includes a $28,000 deduction based on Sempra's Corrections to Notice of Compliance with the Proposed Decision's Compliance Request dated November 8, 2024**.**

[2498] SCG Ex-28-R-E at 29:15-21; SDG&E Ex-32-2E at 14:6-10.

[2499] Cal Advocates Opening Brief at 268; SCG Ex-28-R-E at AMN-29.

[2500] Sempra Opening Brief at 268.

[2501] SCG Ex-401/SDG&E Ex-401 at A-12.

[2502] SDG&E Ex- E-32-2E at 30:5-8; SDG&E Ex- E-32-2E at 14:25 –15:2

zero-based methodology is most appropriate because it is based on the most recent costs.[2503]

Cal Advocates recommends $22.807 million for SoCalGas's WC and LTD O&M expenses, which is $994,000 less than SoCalGas's original forecast.[2504] Cal Advocates bases its recommendation on a three-year historical average of LTD expenses and argues that this methodology is appropriate because of the variability and uncertainty of LTD expenses each year.[2505] In rebuttal, SoCalGas contends that Cal Advocates' three-year average does not accurately reflect future LTD costs because historical data shows that labor and medical costs have been rising each year. For example, SoCalGas states that 2022 actual expenses for SoCalGas have already exceeded Cal Advocates' recommendation for the 2024 Test Year.[2506]

The Commission agrees with SoCalGas's position that the most recent 2021 data with adjustments most accurately estimates these 2024 costs. Accordingly, the Commission finds SoCalGas's forecast for 2024 Workers' Compensation and Long-Term Disability of $23.475 million to be reasonable and adopts it.

34.1.3. Executive Offices

SoCalGas employs a Chief Executive Officer (CEO), President, Chief Operating Officer (COO), and a Chief Administrative & Diversity Officer to provide executive leadership within SoCalGas. SoCalGas does not include the labor costs of these officers in this forecast because they are excluded from

[2503] Sempra Joint Opening Brief at 736.

[2504] Cal Advocates Opening Brief at 268.

[2505] Cal Advocates Opening Brief at 269.

[2506] Sempra Joint Opening Brief at 737.

recovery by Commission Resolution E-4963, which implements Pub. Util. Code Section 706.[2507]

34.1.3.1. Remaining Executive Officers

For its Executive Offices forecast, SoCalGas includes the labor and non-labor costs for a Vice President of Human Resources, Chief Talent & Culture Officer, and five (5) management employees. This vice president provides leadership and strategic direction within SoCalGas. This VP's responsibilities include establishing Human Resources policy, developing labor strategy, integrating diversity, equity, inclusion, and belonging within utility culture, employee development, and employee relations. This VP also has broad responsibility for enhancing employee wellness.[2508]

SoCalGas requests $4.005 million in 2024 for O&M costs associated with the Executive Offices.[2509] SoCalGas bases this forecast on its 2021 Base Year cost without adjustment because this cost has changed in recent years, but it is not expected to change in 2024.[2510]

Resolution E-4963 requires SoCalGas to exclude the labor costs for its executive officers because their functions are those of executive officers defined as a president, any vice president in charge of a principal business unit, division, or function (such as sales, administration, or finance), and any other officer who performs a policy-making function or any other person who performs similar policy-making functions.[2511] SoCalGas removed the compensation for its top two

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[2507] SCG Ex-28-R-E at 34.

[2508] SCG Ex-28-R-E at 36.

[2509] SCG Ex-28-R-E at 34.

[2510] SCG Ex-28-R-E at 35.

[2511] D.21-08-036 at 411-412.

executive officers from this forecast in the amounts of $536,000 and $462,000.[2512] However, SoCalGas has not demonstrated how compensation for its Vice President of Human Resources, Chief Talent & Culture Officer is also not excluded by Resolution E-4963. The Commission finds that this Vice President is excluded by Resolution E-4963 because this officer performs administrative and policy-making functions each of which is excluded by this resolution consistent with prior Commission precedent.[2513] Sempra fails to recognize[2514] that the definition of officer applied in Resolution E-4963 excludes vice-presidents in charge of an administrative function, such as human resources, even if they are not involved in policymaking.[2515]

SoCalGas does not provide the amount SoCalGas compensates the VP of HR, Chief Talent & Culture Officer. The closest figure to this VP's compensation is the amount of $462,000 that is paid for its second highest executive officer. The Commission finds it reasonable to subtract this amount from the total Executive Offices forecast below.

34.1.3.2. American Gas Association Membership

The American Gas Association (AGA) is the national trade association representing natural gas utilities. The association provides programs and services for natural gas pipelines, marketers, gatherers, international gas companies, and industry associates, including information regarding the natural gas industry's best practices.[2516] SoCalGas and SDG&E assert that this collaborative approach

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[2512] SCG Ex-28-WP-R-E at 73.

[2513] D.21-08-036 at 415-420.

[2514] Sempra Opening Comments at 22.

[2515] D.21-08-036 at 418, fn. 1355.

[2516] SDG&E Ex-32-2E at 33.

reduces the need for expensive customized research and studies, independent engagement with consultants and experts. In addition, trade association membership allows for broader database development and specialized training.[2517]

SoCalGas and SDG&E are jointly billed for their membership in the AGA. In 2021, the total cost of AGA membership for both utilities was $1,090,876.[2518] Upon receiving the invoice, SoCalGas assigns a portion of the dues to SDG&E through an inter-company billing process based on total gas revenue.[2519] The 2021 AGA invoice identifies the portion of the membership fees that AGA attributes to "lobbying activities."[2520] These amounts were excluded from SoCalGas's and SDG&E's 2024 forecast and neither utility is seeking funding in this GRC for the amount attributable to AGA's "lobbying activities" of 3.8 percent.[2521]

SoCalGas seeks $926,581 from ratepayers for its AGA membership as part of its $4.005 million Executive Offices request for 2024.[2522] SDG&E seeks $122,840 from ratepayers for its AGA membership as part of its $1.977 million Executive Offices request for 2024.[2523] Both SoCalGas and SDG&E based their 2024 forecast for AGA dues on the amounts reflected on the 2021 AGA invoice.[2524]

2517 Sempra Joint Opening Brief at 738.

2518 Sempra Joint Opening Brief at 737.

2519 Sempra Joint Opening Brief at 737.

2520 Sempra Joint Opening Brief at 738.

2521 Sempra Opening Brief at 738.

2522 CEJA Ex-01 at 101-102.

2523 CEJA Ex-01 at 101.

2524 Sempra Opening Brief at 738.

CEJA objects to SoCalGas's and SDG&E's 2024 Test Year forecasts for AGA dues for several reasons. [2525] First, CEJA states that neither utility provided any "substantive evidence that these costs are reasonable or necessary" and argued the full cost of the dues is more appropriately attributable to "lobbying activities" excluded from ratepayer recovery.[2526] Second, CEJA argues that reliance on the invoice is misplaced as the invoice uses a definition of "lobbying" that "may be" narrower than what the Commission has defined as appropriate.[2527] In response, Sempra argues that CEJA does not point to any specific activity that was inappropriately included as a lobbying activity on the 2021 AGA invoice. Additionally, Sempra states that the percentage the AGA allocates to "lobbying activities" may vary from year to year and, despite an anticipated increase in the cost of AGA membership in 2024, neither SoCalGas nor SDG&E increased its forecast for AGA dues beyond what is reflected on the 2021 invoice as non-lobbying activities.[2528]

In D.20-07-038, the Commission modified its position in the last Sempra GRC and stated that a statement on an invoice was insufficient, as nothing indicates whether any other portion of dues was allocated for other activities the Commission has deemed improper for ratepayer funding. In this GRC, the Commission finds again that a conclusory statement on an invoice is insufficient to demonstrate that these costs reasonably support the provision of gas service to SoCalGas and SDG&E customers. It is not possible to determine the accuracy of this percentage assigned to each utility without evidence of how it was calculated.

[2525] Sempra Opening Brief at 737.

[2526] Sempra Opening Brief at 737-738.

[2527] CEJA Ex-37; CEJA Ex-01 at 101-102, 108.

[2528] Sempra Opening Brief at 739.

Therefore, all dues for the AGA membership for SoCalGas and SDG&E in the amounts of $926,581 and $122,840, respectively, are excluded below from being paid by ratepayers.

34.1.3.3. Total SoCalGas Executive Offices Forecast

SoCalGas requests $4.005 million in 2024 for O&M costs associated with the Executive Offices.[2529] Minus the amount of $462,000[2530] for the VP excluded above, $926,581 for American Gas Association Dues, and the amount of $425,746 for excluded Improvement Plan costs,[2531] the Commission adopts the amount of $2.190 million for the 2024 SoCalGas Executive Offices forecast.

34.1.4. Remaining SoCalGas People and Culture Forecasts

No party disputes the remaining SoCalGas Non-Shared Service People and Culture forecasts: $3.383 million for Labor Relations and Wellness O&M expenses; $3.142 million for Organizational Effectiveness O&M expenses; $1.547 million for Performance Management O&M expenses; and $876,000 for Diversity, Equity, and Inclusion O&M expenses. Based on SoCalGas's methodology and cost drivers in its supporting documents,[2532] the Commission finds the following forecasts to be reasonable and adopts them.

[2529] SCG Ex-28-R-E at 34.

[2530] SCG Ex-28-WP-R-E at 73.

[2531] In Section7.3.2., the Commission excludes $425,746 for Improvement Plan O&M expenses as required by D.23-12-034 and Sempra's attestation.

[2532] Sempra Opening Brief at 166-174.

Table 34.1
Adopted Forecasts

Department	SoCalGas Requested ($000s)	Adopted ($000s)
HR and Employee Services	12,171	12,171
Labor Relations and Wellness	3,383	3,383
Organizational Effectiveness	3,142	3,142
Diversity, Equity, & Inclusion	876	876
Workers' Compensation and Long-Term Disability	23,475	23,475
Performance Management and Organizational Strategy	1,547	1,547
ECS System Reporting	324	324

34.2. SDG&E People and Culture

34.2.1. SDG&E Human Resources and Employee Services

SDG&E's Human Resources and Employer Services is comprised of three distinct departments: Human Resources, Compensation and HR Support, and Labor Relations.[2533]

SDG&E requests $2.900 million for 2024 Test Year Human Resources O&M expenses,[2534] which represents a $650,000 increase of 29 percent over 2021 Base Year adjusted-recorded costs of $2.250 million.[2535] SDG&E bases this forecast on the 2021 Base Year recorded costs plus adjustments for additional costs, including 5.1 additional employees estimated to be needed in 2024 for a total of 21.1 compared with 16 employees in 2021 and 18.1 in 2022.[2536]

2533 SDG&E Ex-E-32-2E at 15

2534 Cal Advocates Opening Brief at 272.

2535 SDG&E Opening Brief at 744.

2536 SDG&E Ex-E-32-2E at 15-16; SDG&E Ex-32-WP-R-E at 32-34.

Cal Advocates recommends $2.250 million for SDG&E's Human Resources O&M expenses, which is $650,000 less than SDG&E's forecast.[2537] Cal Advocates made this downward adjustment because it contends that SDG&E has not demonstrated why 2021 staffing levels would be unable to address the anticipated increase in 2024 program activities nor why an additional 5.1 full time employees are needed above the amount of the 2021 Base Year.[2538]

In reply, SDG&E contends that the basis of Cal Advocates' forecast is not accurate because it only includes active employees and fails to include employees on leaves of absence and is based on the four-year average of growth rates for the 2017-2021 period using ICP headcount information. Instead, SDG&E uses average active employees and those on leaves of absence to estimate a higher average employee growth rate of 4 percent per year for the 2022-2024 period that SDG&E claims is needed to support an increased workload in this GRC cycle.[2539]

Using active employees and those on leaves of absence may provide a more accurate estimate of SDG&E's employees. SDG&E should have provided this explanation to Cal Advocates initially rather than providing it later in its reply brief. In any case, the Commission shares Cal Advocates' concern that SDG&E has not demonstrated that 21.1 employees are needed in 2024 at the cost requested. Using SDG&E's growth rate, the Commission finds SDG&E's 2022 forecast based on 18.1 employees at a cost of $2.509 million to be the most accurate and reasonable and adopts that estimate for this forecast, which is a reduction of $391,000.

[2537] Cal Advocates Opening Brief at 272.

[2538] Sempra Opening Brief at 272.

[2539] Sempra Reply Brief at 565-566.

34.2.2. SDG&E Long-Term Disability

SDG&E requests $2.788 million for 2024 LTD O&M expenses.[2540] As for SoCalGas, SDG&E bases this forecast on 2021 recorded costs and escalates them for estimated changes in labor costs, medical premiums, and year-over-year percentage changes in the number of employees.[2541] SDG&E claims that this zero-based methodology is most appropriate because it is based on the most recent costs.[2542]

Cal Advocates recommends $2.259 million for SDG&E's LTD O&M expenses, which is $598,000 less than SDG&E's original forecast.[2543] Cal Advocates bases this forecast on SDG&E's 2019-2021 three-year historical average and escalated it for estimated changes in labor costs[2544] for the following reasons. First, SDG&E's recorded LTD expenses decreased each year over the three-year period (2017-2019) averaging $1.067 million, and then increased to an average of $1.749 million for the 2019-2021 period.[2545] Second, SDG&E's 2021 cost for this expense is the highest over the 5-year period and captures recent increases in activities and costs (compared to years 2017-2019 when the costs decreased each year).[2546] Finally, Cal Advocates contends that SDG&E failed to substantiate its forecast with responses to data requests, including information regarding

[2540] SCG Ex-401/SDG&E Ex-401 at B-52.

[2541] SDG&E Ex-E-32-2E at 30:5-8; SDG&E Ex-E-32-2E at 14:25–15:2.

[2542] Sempra Opening Brief at 736.

[2543] Cal Advocates Opening Brief at 273.

[2544] Cal Advocates Opening Brief at 273.

[2545] Cal Advocates Opening Brief at 269.

[2546] Cal Advocates Opening Brief at 274.

variations in associated expenses, changes in staffing levels, and how SDG&E's methodology accurately estimates its forecast.[2547]

SDG&E also did not demonstrate the reasonableness of this forecast in its briefing.[2548] Accordingly, the Commission does not find SDG&E's 2024 LTD forecast to be reasonable. Instead, the Commission finds Cal Advocates' 2024 LTD reduction of $598,000 to be reasonable and adopts a forecast of $2.19 million.

34.2.3. Diversity, Equity, and Inclusion (DE&I)

The Diversity, Equity & Inclusion (DE&I) department is responsible for developing and directing the Company-wide strategic business objectives for managing workplace diversity.[2549] Additionally, the DE&I department supports the development of federally required Affirmative Action Plans, and develops and directs strategic plans, policies, and programs related to diversity and inclusion. The department also oversees the Executive Diversity, Equity, and Inclusion Council, and provides coaching, counseling, and guidance to employees regarding Title VII and other non-discrimination laws.[2550]

SDG&E is seeking $945,000 for O&M costs associated with the DE&I department.[2551] The 2024 Test Year request represents a $460,000 increase over 2021 Base Year adjusted-recorded costs of $485,000.[2552] SDG&E bases this forecast on 2021 recorded costs to include the most recent data plus funds for additional costs added since 2021. Some recent additional costs include SDG&E's hiring of a

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[2547] Cal Advocates Opening Brief at 273.

[2548] Sempra Opening Brief at 736-737; Sempra Reply Brief at 565.

[2549] SCG Ex-28-R at AMN-26.

[2550] SDG&E Ex-32-2E at 19-20.

[2551] SDG&E Ex-32-2E at 10.

[2552] SDG&E Ex-32-2E at 10.

DE&I Director in November 2020, whose responsibility is to create, implement, execute, and continuously build the company's DE&I strategy. The current DE&I team was not fully in place until 2022 and continues to grow.[2553]

Cal Advocates recommends $485,000 for SDG&E's 2024 DE&I O&M expenses, which is $461,000 less than SDG&E's forecast. Cal Advocates recommends using 2021 adjusted recorded data because: 1) SDG&E's recorded expenses remained flat for four consecutive years from 2017 through 2020, averaging $163,000 and increased by $324,000 in 2021 from $161,000 in 2020; 2) SDG&E did not demonstrate specific verifiable, line-item detail, activities associated with the requested increase over 2021 recorded expenses of $485,000 to its 2024 request of $946,000.[2554]

The Commission agrees that SDG&E has not provided sufficient information to demonstrate the reasonableness of its 2024 forecast. SDG&E generally states that it hired a DE&I Director in November 2020 and that the DE&I team expanded in 2022. But SDG&E provides scant additional information regarding the work of 4.4 full-time equivalent employees in 2022 and why two additional employees would be needed in 2024.[2555] As a result, the Commission does not find SDG&E's 2024 DE&I forecast to be reasonable. Instead, the Commission finds it reasonable to adopt a 2024 forecast based on SDG&E's 2022 costs of $555,000 and the limited evidence of SDG&E's additional DE&I activity.

34.2.4. Diversity and Workforce Management

The Diversity and Workforce Management (DWM) group provides company-wide support for Staffing & Workforce Readiness, Staffing Operations,

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[2553] SDG&E Ex-32-E at 20.

[2554] Cal Advocates Opening Brief at 274.

[2555] SDG&E Ex-32-WP-R-E at 41-43.

Compliance & Human Resources Information Systems (HRIS), and Relocations.[2556] For 2024, SDG&E forecasts $3.057 million for DWM O&M costs,[2557] which represents a $449,0000 increase over 2021 Base Year adjusted-recorded costs of $2.608 million.[2558] SDG&E bases this forecast on 2021 Base Year recorded data plus costs associated with additional programs SDG&E plans to implement.

For example, SDG&E states that over half of the 2024 forecast, or $297,000, is for additional labor costs associated with the hiring of a project manager and support staff within the Staffing & Workforce Readiness subgroup to support the Company's workforce resource plan.[2559]

Cal Advocates recommends $2.608 million for SDG&E's DWM O&M expenses, which is $449,000 less than SDG&E's forecast. Cal Advocates recommends using 2021 adjusted recorded data for several reasons. First, SDG&E's historical labor expenses fluctuated over the five years (2017-2021). Second, SDG&E has not provided verifiable, line-item detail that demonstrates the specific activities associated with the requested increase over 2021 recorded expenses of $449,000. For example, Cal Advocates states that SDG&E asserts in its rebuttal that SDG&E saw an increase in relocation costs, but the relocation cost data SDG&E provided in response to Cal Advocates' data request all show continuous decreases from 2020 to 2022.[2560]

[2556] Sempra Opening Brief at 745-746; SDG&E Ex-32-2E at 21-23.

[2557] SDG&E Ex-32-2E at 10.

[2558] SDG&E Ex-32-2E at 10.

[2559] Sempra Opening Brief at 745-746.

[2560] Cal Advocates Opening Brief at 275.

In rebuttal, SDG&E generally contends that its forecast includes increased costs that are incremental to the 2021 Base Year. SDG&E then provides that over half of the 2024 forecast, or $297,000, is for incremental labor costs associated with the hiring of a project manager and support staff within the Staffing & Workforce Readiness group to support the Company's workforce resource plan. Whether SDG&E's total forecast includes incremental costs requires a review of more complete information by the parties, ideally prior to hearings, not anecdotal information provided in briefing. Accordingly, the Commission finds that SDG&E has not provided sufficient information to determine that SDG&E's increased forecast is reasonably based on incremental costs. Instead, the Commission finds SDG&E's recorded 2022 forecast for Diversity and Workforce Management of $2.883 million to be a reasonable estimate of SDG&E's 2024 cost for this work and adopts it.

34.2.5. Organizational Effectiveness

The Organizational Effectiveness department provides individual and organizational development programs and services for SDG&E and performs five (5) key functions: Talent Management, Talent Development, Organizational Design, People Research, and Workforce Planning.[2561]

SDG&E forecasts $2.428 million for O&M costs for Non-Shared services associated with the Organizational Effectiveness department, which represents a 33 percent increase of $609,000 over the 2021 Base Year of $1.819 million.[2562] SDG&E bases this forecast on 2021 Base Year recorded costs plus adjustments for labor and non-labor costs associated with an additional director, two managers,

[2561] SDG&E Ex-32-2E at 25.

[2562] SDG&E Ex-32-2E at 25.

and 11 associate and management employees.[2563] These new hires include four employees who will support SDG&E's new Workforce Planning Platform.[2564]

Cal Advocates recommends $1.819 million for SDG&E's Organizational Effectiveness forecast, which is $608,000 less than SDG&E's forecast.[2565] Cal Advocates contends that its reduced forecast is more reasonable because 1) SDG&E's adjusted recorded expenses decreased between 2017 and 2021, from $2.103 million in 2017 to $1.819 million in 2021; 2) SDG&E did not provide documentation to support the forecast; and 3) SDG&E objected to Cal Advocates' request and did not provide documentation that demonstrates why SDG&E's current staffing level cannot support the anticipated increase in program activities.[2566]

In response, SDG&E states that the increased forecast supports four new hires in the Workforce Planning Department to support SDG&E's new Workforce Planning Platform.[2567] However, this does not address whether current staffing levels can support the increased program activities or whether the increased program activities are necessary. As a result, the Commission does not find SDG&E's forecast to be supported. The Commission also does not find that SDG&E adequately responded to Cal Advocates' questions and requests for information. Considering the above, the Commission finds Cal Advocates' recommendation to be more reasonable and adopts a forecast for SDG&E's Organization Effectiveness department of $1.819 million.

[2563] SDG&E Ex-32-2E at 25.

[2564] Sempra Opening Brief at 747.

[2565] Cal Advocates Opening Brief at 275.

[2566] Cal Advocates Opening Brief at 276.

[2567] Sempra Opening Brief at 747; Sempra Reply Brief at 565.

34.2.6. Vice President – People and Culture

The Vice President (VP) of the People and Culture department provides leadership and strategic direction to an organization of approximately 73 employees within the following five departments: (1) Human Resources; (2) Diversity, Equity, and Inclusion; (3) Diversity and Workforce Management; (4) Organizational Effectiveness; and (5) Business Optimization. The People and Culture VP ensures that employees possess the qualifications, experience, and skills necessary to perform their work and is responsible for implementing policies, programs, and activities aimed at attracting and retaining a qualified, skilled workforce that is invested in the Company's goals and service to the community.[2568]

SDG&E forecasts $1.021 million for costs associated with the VP for People and Culture, which represents a 41.6 percent increase of $0.300 million over the 2021 Base Year of $0.721 million.[2569] SDG&E bases this forecast on 2021 Base Year recorded costs for labor and non-labor costs for one officer plus the additional non-labor cost of $300,000 "for executive catering costs that were not incurred in 2021 due to COVID-19 restrictions."[2570]

Cal Advocates recommends removal of the non-labor cost of $300,000 for executive catering activities because SDG&E did not provide requested documents demonstrating that its executive catering activities were necessary and required to operate and maintain its business or had any benefit to ratepayers.[2571]

[2568] SDG&E Ex-32-2E at 12.

[2569] SDG&E Ex-32-2E at 25.

[2570] SDG&E Ex-32-2E at 11.

[2571] Cal Advocates Opening Brief at 271.

In response, SDG&E states that the additional $300,000 is requested for catering and food-related activities for a variety of leadership events, including leadership events that focus on collaboration and connection, the HR Safety Stand Down event, and the HR Leadership Summit.[2572] In support of this request, SDG&E states that its request seeks to reinstate the funding for these activities at their pre-pandemic level now that the majority of SDG&E's workforce has returned to a hybrid work environment.[2573]

The information provided by SDG&E does not demonstrate that the cost of such executive catering activities was necessary and required to operate and maintain its business or had any benefit to ratepayers.[2574] Accordingly, the Commission denies the cost of $300,000 for executive catering.

SDG&E also has not demonstrated how compensation for People and Culture Vice President Costs is allowed by Commission Resolution E-4963, which excludes officer compensation for vice presidents in charge of a principal business unit, division, or function, including administration. SDG&E has not applied this provision, and the Commission finds that the administrative functions of the People and Culture VP are excluded by Resolution E-4963 consistent with prior Commission precedent.[2575]

Since SDG&E did not provide the compensation for the People and Culture VP, the Commission adopts a forecast of zero dollars for the People and Culture

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[2572] Sempra Opening Brief at 748.

[2573] Sempra Opening Brief at 748.

[2574] D.20-01-002 at 10-12, citing *Federal Power Com. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) at 603.

[2575] D.21-08-036 at 415-420.

VP and allows SDG&E to submit non-compensation costs for recovery through a Tier 2 Advice Letter within 90 days of the issuance of this decision.

34.2.7. Edison Electric Institute Dues

The Edison Electric Institute (EEI) is the association of the U.S. investor-owned electric companies. EEI works closely with all its members, representing their interests and advocating equitable policies in legislative and regulatory arenas. EEI provides public policy leadership, industry data, strategic business intelligence, conferences and forums, products and services, and serves as a safety benchmarking organization that allows SDG&E to compare its health and safety processes, improve compliance, and discuss best management practices.[2576]

As part of SDG&E's Executive Offices forecast for 2024, SDG&E seeks $792,294 for membership in the EEI.[2577] SDG&E requests this amount based on EEI's invoice for 2021 total membership dues of $946,924 minus the amount of $154,629 EEI identified as related to "influencing legislation,"[2578] according to definitions provided by both the Federal Lobbying Disclosure Act[2579] and Internal Revenue Code (IRC) Section 162(e) that identify activities aimed at "influencing legislation."[2580]

CEJA and TURN recommend removing this cost from the forecast and denying its recovery from rates, limiting it to no more than 50 percent of the gross cost of dues recorded in 2021[2581] for several reasons, including because SDG&E

[2576] SDG&E Opening Brief at 33.

[2577] SDG&E Ex-32-2E at 32-33; Sempra Opening Brief at 748.

[2578] Sempra Opening Brief at 749.

[2579] Sempra Opening Brief at 749.

[2580] Sempra Opening Brief at 749.

[2581] TURN Ex-15 at 4-6.

failed to account for "lobbying" exclusions.[2582] SDG&E disagrees with CEJA's and TURN's proposed reductions.

In response, SDG&E argues that EEI membership provides a value for ratepayers that has been recognized by the Commission[2583] because the collaboration reduces the need for expensive customized research and studies, consultants and experts, database development and maintenance, publication development, and specialized training.[2584]

The Commission has acknowledged that EEI provides some value, but that the amount must be demonstrated in each rate case. For example, in the last rate case, EEI dues were reduced by 39 percent following an appeal by TURN because the utility failed to provide sufficient detail about ratepayer benefits[2585] to disaggregate costs with sufficient detail to allow for an informed allocation of costs between ratepayers and shareholders. In this GRC, as with the allocation of AGA dues, conclusory statements in a footnote are insufficient to demonstrate that the entire amount allocated benefits ratepayers. Accordingly, the Commission denies recovery of SDG&E's forecast for EEI membership dues of $792,294.

34.2.8. Executive Offices

The Chief Executive Officer (CEO), President, and CFO provide executive leadership guidance, and strategic direction of the Company's mission, vision, and values and are responsible and accountable for SDG&E's overall

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[2582] CEJA Ex-01 at 115; TURN Ex-15 at 4-6.

[2583] Sempra Opening Brief at 748; D.20-07-038, *Order Modifying D.19-09-051 and Denying Rehearing, as Modified*, at 6-7 (July 20, 2020).

[2584] Sempra Opening Brief at 749.

[2585] Sempra Opening Brief at 750; D.20-07-038 at 6.

performance. With the assistance of the other executive offices, SDG&E states that they execute the direction utility employees follow in providing safe and reliable service to customers.[2586]

SDG&E forecasts $1.976 million in 2024 for O&M costs associated with the Executive Offices,[2587] which is a $0.478 million increase of 32 percent above the Base Year amount of $1.498 million. This forecast does not include compensation for the CEO, President, and CFO, and the anticipated cost of a Chief Operating Officer (COO), as required by Resolution E-4963.[2588] This forecast also does not include an error associated with 2020 recorded one-time expenses for consulting services identified by SDG&E in response to a Cal Advocates data request.[2589]

SDG&E bases this forecast on the 2021 Base Year labor and non-labor recorded costs plus adjustments to account for recent changes in this cost area.[2590] The adjustments include non-labor costs for the following: 1) $110,000 for travel expenses not incurred during COVID-19 restrictions, including planning activities with CAISO, FERC, state legislators, and other IOUs; 2) $286,000 for training and travel expenses for the new COO position, anticipated to be filled in 2023; and 3) $83,000 for an executive assistant to support the new COO.[2591]

From SDG&E's 2024 Executive Offices forecast of $1.976 million, the Commission finds it reasonable to deduct the amount denied above for EEI

[2586] SDG&E Ex-32-2E at 31.

[2587] SDG&E Ex-32-2E at 31.

[2588] SDG&E Ex-32-2E at 33-34; SDG&E Ex-32-WP-R-E at 87.

[2589] Cal Advocates Opening Brief at 362.

[2590] SDG&E Ex-32-2E at 33-34.

[2591] SDG&E Ex-32-2E at 34.

membership dues of $0.792 million and AGA dues of $0.123 million, resulting in a total amount of $1.061 million, which is adopted.

34.2.9. Remaining SDG&E Non-Shared People and Culture Forecasts Issues

No party contested the following SDG&E 2024 Non-Shared forecasts: $287,000 for Total Disability, $3.828 million for Workers' Compensation, and $374,000 for Business Optimization. Based on SoCalGas's forecasting methodology and revenue components in its supporting documents,[2592] the Commission finds the above SoCalGas forecasts to be reasonable and adopts them.

Table 34.2
SDG&E 2024 Non-Shared Forecasts

Department	SDG&E Requested ($000s)	Adopted ($000s)
Human Resources and Employee Services	2,900	2,509
Long-Term Disability	2,788	2,190
Diversity, Equity, and Inclusion	945	555
Diversity and Workforce Management	3,057	2883
Organizational Effectiveness	2,428	1819
VP – People & Culture	1,021	0
Executive Offices	1,976	1,062
Total Disability	287	287
Workers' Compensation	3,828	3,828
Business Optimization	374	374
Employee Care Services	1,382	1,382
Drug and Alcohol Testing Program	220	220
Wellness Programs	198	198
People Research	169	0

34.3. People and Culture Shared O&M

Sempra Shared Services are activities performed by a utility Shared Services department (i.e., functional area) for the benefit of: (i) SDG&E or SoCalGas, or (ii) Sempra, and/or (iii) any affiliate subsidiaries. The utility

[2592] SCG Ex-37-R at 2-14; SCG Ex-401, Table RH-1 A-1.

providing Shared Services allocates and bills incurred costs to the entity or entities receiving those services.[2593]

34.3.1. SoCalGas People and Culture Department Shared - O&M

No party opposes SoCalGas's 2024 Shared Services forecast of $324,000 for ECS System Reporting expenses. Based on SoCalGas's forecasting methodology and revenue components in its supporting documents,[2594] the Commission finds the above SoCalGas forecast to be reasonable and adopts it.

34.3.2. SDG&E People and Culture Shared O&M Services

No party opposes the following SDG&E 2024 Shared Services People and Culture forecasts: $1.382 million for Employee Care Services, $220,000 for Drug and Alcohol Testing Program, and $198,000 for Wellness Programs. Based on SDG&E's forecasting methodology and revenue components in its supporting documents, the Commission finds these forecasts to be reasonable and adopts them. The amount of $169,000 for People Research is denied due to insufficient information provided.[2595]

35. SoCalGas and SDG&E Administrative and General Activities

Sempra Utilities requests Non-Shared and Shared Administrative and General (A&G) Activities costs to maintain internal controls, support internal clients and external stakeholders, and meet accounting, regulatory, and legal requirements.[2596]

[2593] SDG&E Ex-32-2E.

[2594] SCG Ex-28-R at 37-38.

[2595] SDG&E Ex-32-2E at 41.

[2596] Sempra Opening Brief at 751, 763.

SoCalGas requests 2024 Test Year O&M (both Shared and Non-Shared) funding totaling $46.758 million, an increase of $7.813 million over 2021 Base Year costs of $38.945 million for SoCalGas's Accounting and Finance, Legal, Business Strategy and Energy Policy (BSEP), Regulatory Affairs, and External Affairs divisions.[2597]

SDG&E requests 2024 Test Year O&M (both Shared and Non-Shared) funding totaling $41.885 million, an increase of $3.021 million over 2021 Base Year costs of $38.864 million for SDG&E's Accounting and Finance, Legal, Regulatory Affairs, and Community Affairs divisions.[2598]

35.1. SoCalGas's A&G Costs

35.1.1. Non-Shared A&G - O&M Request

For 2024 Test Year, SoCalGas requests $40.812 million in Non-Shared O&M costs for its A&G activities, an increase of $7.317 million over its recorded expenses of $33.495 million in 2021.[2599] A&G includes the following cost categories:

Table 35.1
SoCalGas 2024 Test Year Non-Shared O&M Cost Summary[2600]

Category	2021 Adjusted-Recorded ($000s)	2024 Test Year Estimated ($000s)	Change ($000s)
A. Accounting and Finance	14,083	15,737	1,654
B. Legal	14,029	17,210	3,181
C. Business Strategy and Energy Policy	2,825	4,814	1,989

[2597] Sempra Opening Brief at 751.

[2598] Sempra Opening Brief at 763.

[2599] SCG Ex-29-WP-R-E at 1.

[2600] SCG Ex-29-WP-R-E at 2.

Category	2021 Adjusted-Recorded ($000s)	2024 Test Year Estimated ($000s)	Change ($000s)
D. Regulatory Affairs[2601]	415	597[2602]	181
E. External Affairs	2,143	2,454	311
Total	**33,495**	**40,812**	**7,317**

35.1.1.1. Accounting and Finance

SoCalGas forecasts $15.737 million in costs for Accounting & Finance,[2603] which is a $1.654 million increase over 2021 Base Year adjusted-recorded costs.[2604]

Table 35.2
SoCalGas's 2024 Test Year
Non-Shared Accounting & Finance Cost Summary[2605]

Category	2021 Adjusted-Recorded ($000s)	2024 Test Year Estimated ($000s)	Change ($000s)
Innovation Support	83	309	226
Accounting Operations	4,495	4,837	342
Financial Systems and Innovation	1,151	1,283	132
Accounting Research, Business Controls, and Affiliate Billing and Costing	400	510	110
Finance	2,049	2,247	198
Financial & Operational Planning	5,526	5,936	410
Controller & CFO	379	616	237
Total	**14,083**	**15,738**	**1,655**

2601 *See* February 12, 2024 Attestation filed by SoCalGas pursuant to D.23-12-034: SoCalGas identified $419,454 in labor costs that were associated with supporting the Evolving Energy Consortium assessment. These are labor costs associated with the Regulatory Affairs department created to support the Safety Culture Oil (among other activities). Accordingly, the costs proposed to be adjusted in the Administrative & General GRC witness area are $419,454 in O&M expenses.

2602 SoCalGas lowered its original request in accordance with Attestation pursuant to Decision 23-12-034 issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

2603 Sempra Opening Brief at 752.

2604 SCG Ex-29-WP-R-E at 2.

2605 SCG Ex-29-WP-R-E at 3-4.

SoCalGas bases its forecast on a five-year historical average for costs related to Innovation Support, Accounting Operations, Financial Systems and Innovation, Accounting Research, Business Controls, Affiliate Billing and Costs, and Controller & CFO.[2606] In contrast, SoCalGas uses a base-year forecast method for Finance and Financial & Operational Planning.[2607]

35.1.1.2. Legal

SoCalGas requests $17.210 million for Legal costs, an increase of $3.181 million above 2021 adjusted-recorded costs.[2608] This includes labor and non-labor costs related to SoCalGas's legal division, measured using a base-year forecast method.[2609]

This category incorporates a subcategory for Claims Payments and Recovery expenses, which SoCalGas forecasts using a five-year historical average.[2610] SoCalGas is requesting $8.467 million for Claims Payments and Recovery for 2024 Test Year, an increase of $2.817 million compared to Base Year 2021 adjusted-recorded costs of $5.65 million.[2611] It states that this comprises payments to third parties for claims associated with property damage, business income losses, bodily injury claims, and expenses that SoCalGas incurs when seeking recovery from at-fault responsible third parties.[2612]

2606 SCG Ex-29-WP-R-E at 6, 11, 18, 24, 43.

2607 SCG Ex-29-WP-R-E at 30, 36.

2608 SCG Ex-29-WP-R-E at 49.

2609 SCG Ex-29-WP-R-E at 51.

2610 SCG Ex-29-WP-R-E at 61.

2611 SCG Ex-29-WP-R-E at 61.

2612 Sempra Opening Brief at 754.

35.1.1.3. Business Strategy and Energy Policy (BSEP)

SoCalGas is requesting $4.814 million to fund its Business Strategy and Energy Policy team, which conducts legislative analysis, decarbonization planning, and outreach related to existing or proposed policies.[2613] This represents an increase of $1.989 million compared to 2021 adjusted-recorded costs, forecast using an adjusted base-year method.[2614] In support of its request, SoCalGas states that it made adjustments in 2021 based on incremental COVID-related costs and removed labor expenses associated with lobbying activities.[2615]

35.1.1.4. Regulatory Affairs

SoCalGas requests $597,000 for Regulatory Affairs for the 2024 Test Year.[2616] This represents a decrease of $419,454 from its initial forecast of $1.016 million for the 2024 Test Year and an increase of $181,000 compared to 2021 adjusted-recorded costs.[2617] SoCalGas uses a base-year forecast method and states that the cost category comprises labor and non-labor costs for its teams responsible for Tariffs, Regulatory Information, and Regulatory Special Projects.[2618]

On February 12, 2024, SoCalGas attested that it had identified labor costs associated with the Regulatory Affairs department that could not be included in this GRC application pursuant to D.23-12-034.[2619] It, therefore, requests that

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[2613] SCG Ex-29-WP-R-E at 68.

[2614] SCG Ex-29-WP-R-E at 68.

[2615] SCG Ex-29-WP-R-E at 75-76.

[2616] Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

[2617] SCG Ex-29-WP-R-E at 2.

[2618] SCG Ex-29-WP-R-E at 79.

[2619] Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

$419,454 be removed from Regulatory Affairs, causing a downward adjustment from $1.015 million to $597,000.[2620] This decision reflects that reduction, potentially leading to apparent inconsistencies with older documents in the evidentiary record that do not take the reduction into account.

35.1.1.5. External Affairs

SoCalGas's External Affairs group requests $2.454 million, an increase of $311,000 compared to 2021 adjusted-recorded costs.[2621] SoCalGas states that this forecast comprises expenses for the Media Relations and Strategic Engagement team, which communicates with stakeholders such as government agencies and elected officials, and the Community Relations team, which oversees philanthropic giving.[2622]

35.1.2. SoCalGas's Franchise Fees Request

Franchise Fees are expenses paid to counties and incorporated cities pursuant to local ordinances that grant a franchise to place utility property used for transmitting and distributing gas in public rights-of-way.[2623] SoCalGas forecasts $53.149 million for Franchise Fees in 2024 Test Year.[2624] It summarizes its Franchise Fees request as follows:[2625]

Table 35.3
SoCalGas's Franchise Fee Request Summarized

$000s	2022	2023	2024
SoCalGas Request	$44,612	$47,611	$53,149

[2620] Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

[2621] SCG Ex-29-WP-R-E at 3.

[2622] SCG Ex-29-WP-R-E at 85.

[2623] Sempra Opening Brief at 751.

[2624] Sempra Opening Brief at 753.

[2625] Sempra Opening Brief at 753.

SoCalGas calculates Franchise Fees using two formulas: (1) the "Broughton Act" formula; and (2) the "Percent of Gross Receipts" formula.[2626] The Broughton Act formula is calculated based upon the summarized receipts within each city or county as allocated by gas pipeline mileage in their public rights-of-way, and the applicable franchise fee rate pursuant to the franchise fee ordinance.[2627]
The percent of Gross Receipts formula is calculated based on the summarized receipts within each city or county and the applicable franchise fee rate pursuant to the franchise fee ordinance.[2628]

SoCalGas's methodology for this forecast is to sum total payments to all taxing authorities and divide by total receipts to arrive at a system-wide franchise fee factor.[2629] SoCalGas then averages the system-wide franchise fee factors for the most recent five years to forecast the 2024 Test Year.[2630]

35.1.3. SoCalGas A&G Capital Costs

SoCalGas requests $7.954 million, $51.757 million, and $32.415 million for the forecast years 2022, 2023, and 2024, respectively, for IT projects that support A&G. The decision's IT Section addresses these capital costs.

35.1.4. Party Positions

Cal Advocates and CEJA oppose SoCalGas's proposed A&G O&M costs. The cost difference between SoCalGas and the intervenors is summarized in the table below.

[2626] SCG Ex-29-R-E at SPM-58.

[2627] SCG Ex-29-R-E at SPM-58.

[2628] SCG Ex-29-R-E at SPM-58.

[2629] SCG Ex-29-R-E at SPM-58.

[2630] SCG Ex-29-R-E at SPM-58.

Table 35.4
SoCalGas vs. Other Parties Summary of Differences:
Total O&M Costs – Constant 2021 ($000)[2631]

	2021 Base Year	2024 Test Year	Change	Variance to SoCalGas Ask
SoCalGas	38,945	46,758	7,813	0
Cal Advocates	38,945	27,234	(11,711)[2632]	(19,524)
CEJA	38,945	44,798	5,853	(1,960)

SoCalGas reduced its request to $40.812 million for Non-Shared costs ($46.758 million for both Shared and Non-Shared costs) and attested pursuant to D.23-12-034 issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

35.1.4.1. Cal Advocates

Cal Advocates recommends the following cost reductions: [2633]

Table 35.5
Cal Advocates' Recommended Cost Reductions

Non-Shared O&M Cost Category	SoCalGas[2634] 2024 Test Year Estimated ($000s)	Cal Advocates 2024 Test Year Estimated ($000s)	Change ($000s)
A. Accounting and Finance	15,737	15,737	0
B. Legal	17,210	15,271	-1,940
C. Business Strategy and Energy Policy	4,814[2635]	3,377	-1,437

[2631] Sempra Opening Brief at 752. This table is not inclusive of reductions resulting from the February 12, 2024 Attestation.

[2632] Sempra Opening Brief at 752, fn. 3807 (stating that Cal Advocates requests a blanket 35 percent reduction to the overall Administrative and General Costs).

[2633] Cal Advocates Opening Brief at 277-281.

[2634] SCG Ex-29-WP-R-E at 3-4.

[2635] SCG Ex-29-WP-R-E at 32. Cal Advocates Opening Brief states that SoCalGas requests $4.869 million because it hadn't received updated testimony, but Sempra Opening Brief and SCG Ex-29-WP-R-E state $4.814 million (the actual request). Applying the Cal Advocates forecast of $3.377 million leads to the change of $1.437 million, not $1.492 million as stated by Sempra Opening Brief and Cal Advocates Opening Brief.

D. Regulatory Affairs	597[2636]	1,016[2637]	0
E. External Affairs	2,454	2,454	0
Total	**40,812**	**37,855**	**-2,958**

Cal Advocates bases its recommended reduction of $1.940 million for Legal costs on the 2018-2020 recorded costs for SoCalGas Claims Payment & Recovery.[2638] It argues that historical data shows a continuous decrease in these expenses and that SoCalGas fails to provide documentation supporting its request for incremental funding in the 2024 Test Year, which is 50 percent over its 2021 recorded expenses.[2639]

Cal Advocates also recommends using a three-year historical average methodology instead of SoCalGas's adjusted five-year average for its Claims Payment & Recovery forecast.[2640] Cal Advocates alleges that using a five-year average inflates the forecast because 2018 was an outlier with the highest recorded data over a 10-year period.[2641]

Regarding SoCalGas's Business Strategy and Energy Policy, Cal Advocates recommends $3.377 million.[2642] This represents a $1.437 million decrease

2636 Attestation pursuant to D. 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

2637 In Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024, SoCalGas reduced its forecast to $597,000 from $1.016 million. Cal Advocates did not have this updated information when conducting its forecast. Cal Advocates does not oppose SoCalGas's request for Regulatory Affairs costs, so the actual value for its proposed change is 0.

2638 Cal Advocates Opening Brief at 277.

2639 Cal Advocates Opening Brief at 278.

2640 Cal Advocates Opening Brief at 278.

2641 Cal Advocates Opening Brief at 278.

2642 Cal Advocates Opening Brief at 280.

compared to SoCalGas's request.[2643] Cal Advocates claims that SoCalGas fails to provide detailed line-item details supporting its forecasted increase in non-labor costs and does not justify additional FTEs in its Test Year forecast.[2644]

35.1.4.2. CEJA

CEJA recommends reducing SoCalGas's Business Strategy and Energy Policy incremental request by $1.960 million because it alleges that SoCalGas is improperly charging ratepayers for advocacy-related work before state agencies.[2645] CEJA argues that SoCalGas influences the cost-effectiveness of competing climate solutions in favor of strategies that enrich its shareholders.[2646]

CEJA contends that the costs of more than 60 percent of the comments the Energy Policy team submitted in 2021 should have been booked to FERC Account 426.4 because they were not connected to SoCalGas's existing or proposed operations.[2647] CEJA argues that the Energy Policy group divides its focus among administrative proceedings, which it uses as a proxy of the work undertaken to reflect non-recoverable advocacy work within SoCalGas comment letters sent during the 2021 Base Year.[2648]

Regarding labor costs, CEJA alleges that SoCalGas fails to justify labor costs for 1.7 FTE positions vacant in the 2021 Base Year.[2649]

[2643] Sempra Opening Brief at 752.

[2644] Cal Advocates Opening Brief at 280.

[2645] CEJA Opening Brief at 115.

[2646] CEJA Opening Brief at 116-118.

[2647] CEJA Opening Brief at 119.

[2648] CEJA Opening Brief at 122-123.

[2649] CEJA Ex-01 at 121:27-122:1; CEJA Opening Brief at 124-126.

CEJA recommends that the Commission give SoCalGas direction to prevent it from continuing to improperly book its advocacy costs to GRC-funded accounts.[2650]

35.1.4.3. SoCalGas Reply

Regarding Legal costs related to Claims Payment & Recovery, SoCalGas argues that Cal Advocates misidentifies a downward trend in claim expenses.[2651] It states that expenses decreased from 2018-2020 due to court delays during the COVID-19 pandemic and that expenses increased from 2020-2021.[2652] SoCalGas also opposes the recommendation from Cal Advocates to apply a three-year historical average methodology because it states the Commission has consistently applied five-year averages for its prior GRCs, and a longer average period better accounts for abnormalities attributable to COVID-19.

SoCalGas disagrees with Cal Advocates and CEJA's proposed reductions to its Business Strategy and Energy Policy costs. It argues that it has provided sufficient documentation to justify increased non-labor costs, which include employee-related costs and external support costs. SoCalGas also claims that intensifying carbon neutrality goals and the state's consideration of unprecedented natural gas policies necessitate additional FTEs.[2653]

SoCalGas claims that it does not unfairly charge ratepayers for costs associated with lobbying.[2654] First, SoCalGas argues that CEJA only addresses its Energy Policy group out of the four divisions included in its Business Strategy

[2650] CEJA Opening Brief at 126-128.

[2651] Sempra Opening Brief at 755.

[2652] Sempra Opening Brief at 755.

[2653] Sempra Opening Brief at 756-757.

[2654] Sempra Opening Brief at 758.

and Energy Policy cost category.[2655] Second, it states that only seven of the comment letters that CEJA deems advocacy relate to below-the-line activities and that SoCalGas already excluded costs associated with those seven comment letters from the GRC.[2656] Third, SoCalGas claims that the FERC Uniform System of Accounting's (USofA)definition of "political activities" applies to the Commission's accounting and that CEJA's definition conflicts with this standard.[2657] Finally, SoCalGas rejects CEJA's page-counting methodology for failure to evaluate the comment letters in their full context.[2658]

SoCalGas disagrees with CEJA's contention that it fails to justify labor costs for 1.7 FTE vacant positions in the 2021 Base Year. SoCalGas states that costs related to staff hired during 2021 must be accounted for, which would not be fully reflected without an incremental adjustment.

35.1.5. Discussion

35.1.5.1. Contested Issues

35.1.5.1.1. Business Strategy and Energy Policy

Cal Advocates and CEJA reasonably argue that SoCalGas has not met its burden of proof to justify its requested 70 percent increase in labor costs and tripling of nonlabor costs for Business Strategy and Energy Policy (BSEP).

SoCalGas's forecast includes costs for 27.2 FTEs in the 2024 Test Year. This is an additional 9.7 FTEs compared to 17.5 in the 2021 Base Year and higher than the 15.4 FTE average, which workpapers demonstrate SoCalGas maintained from 2017 to 2021. While we acknowledge that changing GHG emissions goals and

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[2655] Sempra Opening Brief at 758.

[2656] Sempra Opening Brief at 758.

[2657] Sempra Opening Brief at 759.

[2658] Sempra Opening Brief at 760.

policies will require SoCalGas's engagement, its proposal lacks sufficient details to support a 55 percent increase in FTEs. SoCalGas discusses some policy issues that it anticipates may lead to future proceedings and hiring additional FTEs. However, it fails to account for the cyclical nature of regulatory proceedings, where concluded proceedings can free up staff for new initiatives. Moreover, the proposed FTEs lack clear, specific responsibilities and are based on speculative policy developments that state agencies have only begun to explore. SoCalGas's request for FTEs is based on broad objectives and fails to specify concrete tasks or deliverables for the proposed FTEs. It is not reasonable to authorize costs in the 2024 Test Year for such a large staffing increase based on hypothetical proceedings for unprecedented policies, which SoCalGas acknowledges state agencies only "have begun considering."[2659]

Furthermore, adjusting cost estimates to exclude activities from ratepayer funding unrelated to core natural gas service operations is reasonable. CEJA is reasonable in raising concerns about SoCalGas leveraging its Energy Policy team to encourage state agencies to adopt policies promoting the use of methane and hydrogen fuels and oppose measures that favor electric options.[2660] We disagree with SoCalGas's claim that CEJA's interpretation and application of FERC Account 426.4 is incorrect because CEJA identifies examples of comment letters and costs pertaining to the safe and reliable provision of gas service and the operation of the gas system as properly recoverable.[2661] CEJA demonstrates that SoCalGas's Energy Policy team actively promotes policies to increase gas

[2659] Sempra Opening Brief at 757.

[2660] CEJA Opening Brief at 117; CEJA Ex-01 at 124:18-20.

[2661] CEJA Ex-01 at 123-124.

consumption.[2662] This includes influencing California agencies to establish a fuel card program for methane-burning vehicles, promoting hydrogen production from biomethane, and seeking funding for gas-fired generation in a CEC docket dedicated to funding Mobile Renewable Backup Generators.[2663] CEJA further states that SoCalGas's Energy Policy group's comments urged decision-makers to adopt policies that would help develop a market for hydrogen vehicles.[2664]

CEJA shows that in sectors that are not directly related to natural gas service, SoCalGas is trending toward including O&M costs in developing and implementing policies affecting natural gas and clean fuel delivery and utilization by engaging with proceedings at other state agencies, such as CARB, the CEC, and the South Coast Air Quality Management District.[2665] We agree with CEJA that it is unclear where SoCalGas draws the line between "educating policymakers" and legislative lobbying, and whether the work done by these employees for the Regulatory and State Government Affairs groups supports lobbying activities.[2666]

As a regulated entity, SoCalGas is free to participate in proceedings at the state agencies, but we disagree with its interpretation that its participation in regulatory processes (at CEC, CARB, and SCAQMD) is exempt from specific accounting treatment.[2667] Not all SoCalGas activities associated with its work listed under Exhibit SCG-229, Appendix I, can be clearly categorized as regular

[2662] CEJA Ex-01 at 124-126.

[2663] CEJA Opening Brief at 117-118.

[2664] CEJA Ex-01 at 126:10-11.

[2665] CEJA Opening Brief at 116.

[2666] CEJA Ex-01 at 128:20-23.

[2667] Sempra Opening Brief at 579-580.

operating expenses because, for example, research and analysis on the promotion of hydrogen has no connection to its existing operations as a natural gas service provider.

It is reasonable that CEJA used the 2021 comment letters as a proxy for the portion of overall historic Business Strategy and Energy Policy costs that it recommends should not be recovered from ratepayers because this is the only clearly documented portion of the work.[2668] SoCalGas's claim that CEJA did not account for other work within this team is without merit. There appears to be an overlap between the Planning, Legislative Analysis, Business Strategy, and Sustainability functions.[2669] Adopting CEJA's proposed labor cost reduction is justified absent a clear demonstration of how these activities directly benefit ratepayers.

Cal Advocates also argues for reducing labor expenses by $0.949 million, aligning them with historical values. Since we already adopted CEJA's labor reduction of $1.960 million,[2670] which is greater than Cal Advocates' recommended reduction amount, we do not see the need for an additional labor reduction as proposed by Cal Advocates.

Regarding non-labor costs, we agree with Cal Advocates that a base-year forecast that increases the requested cost for 2024 Test Year by 205 percent compared to the 2021 Base Year is unreasonable without further justification. While SoCalGas states that its adjustments to non-labor costs stem from a need

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[2668] CEJA Opening Brief at 115.

[2669] Sempra Opening Brief at 246-248.

[2670] CEJA's reduction of $1.993 million was based on older figures in SoCalGas's initial filing. Using SoCalGas's updated errata numbers, we have recalculated CEJA's reduction as: $1.695 million (60% of Base Year 2021 BSEP costs, which is $2.825 million per latest errata update) plus $265,000 for additional FTEs. $1.695 million + $265,000 = $1.960 million reduction.

for consulting services, it provides little information regarding what those consulting services are and how ratepayers benefit. SoCalGas has failed to show by a preponderance of evidence that its request was reasonable. Therefore, we adopt Cal Advocates' recommended reduction of $0.488[2671] million in non-labor costs.

In summary, we adopt $1.776 million in labor costs[2672] and $0.590 million in non-labor, for a total of $2.366 million in Business Strategy and Energy Policy Test Year costs.

35.1.5.1.2. Claims Payment and Recovery

SoCalGas's Claims Management department investigates claims and related activities and conducts loss control and prevention activities. We agree with Cal Advocates that SoCalGas has not explained or identified the activities associated with a sudden increase in claims payment and recovery costs in 2018 and 2019.[2673] We disagree with SoCalGas's reasoning that an increase should be granted in this GRC cycle just because its historical average was authorized in the last GRC. In the historical cost spend, 2018 and 2019 appear as outliers at $16.707 million and $10.926 million, respectively. SoCalGas claims that variability in the timing and payment of claims resulting from the COVID-19 pandemic accounts for abnormalities in the ordinary course of claims resolution, which does not explain the spike in costs incurred in 2018 and 2019. It further claims that the

[2671] Cal Advocates' recommended forecast for BSEP non-labor costs is $0.590 million, which was a $0.543 million reduction from SoCalGas's original forecast. Because SoCalGas updated its original non-labor forecast of $1.113 million to $1.078 million in SCG Ex-29-WP-R-E, the appropriate reduction based on Cal Advocates' recommendation is $0.488 million.

[2672] This equates to costs covering roughly 13 FTEs, which is close to the average 15.4 FTEs SoCalGas has had over historic years.

[2673] CA Opening Brief at 277.

primary driver for cost fluctuation from 2017 to 2018 is a single bodily injury-related claim, net of insurance reimbursements received.[2674] We do not expect SoCalGas to have such high injury claims each year. So, it is reasonable to normalize the costs in a GRC proceeding to set rates more representative of the utility's service. Our review of SoCalGas's recorded 2022 cost data shows that it incurred $4.779 million, whereas it forecasted $8.467 million. Therefore, it is reasonable to lower SoCalGas's cost estimates by removing 2018 and 2019 as outliers and basing the forecasted cost estimates on an average of 2017, 2020, 2021, and 2022. This results in $4.870 million for 2024 Test Year forecast costs, which is a $3.598 million reduction from SoCalGas's request.

35.1.5.2. Uncontested Costs

The following O&M costs for A&G activity categories were uncontested: Accounting and Finance, Legal (except Claims Management, Claims Payment and Recovery Costs), Regulatory Affairs Division, External Affairs Division, and Franchise Fees.

A&G costs should not fluctuate significantly from year to year, as this organization supports ongoing activities at the company, and it is reasonable to plan a buffer while budgeting. SoCalGas uses a five-year historical average, which is otherwise reasonable for forecasting Test Year costs, and adds additional costs to account for backfilling vacant positions, a buffer to handle unforeseen vacancies. Our review of 2022 recorded costs shows that SoCalGas overestimated A&G costs by $4.934 million, a 12 percent overestimated factor. To adjust for this variance, a six-year average is a better estimate than a five-year historical average,

[2674] SCG Ex-229-E at SPM-E-2.

as that would remove any fluctuations and account for SoCalGas's attempt to account for a full year's worth of impact of backfilling its vacant positions.

Therefore, we adopt a six-year average for the remaining uncontested cost categories, which reduces SoCalGas's request by $4.474 million.

Table 35.6
Adopted Remaining Uncontested Cost Categories

Uncontested A&G Categories (Non-Shared)	2017-2022 Avg. ($000s)	SoCalGas TY 2024 Request ($000s)	Difference ($000s)
Controller & Chief Financial Officer	551	616	-65
Accounting Operations	4,352	4,837	-485
Financial Systems & Innovation, Accounting Research & Business Controls and Affiliate Billing and Costing	1,375	1,793	-419
Innovation Support	68	309	-241
Finance	1,568	2,247	-679
Financial and Operational Planning	4,628	5,937	-1,309
Legal	8,183	8,743	-560
Regulatory Tariffs and Information	545	597	-52
External Affairs	1,788	2,454	-666
Total	**23,059**	**27,532**	**-4,474**

35.1.6. Franchise Fees Discussion

SoCalGas's forecast for franchise fee costs is based on the average Franchise Fee factor for 2024 Test Year, projected to be 1.2259 percent. Based on the trend from actual 2017-2021, SoCalGas's franchise fees are reasonable. No intervenor objects to its cost estimates or methodology. Based on the Results of Operation Model output, this decision adopts $45.392 million in expenses for Franchise Fees for the 2024 Test Year.

35.1.7. SoCalGas Non-Shared O&M Summary

This decision authorizes $75.191 million for SoCalGas Non-Shared O&M Costs and Franchise Fees, as shown below:

Table 35.7
SoCalGas Non-Shared O&M Costs and Franchise Fees Authorization

Category	SoCalGas Requested 2024 Test Year ($000s)	PD Authorization 2024 Test Year ($000s)	Change ($000s)
A. Accounting and Finance	15,737	12,541	-3,196
B. Legal[2675]	17,210	12,558	-4,652
C. Business Strategy and Energy Policy	4,814	2,366	-2,448
D. Regulatory Affairs	597[2676]	546	-51
E. External Affairs	2,454	1,788	-666
Total	**40,812**	**29,799**	**-11,013**

SoCalGas Requested Franchise Fees 2024 Test Year	PD Authorization Franchise Fees 2024 Test Year
$53,149	$45.392

35.2. SDG&E A&G Costs

35.2.1. Non-Shared O&M Administrative & General Costs and Activities

SDG&E's Non-Shared A&G functions include Accounting and Finance, Legal, Regulatory Affairs, and Community Relations.[2677] Additionally, A&G includes Franchise Fees expenses paid to counties and incorporated cities pursuant to local ordinances that grant a franchise to SDG&E to place utility property used for transmitting and distributing gas in public rights-of-way.

SDG&E requests $30.117 million in Non-Shared O&M costs in the 2024 Test Year for its Administrative and General Costs and Activities, an increase of $1.674 million over its recorded expenses of $28.443 million in 2021.[2678] SDG&E

[2675] An additional reduction of $0.494 million is included based on the discussion in the Other Issues – Political Activities Section of this decision.

[2676] Attestation pursuant to Decision 23-12-034 Issued in the Safety Culture Order Instituting Investigation (I.19-06-014) served by Sempra on February 12, 2024.

[2677] SDG&E Ex-33-WP-R-E at RA-2.

[2678] SDG&E Ex-33-WP-R-E at RA-2.

requests $93.859 million for 2024 Franchise Fee Expenses.[2679] A&G includes the following cost categories:

Table 35.8
SDG&E's 2024 Test Year Non-Shared O&M Cost Summary[2680]

Category	2021 Adjusted-Recorded ($000s)	2024 Test Year Estimated ($000s)	Change ($000s)
A. Accounting and Finance	11,745	12,402	657
B. Legal	14,566	15,511	945
C. Regulatory Affairs	2,120	1,908	(212)
D. Community Relations	12	296	284
Total	**28,443**	**30,117**	**1,674**

SDG&E primarily bases its estimations on five-year adjusted historical averages, except for Financial and Business Planning, which it forecasts using a base-year methodology.[2681]

35.2.2. Party Positions

SDG&E vs. Other Parties Summary of Differences:

Table 35.9
Non-Shared O&M Costs – Constant 2021 ($000s)[2682]

Category	SDG&E 2024 Test Year Estimated	Cal Advocates 2024 Test Year Estimated	Variance to SDG&E's Request
A. Accounting and Finance	12,402	11,910	-492
B. Legal	15,511	15,511	0
C. Regulatory Affairs	1,908	1,908	0
D. Community Relations	296	296	0
Total	**30,117**	**29,625**	**-492**

[2679] Sempra Opening Brief at 765.

[2680] SDG&E Ex-33-WP-R-E at RA-2.

[2681] SDG&E Ex-33-WP-R-E at 30.

[2682] Cal Advocates Opening Brief at 282.

35.2.2.1. Cal Advocates

Cal Advocates recommends reducing SDG&E's Accounting & Finance expenses.[2683] Within Accounting & Finance, Cal Advocates argues for a $492,000 reduction in SDG&E's Financial and Business Planning expenses.[2684] This represents no change in costs compared to expenses for the 2021 Base Year. Cal Advocates states that SDG&E fails to provide documentation justifying an increase from 2021 Base Year amounts; therefore, authorizing increased costs is unreasonable when SDG&E lacks any new activities planned for 2024 Test Year or explanations demonstrating that its current staffing level is insufficient.[2685]

35.2.2.2. SDG&E Reply

SDG&E disagrees with Cal Advocates regarding its request for Financial and Business Planning costs.[2686] SDG&E argues that, in addition to needing to fill 1.3 FTE vacancies, it requires three additional Senior Business Planning Analyst FTEs to support a large increase in capital projects and that it has provided sufficient evidence to justify this need in workpapers and testimony.[2687] Additionally, SDG&E claims that, although the nature of the Financial and Business Planning division's workload remains the same, increased regulatory requirements are intensifying the complexity and extent of its work.[2688]

35.2.3. Discussion

We disagree with Cal Advocates that SDG&E has not justified an increase from its 2021 Base Year costs. SDG&E has demonstrated that its incremental FTE

[2683] Cal Advocates Opening Brief at 282.

[2684] Cal Advocates Opening Brief at 282.

[2685] Cal Advocates Opening Brief at 283.

[2686] Sempra Opening Brief at 765.

[2687] Sempra Opening Brief at 766.

[2688] Sempra Opening Brief at 766.

request is due to the increased volume of O&M and capital planning activities and to comply with the Commission reporting requirements for RSAR and accountability reporting pursuant to D.19-04-020 and D.22-10-002.[2689]

Additionally, we have reviewed SDG&E's 2022 actual recorded data for Non-Shared costs and find that it is within the same reasonable range of its forecast.[2690] SDG&E's five-year historical average forecast methodology for all A&G cost categories and a base-year methodology for Financial and Business Planning are reasonable. SDG&E's base-year forecast for three FTEs to support additional regulatory financial reporting requirement activities, safety and reliability activities, and associated funding levels is reasonable. Therefore, it is reasonable to approve the initial forecasted cost based on the justification provided.

For 2024 Test Year, we adopt $30.117 million for 2024 Test Year for A&G costs.

35.2.3.1. Franchise Fees Discussion

SDG&E's forecast for franchise fee costs is based on the average Franchise Fee factors for the 2024 Test Year, projected to be 3.4573 percent for electric and 2.1027 percent for gas.[2691] Based on the trend from actual 2017-2021, SDG&E's franchise fees are reasonable. No intervenor objects to its cost estimates or methodology. Accordingly, this decision adopts $85.238 million in expenses for Franchise Fees for 2024 Test Year.

[2689] SDG&E Ex-233 at 3-4.

[2690] SDG&E Ex-302.

[2691] SDGE Ex-33-R-E at RA-51.

35.2.4. Summary

This decision authorizes the following costs for SDG&E's Non-Shared O&M Costs and Franchise Fees ($000s):

Table 35.10
SDG&E's Authorized Non-Shared O&M Costs ($000s)

Category	2024 Test Year Estimated	PD Authorization 2024 Test Year	Change
A. Accounting and Finance	12,402	12,402	0
B. Legal	15,511	15,511	0
C. Regulatory Affairs	1,908	1,908	0
D. Community Relations	296	296	0
Total	**30,117**	**30,117**	**0**

Table 35.11
SDG&E's Authorized Franchise Fee Costs ($000s)

SDG&E Requested Franchise Fees	PD Authorization Franchise Fees
$93,859	$85,238

35.3. A&G Shared Services Request Summary

SoCalGas and SDG&E request Shared Services costs as follows:

Table 35.12
SoCalGas's Shared Services Request (2021 $000s)[2692]

	2021	2022	2023	2024
Legal	1,461	1,443	1,639	1,639
Regulatory Affairs	3,990	4,304	4,458	4,308
Total	**5,451**	**5,747**	**6,097**	**5,947**

Table 35.12
SDG&E's Shared Services Request (2021 $000s)[2693]

	2021	2022	2023	2024
Accounting & Finance	3,707	3,909	3,909	3,909
Regulatory Affairs	5,795	6,339	6,533	6,726
Community Relations	918	1,032	1,132	1,132
Total	**10,420**	**11,280**	**11,574**	**11,767**

Regarding Legal, which includes costs for Shared claims management services as well as claims payment and recovery costs, SoCalGas applies a five-year historical average for its forecast.[2694] Its request for $1.639 million represents a $178,000 increase from 2021 Base Year expenses.[2695]

SoCalGas's Shared costs for Regulatory Affairs comprise expenses for Regulatory Case Management, Director of Regulatory Affairs, Gas Rates and Analysis, Gas Demand Forecasting and Economic Analysis, GRC and Revenue Requirements project management, and Regulatory Affairs Strategy Manager.[2696]

2692 SCG Ex-29-WP-R-E at 93.

2693 SDG&E Ex-33-WP-R-E at 84.

2694 SCG Ex-29-WP-R-E at 96.

2695 SCG Ex-29-WP-R-E at 93.

2696 SCG Ex-29-WP-R-E at 102-3.

SoCalGas uses a five-year average methodology to forecast all Shared expenses under Regulatory Affairs.[2697]

SDG&E requests $3.909 million in Shared expenses for Accounting and Finance, which is $201,000 over costs for the 2021 Base Year.[2698] This comprises Affiliate Billing & Costing, Accounts Payable, Assistant Controller, Financial Accounting, Accounting Research & Business Controls, and Financial Planning Systems.[2699] SDG&E forecasted costs for Affiliate Billing & Costing, Accounts Payable, Assistant Controller, Financial Accounting, and Accounting Research & Business Controls using a five-year average.[2700] It applies a three-year average for Financial Planning Systems because the function moved from Corporate Center to SDG&E in 2019, leading to SDG&E only having 3 years to pull data from leading up to the 2021 Base Year.[2701]

SDG&E's Shared costs request for Regulatory Affairs includes expenses related to State Government Affairs & Chief Regulatory Officer , Policy & Proceedings Case Management, GRC Accountability Reporting, GRC Case Management, GRC & Revenue Requirements, San Francisco Operations, and Regulatory Policy & Legislative Analysis.[2702] SDG&E forecasts each of these categories using a five-year average.

SDG&E's $1.133 million Shared costs request for Community Relations in the 2024 Test Year is $216,000 above expenses incurred during the 2021 Base Year.

2697 SCG Ex-29-WP-R-E at 105, 111, 117, 122, 129, 136, 144, 151.

2698 SDG&E Ex-33-WP-R-E at 85.

2699 SDG&E Ex-33-WP-R-E at 85.

2700 SDG&E Ex-33-WP-R-E at 88, 96, 103, 110, 118.

2701 SDG&E Ex-33-WP-R-E at 126.

2702 SDG&E Ex-33-WP-R-E at 132-133.

It states that this department oversees relationships between SDG&E and local communities and supports the Corporate Center.[2703] SDG&E uses a five-year adjusted average for this forecast.

35.3.1. Discussion

We find that a five-year average is a reasonable methodology for forecasting SoCalGas's Shared expenses for Legal and Regulatory Affairs and SDG&E's Affiliate Billing and Costing, Accounts Payable, Assistant Controller, Financial Accounting, and Accounting Research and Business Controls. Due to the limited data available, using a three-year average is reasonable for SDG&E's Financial Systems forecast. We adopt SoCalGas's and SDG&E's forecasts for Shared service costs totaling $5.947 million and $11.767 million, respectively.

35.3.2. Summary

This decision authorizes the following costs for SoCalGas and SDG&E's A&G Shared service requests ($000s):

Table 35.13
SoCalGas's and SDG&E's Authorized Shared Service Requests ($000s)

Category	2024 Test Year Estimated	PD Authorization 2024 Test Year	Change
Legal (SoCalGas)	1,639	1,639	0
Regulatory Affairs (SoCalGas)	4,308	4,308	0
Accounting & Finance (SDG&E)	3,909	3,909	0
Regulatory Affairs (SDG&E)	6,726	6,726	0
Community Relations (SDG&E)	1,132	1,132	0
Total	**17,714**	**17,714**	**0**

36. Shared Services and Shared Assets Billing, Segmentation & Capital Reassignments

This section addresses the requests of SoCalGas and SDG&E regarding Shared Services billing, Shared Assets billing, and Capital Reassignment. It also

[2703] SDG&E Ex-33-WP-R-E at 197.

covers SDG&E's requests regarding its Business Segmentation and Electric Transmission allocation processes.

36.1. Shared Services Billing

Shared Services billing is conducted in the same manner by SoCalGas and SDG&E. Under this practice, the Shared Services costs incurred by one utility on behalf of the other utility and/or other Sempra affiliates are allocated and billed to the companies receiving the services.[2704] This practice ensures that the ratepayers of the utility providing a shared service are not subsidizing the costs incurred to support the other utility or any Sempra affiliate.[2705] The Final RO Model will determine the total amount of Shared Services billed to Sempra affiliates. The Shared Services billing process proposed by SoCalGas and SDG&E is unopposed.

We find that the Shared Services billing process proposed by SoCalGas and SDG&E is reasonable and should be adopted.

36.2. Shared Assets Billing

Shared Assets are assets that benefit the utilities and other Sempra affiliates. Although these assets are recorded on the financial records of the utility that receives the most use from the asset, that utility bills the other Sempra affiliates that also benefit from the asset.[2706] Shared Assets billing is calculated using allocation percentages based on factors that reflect the usage level of the asset by the other Sempra affiliates and will vary depending on the asset. The Shared Assets at issue here consist of facilities, computer hardware, computer software,

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[2704] Sempra Opening Brief at 767.

[2705] Sempra Opening Brief at 767.

[2706] Sempra Opening Brief at 768.

and communications. SDG&E and SoCalGas bill Sempra affiliates for the use of these assets by calculating a capital revenue requirement.[2707]

No party opposes SoCalGas and SDG&E's Shared Assets billing process or allocation of Shared Assets costs. Based on the final RO Model output, the Commission finds the Shared Asset Costs billed to the Sempra affiliates of $70.734 million for SoCalGas and $19.373 million for SDG&E.[2708] to be reasonable and that they should be adopted.

36.3. Business Segmentation Allocation (SDG&E Only)

SDG&E directly assigns the FERC account series of Clearing Accounts, Customer Accounts, Customer Service and Information, and A&G Accounts that are specifically related to the Electric, Electric Generation, or the Gas Department to the appropriate department.[2709] There are expenses that cannot be directly charged to the departments and therefore must be allocated between the three operating functions (Electric, Electric Generation, and Gas) for ratesetting purposes.[2710] Additionally, Gas Department expenses and the Electric Department expenses attributable to Electric Distribution and Electric Generation are recovered in rates authorized by the Commission.[2711] EDF argues in its opening brief that SDG&E does not properly segment and account for its hydrogen lines of business, but this argument is more appropriately addressed under the topic of the hydrogen business itself. SDG&E's proposed Business Segmentation allocation process is otherwise unopposed.

[2707] Sempra Opening Brief at 768.

[2708] Sempra Opening Brief at 768.

[2709] Sempra Opening Brief at 769; SCG Ex-30-R/SDG&E Ex-34-R at 23:19-22.

[2710] Sempra Opening Brief at 769; SCG Ex-30-R/SDG&E Ex-34-R at 23:22-24.

[2711] Sempra Opening Brief at 769; SCG Ex-30-R/SDG&E Ex-34-R at 23:25-27.

We find that the Business Segmentation allocation process proposed by SDG&E is reasonable and should be adopted.

36.4. Reassignment to Capital

A majority of the operating costs of SoCalGas and SDG&E are charged directly to either capital or O&M. However, certain costs that support construction efforts are reassigned from O&M to capital. These costs include portions of A&G expenses, labor overheads, and clearing account costs.[2712] Once SoCalGas and SDG&E determine the appropriate portion of costs associated with Electric, Electric Generation, and/or Gas Services, the capital reassignment process is initiated.[2713] The reassignment is based on 2021 Base Year data and the reassigned costs are added to the rate bases of SoCalGas and SDG&E.[2714]
The Capital Reassignment process proposed by SoCalGas and SDG&E is unopposed. Based on the final RO Model output , the Commission finds Capital Reassignment costs of are $195.975 million for SoCalGas and $186.306 million for SDG&E[2715] to be reasonable and that they should be adopted.

36.5. Exclusion of Electric Transmission (SDG&E only)

Since Electric Transmission costs are under FERC jurisdiction, the costs allocated to Electric Transmission are excluded from this GRC. SDG&E uses an allocation method based on labor charges for most O&M accounts to allocate Electric Department expenses, excluding Electric Generation, between the Electric

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[2712] Sempra Opening Brief at 769; SCG Ex-30-R/SDG&E Ex-34-R at 27:13-16.

[2713] Sempra Opening Brief at 769; SCG Ex-30-R/SDG&E Ex-34-R at 27:16-18.

[2714] Sempra Opening Brief at 770.

[2715] Sempra Opening Brief at 770. These exclude Electric Generation amounts which are $6,495,000 for SDG&E Electric Generation and $53,594,000 for SDG&E Gas.

Distribution and Electric Transmission functions. Additionally, for capital reassignment and Clearing Accounts, SDG&E used 2021 actual data.[2716] SDG&E's proposed Electric Transmission allocation process is unopposed. Based on the final RO Model output, the Commission finds2024 Test Year allocated costs excluded from this GRC of $95.003 million for Electric Transmission O&M and $30.362 million for Electric Transmission Capital[2717] are   reasonable and should be adopted.

37. Rate Base and Rate of Return

Rate base is defined as the net investment of property, plant, equipment, and other assets that SoCalGas or SDG&E has acquired or constructed to provide utility services to its customers. The four major components of rate base are Fixed Capital, Working Capital, Other Deductions, and Deductions for Reserves.

The weighted average rate base is calculated using a 13-month average (the sum of the monthly balances from December of the prior year through December of the current year, less one-half of each December balance, divided by 12). The weighted average balance method has been an accepted industry practice for all California utilities and is a Commission-approved methodology as adopted in prior ratesetting proceedings, including SoCalGas's 2019 GRC proceeding.[2718] SoCalGas requests a weighted average rate base for the 2024 Test Year, as contained in Update Testimony, of $13.414 billion. SDG&E requests a weighted average rate base for the 2024 Test Year, as contained in Update Testimony, of

[2716] Sempra Opening Brief at 770. The summary of segmentation rates is shown in Appendix E (SDG&E) of SDG&E Ex-34-R.

[2717] Sempra Opening Brief at 770.

[2718] Sempra Opening Brief at 772.

$6.6 billion for electric and $2.3 billion for gas.[2719] These weighted average methodologies proposals are uncontested. The dollar amounts of the weighted average rate base for the 2024 Test Year are contested.

The following other methodologies related to rate base are also uncontested:[2720]

- Capitalizing the implementation costs for cloud computing service contracts and amortizing the costs over the term of the associated arrangement based upon FERC guidance, and the capitalization of prepaid agreement costs associated with software and computer hardware such as cloud Software as Service license arrangements, reserved cloud capacity, and new software and hardware maintenance costs.
- Implementation of FERC guidance for hydro testing under Gas Transmission Safety. Under that guidance, if a utility is required to retest the pipeline so that its full capacities can be utilized, such first-time and one-time retesting costs can be capitalized. When such retesting costs are capitalized, all prior testing costs related to the specific property should be retired.
- Elimination of gas line extension allowances for gas main and service extension applications received on or after July 1, 2023 consistent with D.22-09-026, including the 10-year refundable payment option, and the 50 percent discount option in SoCalGas Tariff Rules 20 and 21 and SDG&E Tariff Rules 15 and 16.
- SoCalGas and SDG&E adjusted the classification of New Business Construction capital costs in their forecast to reflect that D.22-09-026 eliminated allowances for new services, unless they meet certain criteria per that decision. This methodology is applied to the forecast of Gas

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2719 Sempra Opening Brief at 771-772.

2720 Sempra Opening Brief at 773-774.

Distribution New Business construction authorized in this decision.

- The Commission finds the above methodologies related to rate base to be reasonable and adopts them; any differences in forecast are attributable to PD adjustments in other sections. The Commission authorizes a weighted average rate base for 2024 Test Year of $12.342 billion for SoCalGas, and $6.317 billion for electric and $1.788 billion for gas for SDG&E.

37.1. Rate of Return

The Commission applies the currently effective rate for the cost of capital or rate of return in this decision.[2721] In any given year, a utility's actual rate of return (profit) may be higher or lower than the rate the CPUC authorized, depending in part on how the utility manages its operations and costs. The California State Auditor's August 29, 2023 report[2722] found that in nine of the 10 preceding years, SDG&E's actual rate of return was higher than its authorized rate of return—while PG&E and SCE achieved the same result only two or three times—raising questions about the accuracy of SDG&E's forecasted costs. For example, the Commission had authorized 7.55 percent as the rate of return for SDG&E during 2020, but SDG&E's actual rate of return was 9.1 percent during that year. Although SoCalGas reported lower rates of return than authorized for the two most recent years, it also reported higher rates of return in previous years. The other large utilities reported actual rates of return that were generally less than the amount the Commission had authorized for them. As a result, the auditor found that reviewing how much the utility earned compared to the

[2721] Resolution E-5306 at 4.

[2722] California State Auditor, Report 2022-115, https://information.auditor.ca.gov/reports/2022-115/index.html authorized rate of return and identifying where the utility was able to gain efficiencies should be a critical first step in ensuring that the utility's projected costs were appropriate. However, the auditor also found that there is no process to identify the areas in which the utilities achieved cost savings.

In September 2024, the State enacted AB 2666 (Stats. 2024, ch. 413)2024) effective January 1, 2025 and codified in Pub Util. Section 451.8. It provides the following direction to the Commission:

> (1) The commission shall establish guidelines for electrical corporations and gas corporations to calculate and report their actual rates of return to the commission.
>
> (2) The commission shall require electrical corporations and gas corporations to report their actual rates of return to the commission annually.
>
> (3) The commission shall adopt controls to adequately track an electrical corporation's or gas corporation's actual rate of return relative to its forecasted rate of return and shall require the corporation to identify the cost categories where projected costs exceeded actual costs.

Pub. Util. Code Section 451.8 directs the Commission to establish guidelines and adopt processes regarding the reporting and tracking of actual versus forecasted rates of return. This statutory directive will take effect January 1, 2025. If the Commission has not adopted an order or decision implementing AB 2666 prior to their next general rate case filings, then SoCalGas and SDG&E shall calculate their actual annual rates of return, compare their annual rates of return relative to their forecasted annual rates of return, and identify the cost categories where projected (forecasted) costs differed from actual (recorded) costs. Such information and related supporting documents shall be provided to the service list of the utilities' rate case proceeding with the filing of its next GRC application.

38. Depreciation

Depreciation is an accounting tool used to convert capital investments into annual expenses, referred to as depreciation expense. Within the context of ratemaking, depreciation allows utilities to recover the original cost of fixed capital assets less the estimated net salvage over the useful life of the property by means of charges to the utility's operating expenses.[2723] Through depreciation, the utility recovers through rates the costs it incurs to buy, install, and remove assets over the useful life of the assets. This is a mechanism for customers to pay through rates the portion of the assets' cost from which they receive benefit.[2724] The systematic recovery of asset capital costs over the useful life also furthers the concept of intergenerational equity since an asset's life may span several generations of ratepayers who benefit.[2725]

The utility's depreciation expense is one of the primary means through which forecast capital investments increase revenue requirements (RRQ). This expense has traditionally been calculated for ratemaking purposes using a "Straight-line" depreciation method defined in Commission Standard Practice U-4 based on the following equation:[2726]

[2723] Sempra Opening Brief at 774; SDG&E Ex-36-R at 4; SCG Ex-32-2R at 2.

[2724] D.21-08-036 at 506.

[2725] D.14-08-032 at 588–589.

[2726] CPUC Standard Practice U-4, Determination of Straight-Line Remaining Life Depreciation Accruals, dated January 3, 1961.

$$d = (1 - c)/L$$

Where

d = total life straight-line depreciation rate

c = average net salvage ratio (gross salvage less cost of removal) during total service life

L = total service life of unit or average service life of group of units

The primary areas of dispute over Sempra's depreciation components are SoCalGas's and SDG&E's requests to increase Gas Plant depreciation expense[2727] by modifying gas asset service lives and net salvage rates.[2728] This section also discusses proposals by other parties to change SDG&E's electric and common plant depreciation rates, which SDG&E proposes to hold constant.

38.1. Gas Plant Depreciation Rates

Sempra proposes increasing gas plant depreciation rates based on an updated depreciation study. A depreciation study is a comprehensive analysis of the property characteristics of a utility's assets. It is specific to each utility and that utility's assets to determine the appropriate annual depreciation accrual rate for each asset account.[2729]

The complex process of the depreciation study involves data collection, analysis, evaluation, and calculation phases. The data collection includes historical data through December 31, 2020. The analysis phase determines the lives and net salvage percentages for the different property groups by conferring with field personnel, engineers, and managers responsible for the installation,

[2727] SCG Ex-401/SDG&E Ex-401 at A1, line 22.

[2728] SCG Ex-32R at 17-48; SDG&E Ex-36.

[2729] Sempra Opening Brief at 775.

operation, and removal of the assets to gain their input into the operation, maintenance, and salvage of the assets. Sempra evaluates the information obtained from company representatives, combined with the depreciation study results, to determine how the results of the historical asset activity analysis, in conjunction with the Company's expected future plans, should be applied.

In the final phase, Sempra calculates depreciation rates and the theoretical reserve. This involves selecting an average service life and a survivor curve, which represents the percentage of property remaining in service at various age intervals.[2730]

For each asset group in the depreciation study, Sempra calculated depreciation expense using the straight-line method, broad average-life group procedure, and remaining-life depreciation method. For each plant account life, Sempra divided the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve by the average remaining life to yield the annual depreciation expense.[2731]

In addition to calculating historical lives and net salvage data, Sempra considered other factors in making life and net salvage recommendations. Sempra incorporated future trends, changes in equipment and Company-specific operational information before finally making life and net salvage recommendations. Such recommendations are a blend of judgment concerning historical data, current conditions, future trends, and considering potential flaws in statistical assumptions.[2732]

[2730] Sempra Opening Brief at 775.

[2731] Sempra Opening Brief at 776; SCG Ex-32-R at 8.

[2732] Sempra Opening Brief at 775-776.

38.1.1. SoCalGas's and SDG&E's Forecast for Gas Plant Depreciation Expense

Sempra recommends updating gas depreciation rates to align depreciation expense with an account's life and circumstances, which haven't been updated over the last two GRC cycles despite factors changing since those depreciation rates were last adjusted.[2733] In addition, Sempra contends that increasing depreciation rates is necessary because they are behind in recovery of adequate funds to cover expenditures for future costs of removing assets.[2734]

For 2024, SoCalGas forecasts $975.739 million in depreciation expense compared to an accrual of $702.956 million as of 2021 under current rates,[2735] which represents an increase of 38.8 percent. The total depreciation expense is summarized by the primary categories in the table below, and SoCalGas's proposed depreciation rates for all its depreciable property are detailed in its testimony.[2736]

Table 38.1
SoCalGas's Total Depreciation Expense

Depreciation Expense	2021 Recorded (2021 $, Thousands of Dollars)	2024 Test Year (2024 $, Thousands of Dollars)
Underground Storage	$56,875	$88,392
Transmission	$99,339	$158,237
Distribution	$334,446	$458,193
General Plant	$212,297	$270,917
Total Depreciation & Amortization Expense	**$702,956**	**$975,739**

2733 Sempra Opening Brief at 778.

2734 SCG Ex-32-2R at 14-16.

2735 Sempra Opening Brief at 777.

2736 SCG Ex-32-2R, Attachment C: Watson's Depreciation Rate Study (Depreciation Study) report, Appendix A.

For 2024, SDG&E forecasts $94.733 million in depreciation expense compared to an accrual of $67.057 million as of 2021 under current rates.[2737] The total depreciation expense is summarized by the primary categories in the table below, and SDG&E's proposed depreciation rates for all its depreciable property are detailed in its testimony.[2738]

Table 38.2
SDG&E's Total Depreciation Expense

Depreciation Expense[2739]	**2021 Recorded (2021 $, Thousands of Dollars)**	**2024 Test Year (2024 $, Thousands of Dollars)**
Underground Storage	$95	$105
Transmission	$10,937	$9,057
Distribution & General Plant	$55,839	$85,211
Amortization (Land Rights)	$186	$360
Total Depreciation & Amortization Expense	**$67,057**	**$94,733**

38.1.2. Intervenor Positions and Recommendations

38.1.2.1. Cal Advocates

Cal Advocates recommends reducing both SoCalGas's and SDG&E's forecasted depreciation expenses for several policy reasons. First, under current depreciation parameters, Cal Advocates claims that both SoCalGas and SDG&E are collecting more than adequate funds in rates to fund the future cost of removals.[2740]

Second, Cal Advocates states that SoCalGas collected more revenues in rates to fund removal costs than it spent to pre-fund removal costs between 2018 and 2021. For the 2018-2021 period, Cal Advocates states that for every dollar

[2737] Sempra Opening Brief at 778; SDG&E Ex-401.

[2738] SCG Ex-32-2R, Attachment C: Depreciation Study report, Appendix A.

[2739] Sempra Opening Brief at 788, which excludes Common Plant.

[2740] Cal Advocates Opening Brief at 299.

expenditure incurred for cost of removal, SoCalGas collected $1.21 in rates, and for the same time period, for every dollar expenditure incurred for cost of removal, SDG&E collected $1.84 in rates.[2741]

Third, Cal Advocates states that the analytical tools in Sempra's depreciation studies for establishing base line depreciation parameters should be used in conjunction with other factors, including: 1) comparisons between the annual costs of removal being currently collected in rates and how much of those funds are being expended on cost of removal; 2) the rising cost of energy and rates; 3) rate affordability; and 4) inflation, and other economic uncertainties.[2742]

Cal Advocates discusses SoCalGas's proposed changes to asset account service lives and net salvage values, most of which would result in increases in depreciation expense. Cal Advocates generally opposes Sempra's proposed changes to negative net salvage based on the policy considerations above.[2743] In support of the position of maintaining current net salvage values, Cal Advocates states that SoCalGas has underspent the amounts in the following asset categories or accounts:

1. Transmission Plant Account 376 – Mains: During the four-year period from 2018 through 2021, Cal Advocates states that SoCalGas underspent its authorized cost of removal amounts for this account by approximately $206 million.[2744]
2. Distribution Plant Account 380 – Services: From 2018 through 2021, Cal Advocates states that SoCalGas

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2741 Cal Advocates Opening Brief at 300.

2742 Cal Advocates Opening Brief at 299.

2743 Cal Advocates Opening Brief at 300.

2744 Cal Advocates Opening Brief at 303.

underspent the authorized cost of removal amounts for this amount by approximately $116 million.[2745]

38.1.2.2. TURN

Based on its own analysis, TURN recommends average service lives and net salvage values resulting in total depreciation expense reductions of more than $100 million compared to Sempra's total depreciation expense forecasts and approximately $50 million compared to currently authorized depreciation expense.[2746]

As with Sempra's analysis, TURN's recommended service lives are the product of data recorded by Sempra. TURN's analysis is also based on mathematical and visual curve fitting, and expert judgment to derive reasonable curves for each of the accounts in dispute.[2747] In addition, TURN states that its approach is consistent with the industry practices recognized by Sempra.[2748] Based on TURN's analysis, TURN states that it identified a number of plant accounts for which SoCalGas's or SDG&E's proposed, estimated service life was too short to accurately describe the mortality characteristics supported by the actual data for the account.[2749] Most of TURN's survivor curves also fall in between those proposed by the utilities and the observed life tables. As a result, TURN argues

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[2745] Cal Advocates Opening Brief at 304.

[2746] TURN Opening Brief at 367. TURN's proposed parameters would reduce SoCalGas's depreciation expense by approximately $88 million and SDG&E's by $11.6 million, both as compared to the utility's proposals applied to 2021 plant balances. The reductions as compared to currently authorized parameters are approximately $23 million for SoCalGas and $24 million for SDG&E. Since the adopted depreciation rates are percentage figures that would be applied to 2024 plant balances, to the extent the 2024 plant balances are higher than the 2021 plant balances, the savings figures reflected in the authorized 2024 revenue requirement will also be higher than these figures. TURN Opening Brief at 367, fn. 1202.

[2747] TURN Opening Brief at 374-379.

[2748] TURN Opening Brief at 375.

[2749] TURN Opening Brief at 377.

that its survivor curves provide a superior fit to the data than those proposed by Sempra. On this basis, TURN proposed a longer service life for each of those accounts.[2750]

For Net Salvage, TURN recommends increasing the net salvage costs less than the amount proposed by Sempra consistent with the principle of gradualism that the Commission has employed for the last ten years.[2751] Originally, the Commission limited net salvage increases for any account to no more than 25 percent of the utility-proposed increase.[2752] However, TURN states that, since Sempra did not identify the net salvage rates they would have proposed absent gradualism, much less present any supporting analysis for such rates, TURN proposed two alternative approaches to increasing the currently authorized net salvage rates for the accounts in dispute in a manner more consistent with gradualism than the approach taken by Sempra.[2753]

TURN recommends using 25 percent of the increase proposed by Sempra, labeled the "traditional" approach by TURN. But since Sempra limited their requested increases to 25 basis points for many accounts, TURN proposes an alternative approach that is higher than those calculated using the "traditional" approach to gradualism here, without adopting the much higher increases sought by Sempra. This alternative uses a proxy for what Sempra's requested change for each account might have been. TURN's proxy used the sum of the increases each utility had sought for the same plant account in the 2016 and 2019 GRCs. TURN then applied the 25 percent factor to that proxy increase, consistent with

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[2750] TURN Opening Brief at 378-79.

[2751] TURN Opening Brief at 384-386.

[2752] D.14-08-032 (PG&E 2014 Test Year GRC)at 597-602.

[2753] TURN Opening Brief at 386-387.

gradualism as described and applied in previous decisions. As TURN's testimony explained, this is a very conservative (that is, favorable to the utility) approach to developing a proxy, as it effectively assumes that the increases sought in the two earlier GRCs were reasonable, even though the Commission determined in D.19-09-051 that the utilities had provided inadequate support for the increases sought in the 2019 GRC.[2754]

38.1.2.3. Other Intervenors

EDF proposes accelerating depreciation on Sempra's gas assets using a method called the "unit of production" method because it accounts for stranded asset risks and is better suited to currently projected declines in gas demand.[2755]

Indicated Shippers recommends increasing the average service lives of FERC Accounts 354, 367, 368, 369, 376, and 380, resulting in a reduction of $42.92 million to SoCalGas's depreciation expense forecast.[2756]

38.1.3. Discussion

38.1.3.1. Service Lives

In reply, Sempra alleges various flaws in intervenor positions and recommendations regarding Sempra's proposed service lives.[2757] With regard to Cal Advocates, Sempra asserts the following: 1) Cal Advocates "cherry-picks" SoCalGas's and SDG&E's gas depreciation study, accepting SoCalGas's and SDG&E's gas service life proposals when they maintain or lengthen lives, while rejecting any suggestion to shorten lives; 2) Cal Advocates' proposal to not allow an increase in Test Year depreciation expense is not based upon a study. Instead,

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[2754] Sempra Opening Brief at 387-388.

[2755] EDF Ex-01 at 49.

[2756] IS-01 at 4.

[2757] Sempra Reply Brief at 597-599.

it is based solely on Cal Advocates' policy position that "[g]iven that rates are currently high and increasing, any changes to depreciation parameters that result in increasing Test Year depreciation expense should be denied;" 3) Cal Advocates' position is inconsistent with the precedent allowing a utility to recover the original cost of the assets, as well as the net salvage value (salvage minus cost of removal) over the life of the asset.

With regard to TURN, Sempra contends the following: 1) TURN is overly reliant upon mathematical fitting and improperly relies upon only one placement and experience band;[2758] 2) TURN's depreciation analyst provided no indication that they looked for the best fit among multiple bands; 3) TURN did not state or provide evidence that it tempered the use of mathematical fitting based upon SoCalGas or SDG&E employee input; and 4) For several accounts, TURN relied on the 1991-2020 experience band that does not provide a good fit for that account data.[2759] Sempra made similar arguments against Indicated Shippers' analysis as well.[2760]

With regard to EDF's proposal to accelerate depreciation of gas assets, Sempra contends the following: 1) As Indicated Shippers states, such a proposal leads to higher rates today; 2) Issues regarding accelerating depreciation on gas assets are better addressed as part of a more comprehensive evaluation of depreciation methodologies in a standalone rulemaking proceeding; and 3) It is premature to assume that gas customer growth will be smaller going forward

2758 Sempra Reply Brief at 599.

2759 Sempra Reply Brief at 597-598.

2760 Sempra Reply Brief at 598-599.

because customer count is actually anticipated to grow over the period of the GRC.[2761]

As discussed above, the analysis of depreciation parameters and resulting estimations for depreciation expense involves the collection, analysis, evaluation, calculation of data, and considerable judgment. The result is a range of proposals, from Sempra's proposed increases in expense to TURN's proposed decreases, that creates a range of reasonable alternatives for recovery of the original cost of the assets, as well as the net salvage value over the life of the asset. The Commission finds insufficient evidence that SoCalGas and SDG&E are behind in the amount of accumulated depreciation they have collected for capital gas assets.[2762] The Commission finds that retaining depreciation parameters, including service lives, for the Test Year[2763] strikes a reasonable balance between these positions and the competing considerations discussed above. This conclusion is also consistent with SDG&E's uncontested proposal discussed below to hold its electric and common plant depreciation rates constant, partly to address affordability concerns.[2764]

38.1.3.2. Net Salvage

"Net salvage" represents the net amount of costs the utility is expected to incur at the time plant reaches the end of its service life. The net salvage for utility assets is often a negative number (generally expressed as a percentage) because the cost of removing the assets from service typically exceeds any proceeds received from selling the assets for salvage. A negative net salvage rate represents an additional amount to be collected over the expected life of the plant. Therefore,

[2761] Sempra Opening Brief at 787-788; Sempra Reply Brief at 599.

[2762] TURN Opening Brief at 372; SDG&E Ex-236-E at 3; SCG Ex-232 at 2.

[2763] Cal Advocates Opening Brief at 300.

[2764] Sempra Opening Brief at 774.

a more negative net salvage rate equates to a higher depreciation rate and expense, all else held constant.[2765]

In reply to intervenor arguments, Sempra alleges various flaws in intervenor positions and recommendations regarding Sempra's proposed net salvage values.[2766] With regard to Cal Advocates' position, Sempra contends the following: 1) Cal Advocates' proposal to freeze net salvage is inconsistent with the principle of gradualism; and 2) Cal Advocates' contention that SoCalGas and SDG&E have been collecting more than adequate funds for the cost of removal is incorrect because the cost of removal for many accounts is in the early stages.[2767]

With regard to TURN's position, Sempra contends the following: 1) TURN's interpretation to simplistically apply the precedent to limit an increase in negative net salvage to no more than 25 percent of a utility's proposed increase would require a utility to propose an actual negative net salvage amount—knowing that it is inconsistent with Commission precedent—just so another party or the Commission could take 25 percent of that amount; 2) TURN would alter the Commission's gradualism precedent such that, if a utility does follow that precedent and propose a 25 percent increase, the outcome would then be taking 25 percent of that utility proposal, for a six percent change; and 3) TURN's interpretation of gradualism has led to absurd arguments.[2768]

For net salvage values, the Commission finds similarly as for service lives, that retaining net salvage values for the Test Year is reasonable. This is consistent with the concept of gradualism as D.14-08-032 never intended a limit of "no more

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2765 TURN Opening Brief at 384.

2766 Sempra Reply Brief at 599-600.

2767 Sempra Reply Brief at 600.

2768 Sempra Reply Brief at 600-601.

than 25%" to become a target for any increase in negative net salvage of 25 percent.

Clarification with regard to whether SoCalGas has been underspending its authorized cost of removal amounts is also needed. Cal Advocates states that SoCalGas has underspent its authorized cost of removal for several accounts. However, SoCalGas states that is incorrect because some evidence indicates that the cost of removal for many accounts is in the early stages because the life cycle for certain accounts is up to 120 years, but the average age of plant is only 17.35 years.[2769] Cal Advocates also states that overspending in one category of accounts does not mean the utility is recovering inadequate funds in rates to cover its overall cost of removal obligations. Instead, Cal Advocates argues that the evidence highlights SoCalGas's ability to reallocate funds to areas where the need for asset removal had the highest priorities and that the company's overall revenue requirement needs to fund costs of removal were ultimately fulfilled.[2770] Unfortunately, this discrepancy is not resolved. As a result, better evidence will have to be provided on this issue in the next GRC. In the meantime, the Commission finds that retaining the current net salvage values for the Test Year strikes a reasonable balance between these competing positions.

[2769] Sempra Reply Brief at 600; SCG Ex-232 at 50; SDG&E Ex-236-E at 29.

[2770] Cal Advocates Opening Brief at 304.

Table 38.3
SoCalGas Current vs Proposed Net Salvage Rates

	SoCalGas Current (Adopted)	SoCalGas Proposed
Account 352 – Wells	-70%	-95%
Account 353 – Lines	-40%	-65%
Account 354 – Compressor Station Equipment	-15%	-25%
Account 355 – Meas and Reg Equipment	5%	-5%
Account 366 – Structures and Improvements	-40%	-65%
Account 367 – Mains	-60%	-85%
Account 368 – Compressor Station Equipment	-15%	-40%
Account 369 – Meas. and Reg. Equipment	-50%	-75%
Account 375 – Structures and Improvements	-10%	-20%
Account 375.2 – Distribution and Solar Fuel Cells	NA (-5%)[2771]	-5%
Account 376 – Mains	-80%	-105%
Account 378 – Meas. and Reg. Equipment	-95%	-120%
Account 380 – Services	-115%	-140%
Account 381 – Meters	5%	2%
Account 383 – House Regulators	5%	4%
Account 387 – Other Equipment	5%	0%
Account 397.55 – AMI Communication Poles	0%	-25%
Account 382 – Meter Installations	-10%	0%
Account 390.2 - SCG Solar & Fuel Cell Assets	-15%	-5%

[2771] As explained in SCG Ex-32-2R at DAW-37 and SCG Ex-232 at DAW-49, Account 375.2 is a new asset account and there is currently no existing plant. Therefore, there is currently no existing salvage rate for these assets. SoCalGas expects to have this type of asset in the future and proposes establishing a -5% net salvage rate.

Table 38.4
SDG&E Current vs Proposed Net Salvage Rates

	SDG&E Current (Adopted)	SDG&E Proposed
Account G366 – Struct. and Land Imp.	0%	-5%
Account G368 – Compressor Station Equip.	-10%	-14%
Account G375 – Struct. & Imp.	0%	-5%
Account G376 – Mains	-55%	-80%
Account G380 – Services	-70%	-95%
Account G387 – CNG Net Salvage	0%	-5%
Account G363.6 – LNG Distrib. Storg. Eq.	0%	-5%
Account G382 - Meter & Reg. Instllns.	-30%	-5%

38.2. SDG&E's Electric and Common Depreciation Rates

SDG&E proposes a one-time, non-precedential proposal to hold the Company's electric and common depreciation rates constant throughout this GRC cycle for two reasons. First, SDG&E's investments in wildfire mitigation will pay dividends in the future—such that wildfire mitigation may constitute a less significant portion of future SDG&E costs. Second, decarbonization will lead to expanded electric end uses, resulting in an increase in electric volumes sold and electric revenues.[2772]

Holding these depreciation rates constant through this GRC cycle will keep the overall electric depreciation rate at 4.08 percent compared to 4.44 percent, and the overall common depreciation rate will remain 7.04 percent compared to 7.19 percent. According to Sempra, this would result in an overall saving for ratepayers of $42.9 million based on 2021 accumulated reserve balances.[2773]

[2772] Sempra Opening Brief at 790-791.

[2773] Sempra Opening Brief at 790.

Cal Advocates does not object to SDG&E's one-time proposal to maintain depreciation rates for Electric and Common categories at current levels.[2774] With regard to TURN, the Commission finds TURN's position on this proposal unclear and therefore difficult to assess.[2775] Accordingly, the Commission finds SDG&E's proposal to hold the depreciation levels for electric and common depreciation rates constant to be reasonable and adopts it.

39. Taxes

SoCalGas's and SDG&E's estimated tax expenses for the 2024 Test Year include payroll taxes, ad valorem taxes, and income taxes. SoCalGas forecasts a 2024 Test Year payroll tax expense of $59.4 million, ad valorem tax expense of $172.8 million, and income tax expense of $188.9 million.[2776] SDG&E forecasts a 2024 Test Year payroll tax expense of $23.0 million, ad valorem tax expense of $149.2 million, and income tax expense of $153.1 million.[2777]

The Tax Cuts and Jobs Act (TCJA), enacted on December 22, 2017, made comprehensive changes to federal tax law. Major impacts to SoCalGas and SDG&E include the following: (a) reducing the federal corporate income tax rate from 35 percent to 21 percent beginning in 2018; (b) eliminating the bonus depreciation deduction for regulated utilities; (c) eliminating the deduction for transportation fringe benefits provided to employees beginning in 2018; (d) requiring SoCalGas and SDG&E to return plant-related excess deferred taxes created by the reduction in the corporate income tax rate to ratepayers using the Average Rate Assumption Method (ARAM) as described in the TCJA; and (5)

[2774] Cal Advocates Opening Brief at 305.

[2775] Sempra Reply Brief at 602-603.

[2776] Sempra Opening Brief at 793.

[2777] Sempra Opening Brief at 793.

changing the tax treatment of self-developed software costs from being fully deductible in the year the costs are incurred to, beginning in 2022, a five-year amortization period for deducting such costs.

Cal Advocates' Opening Brief states that Cal Advocates reviewed SoCalGas's and SDG&E's testimony and workpapers and did not oppose their payroll tax, ad valorem tax, and income tax estimating methodology.[2778]

Based on our review of the methodology and the uncontested cost estimates, we authorize SoCalGas's and SDG&E's payroll tax, ad valorem tax, and income tax estimating methodology and forecast for the 2024 Test Year.

SoCalGas and SDG&E propose to continue a Tax Memorandum Account (TMA), established in D.16-06-054 and D.19-09-051, to track differences arising from changes in tax law, tax accounting, tax policy, or procedural changes.[2779] SoCalGas and SDG&E propose to continue the TMA for the 2024 Test Year GRC cycle, including the post-test-year period, under the rules and scope set forth in D.19-09-051 and Advice Letters 5546 and 3462-E/2820-G.[2780]

The TMA is a two-way tracking account that separately tracks the revenue requirement impact of the differences between tax expenses authorized in the GRC and tax expenses incurred resulting from (1) mandatory tax law changes, tax accounting changes, tax procedural changes, and tax policy changes; (2) elective tax law changes, tax accounting changes, tax procedural changes, and tax policy changes; and (3) other net revenue changes caused by tax law changes and tax accounting.[2781]

[2778] Cal Advocates Opening Brief at 307-312.

[2779] Sempra Opening Brief at 793.

[2780] Sempra Opening Brief at 793.

[2781] Cal Advocates Opening Brief at 313-314.

Cal Advocates supports the continuation of the TMA, which we find reasonable as it allows the utility to adjust the revenue requirement due to tax changes.

Regarding continuing to use the TMA, SoCalGas and SDG&E reference the April 14, 2023, Internal Revenue Service (IRS) release of Revenue Procedure 2023-15, effective for taxable years ending after May 1, 2023.[2782] According to SoCalGas and SDG&E, the tax changes provide a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve gas transmission and distribution property must be capitalized under IRC Sections 263(a) or 263A or treated as deductible under IRC Section 162. In their Opening Brief, SoCalGas and SDG&E state that they are still assessing whether to elect as an optional accounting method change and that, should the election occur, the impact will be tracked in the TMA.[2783]

We agree with SoCalGas's and SDG&E's proposal to use the TMA to track any revenue requirement impact of the differences between tax expenses authorized in the GRC and those incurred from the elective law changes after the effective date of the decision. However, due to a regulatory lag in reviewing the TMA in the next GRC, we have decided not to use the TMA to record the IRC accounting changes. As explained below, we require Sempra Utilities to file Advice Letters within 30 days of the effective date of this decision to address any material impact on revenue requirements.

D.16-06-054 requires that applicants notify the Commission of any significant tax-related changes, including accounting or procedural changes that

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[2782] Sempra Opening Brief at 793.

[2783] Sempra Opening Brief at 793.

may materially affect revenues of $3 million or more. Failure to disclose such changes promptly may violate Rule 1.1.[2784] For this GRC cycle, if SoCalGas and SDG&E choose to implement the tax accounting method change mentioned in the Sempra Opening Brief, and if there is a significant impact on revenues, it is reasonable for both SoCalGas and SDG&E each to submit a Tier 2 Advice Letter to the Commission within 30 days of the effective date of the decision showing the impact on the revenue requirements. Changes relating to the IRC accounting change are not to be recorded in the TMA for review in the next GRC but instead addressed through the Tier 2 Advice Letter process. The Advice Letters shall address revenue impacts and inform the Commission how SoCalGas and SDG&E plan to pass on the benefits to ratepayers at the earliest opportunity.

SoCalGas and SDG&E were required to provide information in their opening comments on the proposed decision if they had elected the tax accounting method change including the resulting changes to the revenue requirement and ratepayer benefits.

In the comments on the proposed decision, SoCalGas and SDG&E stated that on October 11, 2024, they made this election, by decreasing the 2024 revenue requirement.[2785] Based on the revenue requirement in the proposed decision, SoCalGas and SDG&E estimated a reduction to the 2024 revenue requirement by about $124.5 million and $34.8 million for SoCalGas and SDG&E, respectively, with a similar decrease in the attrition years.[2786] SoCalGas and SDG&E recommended updating the revenue requirement to incorporate this election to ensure that customers receive these benefits now. Additionally, SoCalGas and

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[2784] D.16-06-054 at 196-197.

[2785] Sempra Opening Comments at 25.

[2786] Sempra Opening Comments at 25.

SDG&E request the Commission to provide the 2023 benefits from the safe harbor tax election in this decision.[2787]

No intervenor opposed implementing the tax accounting change resulting in a reduced revenue requirement.

We find it reasonable to update the revenue requirement to reflect the change in the tax accounting method because it lowers revenue requirements, which will lower rates, ultimately reducing customer bills. We also agree with SoCalGas and SDG&E to apply the 2023 tax benefits in this decision rather than an Advice Letter process to maximize the immediate ratepayer benefits rather than delaying a few months through another regulatory filing. Therefore, based on the above, the Commission finds SoCalGas and SDG&E tax expense forecasts for Test Year 2024 in the amounts of $230.968 million and $265.667 million, respectively, to be reasonable and should be adopted.

PCF's assertions concerning alleged discrepancies in SDG&E's deferred taxes, as reported in the 2021 Sempra Form 10-K, lack sufficient support and explanation.[2788]

In its comments on the proposed decision, PCF argues that "the PD should be revised to show that zero cost ratepayer provided capital has been excluded from the rate base."[2789] However, we are not persuaded by PCF's arguments and as Sempra's reply brief points out, PCF failed to cross-examine the witness responsible for deferred taxes.

Sempra's reply brief states that its 10-K Report reflects information for all Sempra subsidiaries, not just SDG&E. It further states that most, if not all, line

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[2787] Sempra Opening Comments at 25.

[2788] PCF Opening Brief at 63.

[2789] PCF Opening Comments at 14.

items in Sempra's 10-K (including deferred taxes) would thus be different than line items in SDG&E's GRC because they are for multiple companies and jurisdictions.[2790] PCF does not directly address this explanation in its comments on the proposed decision.

Whether there is a discrepancy in the 10-K form or the amount of deferred taxes by which rate base should be reduced, we find that PCF's assertion does not provide detailed analysis or compelling arguments to substantiate its claims and assist the Commission in further comprehending or otherwise acting on the alleged issue. Moreover, we are not convinced that according to PCF's arguments its recommendations would apply to SDG&E and not SoCalGas. Therefore, PCF's claim about the 10-K form or ratebase discrepancy is insufficiently supported.

40. Working Cash

Working cash is a component of rate base that compensates investors for providing funds committed to operating expenses in advance of receiving associated revenues from the utility's customers.[2791] The working cash allowance is comprised of balance sheet and income statement items. Balance sheet items quantify the daily cash requirements needed to run the business economically and efficiently. These items include accounts funded with cash supplied by investors, offset by items funded with cash supplied by sources of cash other than utility investors, including workers' compensation reserves and employee paid portions of benefits costs and taxes.[2792] The analysis of the balance sheet accounts

[2790] Sempra Reply Brief at 603-604.

[2791] Sempra Opening Brief at 793; Commission Standard Practice U-16-W Determination of Working Cash Allowance.

[2792] SCG Ex-34 at 10.

is supplemented by an analysis of the income statement items, which quantify the timing between when revenues are collected and when expenses are paid.[2793]

The net outcome of the timing of these transactions results in the utility's average revenue lag (the time between when utility services are rendered and when revenue is received for those services) being greater than its average expense lag (the time between when suppliers render services to the utility and when the utility pays for those services). Consequently, investors are required to fund the operating cash needed during the net lag days (net of revenue and expense lags). The sum of the net operational cash requirement and the lead-lag requirements results in the total working cash allowance.[2794]

The primary elements of working cash are summarized by the following formula:[2795]

> Working Cash = Required Bank Balances + Special Deposits and Working Funds + Other Receivables + Net Prepayments + Deferred Debits – (Working Cash Capital not Supplied by Investors + Goods Delivered to Construction Sites + Accrued Vacation) + (Difference between lag in collections and lag of expense payments).

Overall, SoCalGas requests a net working cash requirement of $167.5 million[2796] and SDG&E requests a net working cash requirement of $302.1 million.[2797] The disputed elements of these components are discussed below.

[2793] SCG Ex-34 at 2.

[2794] SCG Ex-34 at 2.

[2795] D.20-12-005 at 262.

[2796] SCG Ex-34-2R-E at ANH-1, 8.

[2797] SDG&E Ex-38-R-E at JMG-1-5.

40.1. SoCalGas

40.1.1. Revenue Lag

Revenue Lag is the average number of days between the midpoint of all utility customers' monthly service periods and receipt of payment by the utility. Revenue lag is comprised of four elements: meter reading lag, which is calculated from the midpoint of each month's consumption to when the meter is read; billing lag, which is the time from the date the meter is read until the time the bill is prepared and mailed to the customer; collection lag, which is the average daily accounts receivable turnover; and bank lag, which is the time between the bill being paid and the time the funds are available for use.[2798]

40.1.1.1. Billing Lag

The billing lag reflects the time from the date the meter is read until the time the bill is prepared and mailed to the customer. SoCalGas proposes to use a Billing Lag of 2.1 days based on a query of all meters read in 2021.[2799]

Cal Advocates recommends that the Billing Lag be reduced by 83 percent to 0.36 days based on the results of Cal Advocates' review of payments over a three-year period that showed that 83 percent of its customers will be making payments electronically in 2024.[2800]

40.1.1.2. Meter Reading Lag

SoCalGas calculates the meter reading lag from the midpoint of each month's consumption to when the meter is read. Meters are read 12 times a year, resulting in an average time between the meter reading periods of 30.4 days

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[2798] Cal Advocates Opening Brief at 315.

[2799] SCG Ex-34 at 11.

[2800] Cal Advocates Opening Brief at 315-316.

(365/12). Assuming that service is rendered evenly before and after the meter is read, SoCalGas calculated the average lag to be 15.2 days.[2801]

40.1.1.3. Revenue Collection Lag

SoCalGas bases revenue collection lag on the accounts receivable turnover for 2021, which it calculated by dividing annual revenues by the adjusted average monthly accounts receivable balance. SoCalGas then calculated the revenue collection lag by dividing 365 days by the average annual accounts receivable turnover, resulting in a revenue collection lag of 28.8 days.[2802]

40.1.1.4. Bank Lag

Bank lag describes the number of days between the inflow of funds and when those funds are made available. SoCalGas forecasts this lag to be 0.8 days in 2024 based on data from 2021.[2803]

Cal Advocates recommends that the Bank Lag be reduced by 83 percent to 0.14 days for the same reason as its recommended reduction in the Billing Lag: that 83 percent of its customers will be making payments electronically in 2024.[2804]

40.1.1.5. Total Revenue Lag

TURN contends that the unusually high level of arrearages in 2020 and 2021 due to the CPUC disconnection moratorium in effect during the COVID-19 pandemic resulted in an inappropriately high revenue lag assumption in Sempra's 2024 revenue lag forecasts. Instead, for SoCalGas, TURN recommends a

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2801 SCG Ex-34 at 11.

2802 SCG Ex-34 at 11-12.

2803 Sempra Opening Brief at 795; SCG Ex-34 at 12.

2804 Cal Advocates Opening Brief at 316.

revenue lag of 44.27 days based on an average of the revenue lag values over the last two GRCs.[2805]

Sempra disagrees with Cal Advocates' recommendations for revenue lag for the following reasons: 1) Cal Advocates inconsistently uses 2021 data for some revenue lag components and not others;[2806] 2) any reduction in the billing and bank lags portions of the revenue lags should be no more than the change in the electronic payment rate from 2021 to 2024 of 11 percent; and 3) billing and bank lag would be unaffected by increases in the electronic payment rate.[2807]

Sempra argues that TURN's and FEA's proposal to reduce revenue lag due to COVID impacts is flawed for the following reasons: 1) again, Sempra argues that these parties are inconsistently using data; 2) TURN's suggested alternate data set of 2013, 2016, and 2021 is from an unreasonably wide and out-of-date timeframe; and 3) TURN assumes that arrearage levels in 2021 are an outlier due to the COVID pandemic lockdowns and unlikely to continue. Sempra highlights that last argument by noting that 2022 arrearage levels were even higher than 2021 arrearage levels despite the lifting of many COVID lockdown protocols in 2022. In addition, Sempra states that other Commission proceedings and utility programs may continue to impact the levels of customer arrearages and contribute to the continuation of higher than historic arrearages going forward.[2808]

Cal Advocates does not take issue with Sempra's meter reading lag time and does not dispute Sempra's collection lag time, which is the component of the revenue lag relevant to TURN's and FEA's arguments. Considering the most

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[2805] TURN Opening Brief at 393-397.

[2806] Sempra Opening Brief at 795-796.

[2807] Sempra Opening Brief at 796-797.

[2808] Sempra Opening Brief at 797-798; Sempra Reply Brief at 606-607.

significant information relevant to the revenue lag summarized above, the Commission finds Cal Advocates' arguments regarding the impact of increased electronic payment rates and the assumption that arrearage levels will drop below 2021 levels to be unconvincing. Instead, the Commission finds Sempra's demonstration of evidence in support of all the components of revenue lag to be reasonable and adopts SoCalGas's forecasted total revenue lag of 46.9 days.[2809]

40.1.2. Depreciation

SoCalGas included depreciation expense in its working cash calculations based on Standard Practice (SP) U-16-W.[2810] Indicated Shippers recommends exclusion of depreciation expense from the lead-lag study used to derive SoCalGas's working cash balance since it is a non-cash expense and not a daily operational cash cost but an accounting entry for asset reinvestment.[2811]

No other party has commented on this recommendation.

The Commission has allowed non-cash items such as depreciation as components of working cash in accordance with SP U-16-W in the past. However, the Commission finds it reasonable to exclude non-cash items from the expense lag. Working cash represents the cash that a utility needs to keep on hand to cover its day-to-day operational expenses.[2812] Depreciation expense, on the other hand, is an accounting adjustment to recognize the usage and loss of value of a capital asset. Sempra does not outlay cash for depreciation expense every time it books depreciation. Therefore, the Commission finds it reasonable to adopt Indicated Shippers' recommendation to exclude depreciation from SoCalGas's working

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[2809] SCG Ex-34 at 11.

[2810] Sempra Opening Brief at 799.

[2811] IS Ex-02 at 4-6; Indicated Shippers Opening Comments at 6-9.

[2812] Standard Practice U-16-W at 1-1 to 1-2.

cash calculation. This adjustment results in a $10.2 million reduction in SoCalGas's working cash. The Commission finds this amount to be reasonable and adopts it.

In support of this change, the Commission notes that removing depreciation from working cash does not impact safety and reliability. In D.19-10-051 we stated "that this GRC is not the proper venue to challenge the general applicability of this principle in SP U-16-W as this principle is applicable to all utilities and TURN does not cite specific reasons why this principle should not apply to SoCalGas specifically."[2813] However, the Commission has also stated that the "procedures set forth in Standard Practice U-16-W serve only as a guide" and "do not preclude deviations appropriate to special circumstances."[2814] At this time, removing depreciation from working cash calculations presents an opportunity to lower rates without compromising system safety or reliability. Sempra did not specifically refute Indicated Shippers' claim that depreciation is a non-cash expense and not a daily operational cash cost but an accounting entry for asset reinvestment. As this change will more align working cash with operational realities and lowers revenue requirement, the Commission finds it reasonable to adopt it. This adjustment will result in a $9.8 million revenue requirement reduction in SoCalGas's working cash.

40.1.3. Remaining SoCalGas Working Cash

The remaining components of SoCalGas's operational cash needs and the lead-lag working cash requirements in its testimony and work papers are uncontested. The Commission finds them to be consistent with the methodology

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[2813] D.19-10-051 at 656.

[2814] D.94-02-042, 1994 Cal. PUC Lexis 82 at *42, 53 CPUC2d 21; *See also* Decision No. 95-12-055, 1995 Cal PUC Lexis 965 at * 120- * 121, 63 CPUC2d 570.

in Commission Standard Practice U-16-W and to be reasonable. As a result, the Commission finds SoCalGas's total 2024 working cash requirement of $51.730 million to be reasonable and adopts it.

40.2. SDG&E Working Cash

40.2.1. Revenue Lag

As discussed above, the Commission finds Cal Advocates' arguments, regarding the impact of increased electronic payment rates and the assumption that arrearage levels will drop below 2021 levels, to be unconvincing. Instead, the Commission finds Sempra's demonstration of evidence in support of all the components of revenue lag to be reasonable and adopts SDG&E's forecasted total revenue lag of 48.6 days.[2815]

40.2.2. Goods and Services Expense Lag

Goods and Services expenses include expenses that have not been identified separately on the lead-lag study, such as inventory, small price difference, and goods received/invoice received.[2816] The Goods and Services expense lag or payment lag is this difference between the receipt of an invoice and when the invoice is paid, and thus a measure of vendor-supplied working cash. The higher the number of expense lag days, the higher the amount of working cash provided by vendors and the lower the amount required from ratepayers.[2817]

SDG&E proposes a Goods and Services expense lag of 28.05 days based on 2021 as-recorded expenses and the associated average expense lag days. To determine the number of Goods & Services expense lag days, SDG&E analyzed

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[2815] SDG&E Ex-38-R-E at 15, Table JG-9.

[2816] SCG Ex–34 at 13.

[2817] TURN Opening Brief at 398.

12 months of invoices from calendar year 2021 and derived a weighted-average number of expense lag days from the following: 1) For the total population of invoices for 2021, determining lag days for each expense category by comparing the service date (either the date service was provided or the midpoint of the service period) to the date cash payment was made; 2) For each category, multiplying the lag days by the associated dollar amount for the payment, deriving "dollar-days;" and 3) Summing the dollar-days for each payment and dividing that total by the total of the 2021 payment amounts to derive the average expense lag.[2818]

TURN recommends that SDG&E's Goods and Services expense lag days be increased to the same amount as SoCalGas's of 34.95 days for several reasons resulting in a reduction in working cash of $59.704 million.[2819] First, SDG&E's Goods and Services expense lag is lower than SoCalGas's proposal by about seven (7) days, unlike the last two GRCs (2016 and 2019) in which SDG&E and SoCalGas had similar proposed and authorized Goods and Services expense lags, and it is lower than SCE's.[2820] Second, TURN alleges that SDG&E fails to explain why it proposed an expense lag which is 7 days shorter than SoCalGas's. Third, TURN requested a list of the invoices included in the study along with "a description, chart of accounts category, invoice amount, date received, payment date, and the method of payment." SoCalGas's response to this data request resulted in identification of invoices that should have been excluded from SoCalGas's lead/lag study. SDG&E provided insufficient information for TURN to analyze whether all the categories of expense were appropriate for inclusion in

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[2818] SDG&E Ex-238 at 11-12.

[2819] TURN Ex-13-R at 2.

[2820] TURN Opening Brief at 398.

the lead/lag study or if some invoices such as below-the-line categories should have been excluded as was the case for SoCalGas.

In response, SDG&E states that it could not produce the exact invoice categories requested by TURN because SDG&E did not use the exact invoice categories requested by TURN, which SDG&E claims should be sufficient.[2821] In addition, SDG&E explained that it has a small business program whereby, for qualifying small businesses (less than 25 employees and less than $5 million in annual revenue), SDG&E will pay certain invoices in exchange for a discount on the invoice.[2822]

The Commission finds that the information provided by SDG&E fails to support why SDG&E's Goods and Services expense lag is 7 days shorter than SoCalGas's in this and prior GRCs. Accordingly, for SDG&E, the Commission adopts the same Goods and Services expense lag days as for SoCalGas of 34.95 days.

40.2.3. SDG&E Federal Income Tax Expense Lag

Federal income tax (FIT) expense lags are based on the quarterly statutory due dates. The tax lag days of each payment are calculated between the midpoint of the year and the wire payment date.[2823] SDG&E proposes 2.98 lead days (i.e., negative lag days). This is based upon 2021 actuals, which include declining payments for quarters one and two, and an extension in quarter one.[2824]

Cal Advocates opposes SDG&E's proposal for determining lag days for FIT payments because actual lag days for FIT payments are subject to the potential

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[2821] SDG&E Ex-238 at 11-12.

[2822] Sempra Opening Brief at 799-800.

[2823] SDG&E Ex-38-R-E at 18; SDG&E Ex-38-WP-R-E, Table JG-2, line 14.

[2824] SDG&E Ex-238 at 13.

occurrence of refunds, extensions, true-ups, or net operating losses (i.e., no FIT payments), which increase the volatility of recorded lag days for FIT. Instead, Cal Advocates recommends that the Commission adopt 82.2 lag days for FIT based on the weighted lag day figure and the quarterly payment due dates for estimated tax installments.[2825]

SDG&E contends that Cal Advocates' methodology and recommended FIT expense lag is inaccurate for the following reasons: 1) An estimate of tax payments for the year ahead is not more accurate than actual tax payments from a past year; 2) Tax payments are impacted by income estimates, and the exact amount of total taxes due is not known until the fiscal year is complete; 3) SDG&E will, more likely than not, pay more estimated taxes than what is required to avoid penalties, and this approach may result in tax refunds, thus generating lead days.

The Commission finds SDG&E's methodology and resulting FIT expense lag to be more accurate and reasonable and consistent with Commission Standard Practice U-16-W and previous Commission decisions. Accordingly, the Commission adopts SDG&E's proposed FIT expense lag of 2.98 negative lag days.

40.2.4. SDG&E California Corporate Franchise Tax

California Corporate Franchise Tax (CCFT) expense lags are based on the statutory estimated tax due dates. The method of calculating the lag days is the same as for federal tax expenses.[2826] SDG&E proposes 9.48 lead days based on 2021 actuals, which include a 2019 extension.

[2825] Cal Advocates Opening Brief at 319.

[2826] SDG&E Ex-38-WP-R-E, Table JG-2, line 15; SDG&E Ex-38-R-E at 19.

As with the FIT expense lag, Cal Advocates opposes SDG&E's proposal for determining lag days for California State Franchise Tax payments because actual lag days for California State Franchise Tax payments are subject to the potential occurrence of refunds, extensions, true-ups, or other irregularities, which increase the volatility of recorded lag days for California State Franchise Taxes. Instead, Cal Advocates recommends that the Commission adopt 82.2 lag days for California State Franchise Taxes based on a weighted average lag day figure and the payment due dates for estimated tax installments.[2827]

SDG&E contends that Cal Advocates' methodology and recommended CCFT expense lag is inaccurate for the same reasons, described above, that SDG&E opposes Cal Advocates' proposed FIT expense lag. In addition, SDG&E states that by using 2021 actuals as a proxy for the 2024 Test Year, in some cases, the actual 2024 lead/lag days may differ from 2021, but there will be some lead/lag days that increase, while others decrease, likely resulting in a small net change in overall revenue and expense lead/lag.

Similarly, the Commission finds SDG&E's methodology and resulting California State Franchise Tax expense lag to be more accurate, reasonable, and consistent with Commission Standard Practice U-16-W and previous Commission decisions. Accordingly, the Commission adopts SDG&E's proposed California State Franchise Tax expense lag of 9.48 lead days.

40.2.5. Depreciation

Similar to SoCalGas, SDG&E included depreciation expense in its working cash calculations relying on SP U-16-W-. Consistent with our findings for SoCalGas, depreciation expense is a non-cash item and should not be included in

[2827] Cal Advocates Opening Brief at 320.

the expense lag calculation. The Commission adopts working cash excluding depreciation expense. This adjustment will result in a $6.1 million revenue requirement reduction in SDG&E working cash revenue requirement.

40.2.6. Remaining SDG&E Working Cash

The remaining components of SDG&E's operational cash needs and the lead-lag working cash requirements in its testimony and work papers are uncontested. The Commission finds them to be reasonable and adopts them. The Commission adopts $225.472 million for SDG&E's total 2024 working cash, which reflects a $81.854 million reduction compared to SDG&E's request.

41. Customer Forecasts

SoCalGas and SDG&E provide forecasts of gas customer growth, and SDG&E provides forecasts of electric customer growth for various purposes. SoCalGas's and SDG&E's gas customer forecasts are primarily used to determine financial needs for certain customer services and new meter installations in the 2024 Test Year. For example, forecasts of gas customer growth are needed to develop cost forecasts for new meter installations,[2828] the gas customer forecast helps to determine office operations,[2829] and customer forecasts have been used to determine miscellaneous revenues.[2830]

Commercial class customers are defined as all other non-residential and non-industrial customers (except for fewer than 500 customers in the NGV fueling, electric generation, and wholesale sectors).[2831] Connected commercial

[2828] SCG Ex-04.

[2829] SCG Ex-15.

[2830] SCG Ex-37.

[2831] SCG Ex-35 at 3-4.

customers are forecasted based on commercial employment.[2832] The industrial class is defined as mining plus manufacturing customers.[2833]

Only two intervenors propose alternative customer forecasts, for a total of four customer classes across both utilities: for gas, SoCalGas Single-Family Gas Residential, SoCalGas Multi-Family Gas Residential, and SDG&E Gas Residential (together, the "Contested Gas Forecasts"), and SDG&E Electric Residential.[2834] SoCalGas's and SDG&E residential gas customer forecasts are discussed below.

41.1. SoCalGas and SDG&E Residential Gas Customer Forecast

SoCalGas's customer forecast helps determine financial needs for certain customer services and new meter installations in the 2024 Test Year.[2835] For example, SoCalGas's testimony[2836] includes a New Business forecast of capital expenditures to support SoCalGas's goals of "providing a safe and reliable distribution system and in response to its obligation to serve the projected growing customer base…"[2837] SoCalGas forecasts new business growth "due to an expected increase in housing starts in the next several years."[2838]

SoCalGas's customer forecast is also used to help determine office operations needs[2839] and to calculate revenues from service establishment

2832 SCG Ex-35 at 4.

2833 SCG Ex-35 at 3.

2834 Sempra Reply Brief at 608.

2835 SCG Ex-35 at 1.

2836 SCG Ex-04.

2837 SCG Ex-04-R_Revised at 78.

2838 SCG Ex-04-R at 81.

2839 SCG Ex-15 (Bernadita Sides Customer Services Testimony).

charges.[2840] Most customer forecasts proposed by SoCalGas and SDG&E are uncontested, except for the residential single-family and multi-family customer forecasts. SDG&E's residential gas customer forecast contains only one gas residential meter forecast.[2841] Moreover, with the exception of SoCalGas's New Business forecast, the customer forecasts presented here do not impact the costs of other forecasts in this GRC.[2842] SoCalGas forecasts a total 2021-2024 average annual active meters increase of 126,088 for all customer classes, as detailed below.

Table 41.1
SoCalGas Average Annual Active Meters by Customer Class[2843]

Active Gas Customers	2021	2022	2023	2024	Total Change 2021 to 2024
Residential single-family	3,790,736	3,814,617	3,839,406	3,863,332	72,596 (+1.9%)
Residential multi-family	1,839,450	1,857,865	1,875,644	1,893,115	53,665 (+2.9%)
Residential master meter	38,610	38,301	37,994	37,690	-920 (-2.4%
Commercial	188,690	189,577	189,804	189,902	1,212 (+0.6%)
Industrial	15,674	15,518	15,362	15,209	-465 (-3.0%)
TOTAL	**5,873,160**	**5,915,878**	**5,958,210**	**5,999,248**	**126,088 (+2.1%)**

SoCalGas states that residential single-family and multi-family customers are a function of lagged authorized housing starts.[2844]

TURN recommends adjusting SoCalGas's residential customer forecast as follows: For single-families, TURN forecasts 3,806,370, 3,825,413, and 3,839,730

2840 SCG Ex-35 at 1 (Jackie Roberts Miscellaneous Revenues Testimony).

2841 SDG&E Ex-39 at 2.

2842 For example, gas customer growth can have an important impact on gas storage capacity, but not in this GRC.

2843 SCG Ex-35 at 5.

2844 SCG Ex-35 at 3.

customers in 2022, 2023, and 2024, respectively.[2845] For multi-families, TURN forecasts 1,852,369, 1,863,463, and 1,871,826 customers in 2022, 2023, and 2024, respectively.[2846] TURN also adjusts SDG&E's active residential gas customers forecast to 877,962, 883,307, and 885,996 customers in 2022, 2023, and 2024, respectively.[2847]

TURN bases its residential gas customer recommendations for SoCalGas single-family and multi-family and SDG&E active residential gas customers on the most recent ten-year average customer growth rate.[2848] TURN's recommendation also adjusts the rate of gas customer growth downward by 50 percent in 2024 to account for the Commission's decision to disallow gas line extensions effective July 1, 2023.[2849] Finally, TURN argues that SoCalGas and SDG&E "have a history of utilizing inflated modeled forecasted housing data to produce gas and electric customer forecasts."[2850]

Cal Advocates' adjustments to SoCalGas's residential customers forecast are similar to TURN's adjustments. Neither TURN nor Cal Advocates take issue with SoCalGas's or SDG&E's other gas customer forecasts.

In Section 8.4.1 (New Business Construction), the Commission finds TURN's estimated residential customer forecast to be reasonable.[2851] For the reasons discussed in Section 8.4.1 and this Section, the Commission finds TURN's

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[2845] TURN Ex-14-R at 3.

[2846] TURN Ex-14-R at 3.

[2847] TURN Ex-14-R at 3.

[2848] TURN Ex-14-R at 4.

[2849] TURN Ex-14-R at 4.

[2850] TURN Ex-14-R at 5.

[2851] Cal Advocates' proposed adjustment to SoCalGas's Residential single-family and multi-family customers forecast for Test Year 2024 is similar to TURN's.

residential gas customer forecast to be reasonable. Therefore, the Commission adopts TURN's Residential customer forecast, as represented in the table below.

Table 41.2
TURN's Average Annual Active Meters for SoCalGas Residential Customer Classes[2852]

Active Gas Customers	2021	2022	2023	2024	Total Change 2021 to 2024
Residential single-family	3,790,736	3,806,370	3,825,413	3,839,730	48,994 (+1.3%)
Residential multi-family	1,839,450	1,852,369	1,863,463	1,871,826	32,376 (+1.8%)

By adopting TURN's recommendation, SoCalGas's adopted 2024 average annual active meters forecast will be 81,197 higher than in 2021, representing a 1.4 percent[2853] increase to total active meters relative to 2021.

Table 41.3
Adopted SoCalGas Average Annual Active Meters by Customer Class

Active Gas Customers	2021	2022	2023	2024	Total Change 2021 to 2024
Residential single-family	3,790,736	3,806,370	3,825,413	3,839,730	48,994 (+1.3%)
Residential multi-family	1,839,450	1,852,369	1,863,463	1,871,826	32,376 (+1.8%)
Residential master meter	38,610	38,301	37,994	37,690	-920 (-2.4%
Commercial	188,690	189,577	189,804	189,902	1,212 (+0.6%)
Industrial	15,674	15,518	15,362	15,209	-465 (-3.0%)
TOTAL	**5,873,160**	**5,902,135**	**5,932,036**	**5,954,357**	**81,197 (+1.4%)**

41.2. Remaining Non-Residential Gas Customer Forecasts

No intervenor offered quantitative analyses resulting in alternative non-residential gas customer forecasts**.** The Commission finds SoCalGas's and SDG&E's methodologies and the resulting non-residential gas customer forecasts to be reasonable and adopts them.

2852 TURN Opening Brief at 98.

2853 SoCalGas's forecast resulted in a 2.1% increase to total active meters relative to 2021.

The Commission declines to make any automatic adjustment to the Results of Operations procedure to adjust the forecasts for new business, gas distribution, electric distribution, and other forecasts which are impacted by the customer forecast, as requested by TURN.[2854] Differences among the parties' methodologies should be resolved in related rulemaking proceedings before being used in the next GRC.

Lastly, TURN proposes to establish a one-way balancing account to address the possibility of customer growth being lower than forecasted.[2855] Sempra opposes the balancing account proposal because it is ill-defined, would be administratively burdensome, and would penalize a utility that experiences customer growth that exceeds forecasts.[2856] The Commission agrees and denies TURN's recommendation.

41.3. SDG&E Electric Residential Customer Forecasts

The Commission finds that TURN's proposed alternatives to SDG&E's electric residential customer forecasts do not make a significant impact on any contested issues in this GRC. The Commission also finds the methodologies and the resulting electric residential customer forecast of SDG&E to be reasonable and adopts it.

41.4. Remaining SDG&E Electric Customer Forecasts

The remaining SDG&E electric customer forecasts, which are non-residential, are uncontested.[2857] Based on the methodologies and their application to the subcategories in SDG&E's testimony and workpapers, the Commission

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[2854] TURN Opening Brief at 401.

[2855] TURN Opening Brief at 424-426.

[2856] Sempra Opening Brief at 809.

[2857] Sempra Opening Brief at 811.

finds the remaining SDG&E electric customer forecasts to be reasonable and adopts them.

42. Miscellaneous Revenues

Miscellaneous Revenues are comprised of fees and revenues collected by SoCalGas and SDG&E from non-rate sources for the provision of specific products or services. They include such revenues as collection fees, rents, and charges. Miscellaneous revenues are incorporated into rates as a reduction to base margin revenue requirements charged to customers for utility service, thereby lowering rates.[2858]

For purposes of forecasting 2024 miscellaneous revenues, SoCalGas and SDG&E performed an item-by-item analysis of miscellaneous revenue accounts, including a review of historical recorded results as well as the factors that could impact future results. The forecasts were developed using methodologies that reflect the drivers for each miscellaneous revenue item. For many items, where SoCalGas and SDG&E have multiple years of recorded activity, the forecast was developed using a multi-year recorded average adjusted by estimated customer or sales growth factors, where applicable. In circumstances where the charge has a per customer basis, a customer growth factor was applied to adjust historical results to develop the 2024 forecast. In instances where recent factors have caused the multi-year results to no longer reflect a reasonable expectation of the future, the most recent recorded year(s) were used to develop the forecast. In other cases, such as rents from property, the forecast is based on executed lease agreements adjusted for applicable escalation clauses. Finally, for other miscellaneous

[2858] Sempra Opening Brief at 815-816.

revenue items not reflected in the categories described above, a forecasting methodology was applied to reflect the unique circumstances of the activity.[2859]

42.1. SoCalGas Miscellaneous Revenues

SoCalGas forecasts 2024 Test Year miscellaneous revenues of $116.290 million.[2860] The following table provides a summary and description of SoCalGas's miscellaneous revenue items recorded in the 2021 Base Year and estimated for 2024.[2861]

Table 42.1
SoCalGas's 2024 Summary of Miscellaneous Revenues[2862]

FERC Acct. – Description ($ in 000's)	2021 Recorded ($ in 000's)	2024 Test Year ($ in 000's)	Net Change ($ in 000's)
488 – Customer Service Revenues	25,385	25,696	311
493 – Rent from Gas Property	411	531	120
495 – Other Gas Revenues	74,086	90,063	15,977
Total	**99,882**	**116,290**[2863]	**16,408**

No party opposes SoCalGas's 2024 forecast for miscellaneous revenues, which represents an increase of 16.4 percent over the 2021 Base Year. The revenue category with the most significant impact on this increase is revenue from shared assets, which increased $16.842 million over the 2021 Base Year. Such revenue is collected from the use of SoCalGas assets, primarily hardware, software, and communication equipment, by SDG&E, Sempra Energy, and its unregulated

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[2859] Sempra Opening Brief at 816.

[2860] SCG Ex-401, A-A at 1.

[2861] Sempra Opening Brief at 817.

[2862] Sempra Opening Brief at 817.

[2863] SCG Ex-401, A-A at 1.

affiliates. The company that receives the majority of the benefit from a shared asset owns such asset and bills other affiliates for its use.[2864]

Based on SoCalGas's forecasting methodology and revenue components in its supporting documents,[2865] the Commission finds SoCalGas's forecasts for the above miscellaneous revenues to be reasonable and adopts $115.359 million.[2866]

42.2. SDG&E's Miscellaneous Revenues

SDG&E forecasts 2024 Test Year miscellaneous revenues of $36.762 million.[2867] The following table provides a summary and description of SDG&E's miscellaneous revenue items recorded in the 2021 Base Year and estimated for 2024.[2868]

Table 42.2
SDG&E's 2024 Summary of Miscellaneous Revenues[2869]

Department ($ in 000s)	2021 Recorded	2024 Test Year	Net Change
Electric	20,230	30,385	10,155
Gas	4,179	6,377	2,198
Total	24,409	36,762[2870]	12,353

No party opposes SDG&E's 2024 forecast for miscellaneous revenues, which represents an increase of 50 percent over the 2021 Base Year. The revenue category with the most significant impact on this increase is revenue from

[2864] SCG Ex-37-R at 8-9.

[2865] SCG Ex-37-R at 2-14; SCG Ex-401, Table RH-1 A-1.

[2866] Updated SoCalGas Miscellaneous Revenue number is due to various changes adopted in this decision.

[2867] SDG&E Ex-401, A-B at 1.

[2868] Sempra Opening Brief at 818.

[2869] Sempra Opening Brief at 818.

[2870] SDG&E Ex-401, A-B at 1.

Community Choice Aggregation (CCA) and Direct Access (DA) Fees, which is an increase of $3.521 million. Revenues from shared assets under the electric and gas sections have increased $5.692 million and $2.327 million over the 2021 Base Year, respectively. Revenues from residential CCA fees include charges for mass enrollment services, consolidated billing, adjustment processing, customer enrollment and opt-out processing, optional customer notification, and re-entry fees for customers returning to bundled service. Revenues from DA fees include charges to Electric Service Providers (ESPs) for late payments, rebilling, miscellaneous billing requests, and metering charges for the installation and maintenance of SDG&E-owned meters.[2871]

Based on SDG&E's forecasting methodology and revenue components in its supporting documents,[2872] the Commission finds SDG&E's forecasts for the above miscellaneous revenues to be reasonable and adopts $37.082 million.[2873]

43. Regulatory Accounts

This Section consolidates and addresses Sempra Utilities' requests regarding the disposition of balances, closure, continuation, and modification of existing regulatory accounts, and requests to create new regulatory accounts. Of the nearly 80 SoCalGas and SDG&E gas and electric regulatory accounts discussed below, the utilities request to close 31 accounts, continue 32 accounts, modify 3 accounts, and establish 13 new accounts. Many of these proposals regarding the underlying project for which the regulatory account applies have already been addressed in the corresponding Sections of this decision.

[2871] SDG&E Ex-42-R at 2–17.

[2872] SDG&E Ex-42-R at 2-17; SDG&E Ex-401, Table RH-1 A-B.

[2873] Updated SDG&E Miscellaneous Revenue number is due to various changes adopted in this decision.

For several balancing accounts, Sempra Utilities proposes continuing two-way balancing accounts or converting one-way balancing accounts to two-way balancing accounts. Sempra Utilities maintains that a two-way balancing account allows the utility to comply with new regulations and other unforeseen circumstances that may cause financial uncertainty between rate cases and provides it the opportunity to focus on providing safe and reliable service at a reasonable cost. It also argues that the Commission has previously found, and should continue to find, that the Commission is able to adequately review the reasonableness of expenses through the more expedient but still thorough advice letter process to balance the needs and impacts of all stakeholders.[2874]

TURN generally advocates for eliminating two-way balancing accounts based on the following arguments: 1) they provide for a lesser degree of review than one-way balancing accounts; 2) when year-end balances are amortized in rates through the annual regulatory account update advice letter filing, above-authorized spending is recovered based on a showing of little more than a reporting of the recorded amount; 3) two-way balancing accounts allow the utility to recover above-authorized spending without further scrutiny or a determination of reasonableness; 4) they insulate the cost discipline that is a hallmark of forecast-based ratemaking; and 5) for existing programs (PSEP, TIMP, DIMP), the utility should have the experience to develop more accurate forecasts and operate within those forecasts. Yet, Sempra proposes to continue two-way balancing accounts despite having years of experience implementing these programs.[2875] As a result, TURN recommends replacing two-way balancing accounts with one-way

[2874] Sempra Opening Brief at 824-826.

[2875] TURN Ex-15 at 12-15.

balancing accounts and, if needed, complementing each with a memorandum account to track above-authorized expenditures.[2876]

In contrast, Cal Advocates recommends modifying elements of individual accounts based on its financial examination of selected accounts.[2877]

As of March 31, 2023, SoCalGas reported a total regulatory account undercollection of approximately $1.19 billion ($933.7 million in balancing accounts); and SDG&E reported total regulatory account undercollections of approximately $1.27 billion from electric accounts and $282.6 million from gas accounts.[2878] Per standard ratemaking practices, the Commission allows each IOU an opportunity to earn its authorized rate of return (RoR), not a guaranteed RoR. In the Cost of Capital proceedings, the Commission considered the IOUs' operational, business, and regulatory risks to set a fair rate of debt and rate of equity and capital structure, which established the RoR. The proliferation of regulatory accounts shields the IOUs from the risks that underlie their RoR determination. Based on the evidence and arguments, the Commission finds that liberal use of two-way balancing accounts, which often ensure cost recovery from ratepayers with limited reasonableness reviews, disincentivizes utilities including SoCalGas and SDG&E from controlling their costs through efficient operations and protecting ratepayers from future cost recoveries due to undercollection.

[2876] TURN Ex-15 at 17.

[2877] Cal Advocates Opening Brief at 346-348.

[2878] Tr. Vol. 19, June 26, 2023 at 3450-3451.

43.1. Commission Disposition on Common Accounts

43.1.1. Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA)

As discussed in the Gas System Staff and Technology Section of this decision, Sempra Utilities' request for authority to recover an undercollected balance recorded in the amounts of $4.168 million for SoCalGas and $0.698 million for SDG&E as of December 31, 2021 is denied. The decision denies amortization of the balance amount in customer rates, and instead requires Sempra to continue to record costs in the NGLAPMA until they can be included in the next GRC.

43.1.2. Safety Enhancement Capital Cost Balancing Account (SECCBA) and Safety Enhancement Expense Balancing Account (SEEBA) and Proposed Closure of Line 1600 Records Audit 25 Memorandum Account (L1600RAMA)

The PSEP section of the decision states that the Commission will defer a decision on the reasonableness review of the PSEP memorandum accounts for December 2015–December 2020 and subsequent time periods to Track 3 of this proceeding.

Therefore, SoCalGas's and SDG&E's request to continue these accounts to capture costs which are not completed and are not included in the reasonableness review within this 2024 Test Year GRC application is reasonable. SECCBA, SEEBA, and L1600RAMA shall continue in this rate cycle.

43.1.3. Proposed Continuation of Liability Insurance Premium Balancing Account (LIPBA)

The Commission finds it unnecessary to modify the LIPBA in this GRC. As discussed under the settlement Section of the decision, all changes specified in the Insurance Settlement Agreement are adopted. Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall file Tier 1 Advice Letters to modify the LIPBA to include a new subaccount consistent with the Insurance Settlement to administer accruals if the utilities exercise the wildfire liability self-insurance option.

43.1.4. New Environmental Regulation Balancing Account (NERBA)

As discussed in the Environmental Services Section of this decision, the Commission requires that SoCalGas and SDG&E each convert their respective NERBA from a two-way balancing account to a one-way balancing account with an associated memorandum account to seek recovery for costs above forecasted NERBA costs.

Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall file a Tier 1 Advice Letter to modify the NERBA and establish a companion memorandum account consistent with this decision.

43.1.5. Integrity Management Program (IMP)

SoCalGas and SDG&E propose to continue the TIMPBA and DIMPBA two-way balancing accounts, and SoCalGas proposes to continue the SIMPBA two-way balancing account, for several reasons including: 1) balancing accounts are used when forecasts are uncertain;[2879] and 2) there are checks in the advice letter process.[2880]

Based on the recommendation of Cal Advocates, Sempra agreed to lower the threshold for undercollections from 135 percent to 110 percent of authorized expenses and change the recovery mechanism for undercollections of

[2879] Sempra Reply Brief at 629-630.

[2880] Sempra Reply Brief at 631-633.

up to 110 percent of authorized expenses from a Tier 3 Advice Letter to a Tier 2 Advice Letter.[2881]

Even with the above modifications, TURN, EDF, and FEA challenge SoCalGas's and SDG&E's use of two-way balancing accounts, whether for the continuation of accounts or for the establishment of new accounts.[2882] More specifically, TURN recommends that the above balancing accounts be converted to one-way balancing accounts with no threshold for rate recovery above the adopted forecast. In support of this recommendation, TURN contends that TIMP costs have been excessive, and undercollections have risen for programming where RSEs are low.[2883]

Considering all of the parties' arguments, the Commission agrees with TURN and requires each utility to convert their TIMPBAs and DIMPBAs and SoCalGas to convert its SIMPBA to one-way balancing accounts. Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application rather than an advice letter.[2884] Within 60 days of the effective date of this decision, each utility shall file a Tier 1 Advice Letter to establish the above one-way balancing accounts.

Sempra proposes to create the Facilities Integrity Management Program Balancing Account (FIMPBA) that would use the same recovery mechanisms as TIMPBA and DIMPBA.[2885] As discussed in the Gas Integrity Management

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2881 Sempra Opening Brief at 822.

2882 Sempra Reply Brief at 629.

2883 TURN Opening Brief at 441-442.

2884 This process shall follow the LoRE and CoRE risk tranching guidelines set forth in in D.24-05-064 at 26.

2885 SCG Ex-38-R at 19.

Program Section of this decision, this request is denied because the Commission rejects authorization of FIMP.

Sempra also proposes to create Gas Safety Enhancement Programs Balancing Accounts (GSEPBAs) that would use the same recovery mechanisms as TIMPBA and DIMPBA. As mentioned in the Gas Integrity Management Program Section of this decision, this request is denied.

43.1.6. Litigated Project Costs Memorandum Account (LPCMA) and Locate and Mark Balancing Account (LMBA)

As discussed in the Gas Transmission and Gas Distribution Sections of this decision, SoCalGas's and SDG&E's request to establish an LPCMA and a Locate and Mark Balancing Account (LMBA) is denied.

43.2. Commission Disposition on SoCalGas Regulatory Accounts

43.2.1. Morongo Rights-of-Way Memorandum Account (MROWMA)

In the Gas Engineering Section of this decision, the Commission authorizes recovery of costs recorded in the MROWMA through December 31, 2023 in the amount of $101.2 million, not including the amount of $4.6 million in pre-2019 O&M expenses.[2886] In addition, the Commission authorizes continuation of the MROWMA to record proposed incremental costs, as requested,[2887] to be addressed in the next GRC.

43.2.2. Aliso Canyon Memorandum Account (ACMA)

SoCalGas records capital revenue requirement (e.g., depreciation, return, and taxes) associated with capital expenses for the Aliso Canyon Turbine

[2886] Sempra Opening Brief at 827.

[2887] SCG Ex-38-R at 8.

Replacement (ACTR) project to the ACMA and SoCalGas continues to incur ongoing revenue requirement associated with ACTR capital expenses through December 31, 2023. SoCalGas requests authorization to recalculate revenue requirement based on the final approved amount of reasonably incurred capital expenses as of December 31, 2023 for the ACTR project to determine the appropriate ACMA balance to amortize and recover in customers' transportation rates[2888] and to transfer any residual balances to the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) and eliminate the ACMA.[2889]

In the Gas Storage Section of this decision, the Commission authorized recovery of the amount in the ACMA as of December 31, 2023 in the amount of $17.6 million. Once this amount is amortized and recovered in rates, SoCalGas shall transfer any residual balances to the CFCA and NFCA, and eliminate the ACMA.

43.2.3. Hydrogen Re-Fueling Station Balancing Account (HRSBA)

As discussed in the Real Estate & Facility Operation Section of this decision, SoCalGas's request to establish a Hydrogen Re-Fueling Station Balancing Account is denied. The Commission also denies the creation of other regulatory accounts, including SDG&E's Hydrogen Build-Ready Balancing Account (HBRBA), requested for costs associated with hydrogen projects that have not been authorized.

[2888] Sempra Opening Brief at 826-827.

[2889] SCG Ex-38-R at 10.

43.2.4. Pipeline Safety Enhancement Plan-Phase 2 Memorandum Account (PSEP-P2MA)

The PSEP-P2MA is an interest-bearing memorandum account. The balance of the PSEP-P2MA is $4.7 million undercollected as of March 31, 2022. SoCalGas proposes to amortize the balance as of December 31, 2023 in customer gas transportation rates, and at the end of the amortization period, transfer any residual balances to the CFCA and NFCA, and eliminate this account.[2890]

As mentioned in the PSEP Section of this decision, SoCalGas's request to collect interest on any amounts that may accrue and be owed on costs unrecovered is denied. Accordingly, accrual of interest on the amounts recovered in SoCalGas's Safety Enhancement Capital Cost Balancing Accounts (SECCBAs), Safety Enhancement Expense Balancing Accounts (SEEBAs), Pipeline Safety Enhancement Plan Memorandum Account (PSEPMA), and Pipeline Safety Enhancement Plan Phase 2 Memorandum Account (PSEP-P2MA) accounts are suspended effective as of the effective date of this decision.

43.2.5. Pipeline Safety Enhancement Plan Memorandum Account (PSEPMA)

The PSEPMA is an interest-bearing memorandum account. The PSEPMA consists of two subaccounts: 1) PSEP-GRC Subaccount; and 2) Line 44 Subaccount. SoCalGas proposes to modify the PSEPMA by extending the PSEP-GRC Subaccount through the Test Year 2024 GRC cycle and eliminating the Line 44 Subaccount upon amortization of the balance in the subaccount. The balance in the PSEP-GRC Subaccount is $0 as of March 31, 2022. The balance in the Line 44 Subaccount is $2.8 million undercollected as of March 31, 2022. SoCalGas proposes to continue the current ratemaking treatment of the PSEP-GRC

[2890] SCG Ex-38-R at 12.

Subaccount to track any cost overruns in excess of the amounts authorized in this Test Year 2024 GRC. SoCalGas will continue to balance ongoing capital-related costs associated with these capital additions through December 31, 2023. Line 44 assets are proposed for inclusion in rate base as part of SoCalGas's Test Year 2024 GRC, and therefore SoCalGas will discontinue recording capital-related costs associated with these assets in the Line 44 Subaccount upon implementation of the Test Year 2024 GRC decision. SoCalGas proposes to amortize the balance in the Line 44 Subaccount as of December 31, 2023 in customer gas transportation rates, and at the end of the amortization period, transfer any residual balances to the CFCA and NFCA. Upon amortization, SoCalGas proposes to eliminate the Line 44 Subaccount.[2891]

43.3. SoCalGas Undisputed Regulatory Accounts

43.3.1. Request to Continue Regulatory Accounts

The Commission finds it reasonable to authorize SoCalGas's requests to continue the following Regulatory Accounts that are undisputed in this rate case cycle:

1. California Consumer Privacy Act Memorandum Account (CCPAMA);
2. Dairy Biomethane Program Memorandum Account (DBPMA);
3. Emergency Customer Protections Memorandum Account (ECPMA);
4. Research, Development, and Demonstration Expense Account (RDDEA);
5. Residential Disconnection Protections Memorandum Account (RDPMA);

[2891] SCG Ex-38-R at 18.

6. Avoided Cost Calculator Update Memorandum Account (ACCUMA);
7. Pension Balancing Account (PBA);
8. Post-Retirement Benefits Other than Pension Balancing Account (PBOPBA); and
9. Research Royalties Memorandum Account (RRMA).

43.3.2. Request to Close Regulatory Accounts

As requested by SoCalGas, the Commission authorizes the closure of the following regulatory accounts:

1. Core Gas Balancing Memorandum Account (CGBMA);
2. Dairy Biomethane Solicitation Development Memorandum Account (DBSDMA);
3. Residential Disconnect Memorandum Account (RDMA);
4. Wildfire Customer Protections Memorandum Account (WCPMA);
5. Assembly Bill 802 Memorandum Account (AB802MA);
6. Advanced Metering Infrastructure Balancing Account (AMIBA); and
7. Injection Enhancement Cost Memorandum Account (IECMA).

43.4. Commission Disposition on SDG&E Regulatory Accounts

43.4.1. Customer Information System Balancing Account (CISBA) and Transition, Stabilization, and Organizational Change Management Balancing Account (TSOBA)

As discussed in the Information Technology Section of this decision, SDG&E shall close the CISBA and the TSOBA effective December 31, 2023. Within 60 days of the effective date of this decision, SDG&E shall file a Tier 1 Advice Letter transferring any remaining balance in these accounts to the Electric

Distribution Fixed Cost Account (EDFCA) for electric and the CFCA and NFCA for gas.

43.4.2. Electric Vehicle Infrastructure Memorandum Account (EVIMA) and Electric Vehicle Infrastructure Balancing Account (EVIBA)

As discussed in the SDG&E Clean Transportation Section of this decision, SDG&E's request to close the EVIMA and establish a two-way EVIBA in lieu of the EVIMA is denied.

43.4.3. Overhead Pools Balancing Account (OPBA)

As discussed in the Electric Distribution Overhead Pools Balancing Account (OPBA) Section of this decision, the Commission denies the closure or modification of the one-way OPBA.

43.4.4. Vehicle Grid Integration Balancing Account (VGIBA) and Vehicle Grid Integration Memorandum Account (VGIMA)

As discussed in the SDG&E Clean Transportation Section of this decision, the Commission approves the closure of the VGIBA. The Commission also approves the closure of the VGIMA, which is uncontested.[2892] Within 60 days of the effective date of this decision, SDG&E shall file a Tier 1 Advice Letter transferring the balance in these accounts to the EDFCA.

43.4.5. Tree Trimming Balancing Account (TTBA)

SDG&E proposes to continue the two-way TTBA, modify the title of the account to "Vegetation Management Balancing Account (VMBA)," and to include costs related to pole brushing in the balancing account which are currently being captured in the Wildfire Mitigation Plan Memorandum Account (WMPMA). As discussed in the Wildfire Mitigation and Vegetation Management Section of this

[2892] Cal Advocates Opening Brief at 342.

decision, the Commission accepts the title modification of TTBA to VMBA. The Commission modifies the VMBA to be a one-way balancing account subject to a limit on spending set at SDG&E's forecasted amount with no buffer to authorize spending and authorizes a Vegetation Management Memorandum Account (VMMA) for SDG&E to record amounts spent in excess of the amount authorized in the balancing account, subject to reasonableness review in a later application. Within 60 days of the effective date of this decision, SDG&E shall file a Tier 1 Advice Letter modifying the VMBA and establishing a VMMA consistent with this decision.

43.4.6. Hydrogen Build-Ready Balancing Account (HBRBA)

As discussed in the Real Estate & Facility Operation Section of this decision, SoCalGas's request to establish a Hydrogen Re-Fueling Station Balancing Account is denied. The Commission also denies the creation of other regulatory accounts, including SDG&E's HBRBA, requested for costs associated with hydrogen projects that have not been authorized.

43.4.7. Research, Development, and Demonstration Balancing Account (RDDBA)

SDG&E proposes to create the RDDBA to record costs associated with the RD&D program, called the Innovation Technology Development program. As discussed in the Clean Energy Innovations Section of this decision, the forecast for such costs was denied. As a result, a balancing account for such costs is not necessary and the request to establish an RDDBA is denied.

43.4.8. Wildfire Mitigation Plan Balancing Account (WMPBA)

SDG&E proposes to create two-way electric and gas Wildfire Mitigation Plan Balancing Accounts (WMPBAs) to record costs incurred to implement its

Wildfire Mitigation Plan. As discussed in the Wildfire Mitigation and Vegetation Management Section of this decision, the Commission denies this request.

43.5. SDG&E's Undisputed Regulatory Accounts

43.5.1. Request to Continue Regulatory Accounts

As requested by SDG&E, the Commission authorizes the continuation of the following regulatory accounts:

1. Avoided Cost Calculator Update Memorandum Account (ACCUMA);
2. California Consumer Privacy Act Memorandum Account (CCPAMA);
3. Emergency Customer Protections Memorandum Account (ECPMA);
4. Fire Risk Mitigation Memorandum Account (FRMMA);
5. Higher-Power Interim Rate Waiver Balancing Account (HPWBA);
6. Integration Capacity Analysis and Locational Net Benefit Memorandum Account (ICLNBMA);
7. Pension Balancing Account (PBA);
8. Post Retirement Benefits Other Than Pensions Balancing Account (PBOPBA);
9. Residential Disconnect Protections Memorandum Account (RDPMA);
10. Rule 20 Balancing Account (R20BA);
11. Safety Enhancement Capital Cost Balancing Account (SECCBA);
12. Safety Enhancement Expense Balancing Account (SEEBA);
13. Third-Party Claims Memorandum Account (TCPMA); and
14. Wildfire Mitigation Plan Memorandum Account (WMPMA).

43.6. Request to Close the Regulatory Accounts

As requested by SDG&E, the Commission authorizes the closure of the following regulatory accounts.

Within 60 days of the effective date of this decision, SDG&E shall file a Tier 1 Advice Letter closing the following and transfer any remaining balances to EDFCA for electric and the CFCA and NFCA for gas.

1. Clean Transportation Balancing Account (CTBA);
2. Community Choice Aggregation Procurement Memorandum Account (CCAPMA);
3. Core Gas Balancing Memorandum Account (CGBMA);
4. Dairy Biomethane Solicitation Development Memorandum Account (DBSDMA);
5. Direct Access Cost Responsibility Surcharge Memorandum Account (DACRSMA);
6. Distributed Generation Statistics Memorandum Account (DGSMA);
7. Distribution Interconnection Memorandum Account (DIMA);
8. El Dorado Transition Cost Memorandum Account (EDTCMA);
9. Fire Hazard Prevention Memorandum Account (FHPMA);
10. Net Energy Metering Memorandum Account (NEMMA);
11. Pipeline Safety and Reliability Memorandum Account (PSRMA);
12. Rate Reform Memorandum Account (RRMA);
13. Tax Equity Investment Balancing Account (TEIBA);
14. Wildfire Consumer Protections Memorandum Account (WCPMA); and
15. Working Group Facilitator Memorandum Account (WGFMA).

44. Compliance

In Exhibits SCG-41 and SDG&E-48, SoCalGas and SDG&E, respectively, submitted a list of compliance action items that impact the 2024 GRC. Each list identifies the Commission decision or Public Utilities Code Section that gave rise to the compliance item, the action required, and the compliance action taken. No party challenged or expressed concerns about the compliance requirements in each utility's list.

We have reviewed the compliance showing and find that SoCalGas and SDG&E have adequately demonstrated compliance with the items listed in its compliance exhibit except the amount held in the Officer Compensation Memorandum Account (OCMA) established under Pub. Util. Code Section 706.[2893]

Sempra states that it voluntarily removed from consideration in this GRC certain costs based on policy considerations, including long-term incentive compensation and Sempra executive officer compensation costs.[2894] However, it is unclear how many officer salaries were removed, as we do not know the balances in OCMA because that information was never provided in the GRC Application.

SoCalGas and SDG&E have not provided information to show compliance with D.19-09-051, Ordering Paragraph 11, which requires them to correct their

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[2893] SB 901 added Pub. Util. Code Section 706:

> (a) For purposes of this section, "compensation" means any annual salary, bonus, benefits, or other consideration of any value, paid to an officer of an electrical corporation or gas corporation.
>
> (b) An electrical corporation or gas corporation shall not recover expenses for compensation from ratepayers. Compensation shall be paid solely by shareholders of the electrical corporation.

[2894] Sempra Opening Brief at 20.

respective year-end adjustment filings for 2019 and the amounts refunded to ratepayers.

Additionally, it is unclear how Sempra has complied with D.19-09-051, Ordering Paragraph 12, which requires SoCalGas and SDG&E to exclude officer[2895] salaries, bonuses, and benefits from the revenue requirements for PTY 2021. Sempra's opening brief shows the costs identified as officers embedded in the GRC. For example, under Electric Distribution, $1.286 million is shown for 2021 recorded costs under the officer category of management, $1.437 million is shown allocated for B-1 Chief Administrative Officer & Chief Human Resources Officer costs in 2021, and $3,000 is shown allocated to C-1 Chief Legal Officer.[2896]

Our review of Sempra Utilities GO-77 Reports shows that several employees hold vice president titles or senior positions. It is unclear whether all those employee salaries have been removed from the 2021 Base Year as required by D.19-09-051.

Therefore, within 10 days of the issuance of the proposed decision, SoCalGas and SDG&E were required to file and serve information to demonstrate their compliance with D.19-09-051 Ordering Paragraphs 9 through 12. Additionally, Sempra was required to identify the number of employees (excluding the names), their titles (excluding long titles), expenses for compensation booked to ratepayers in 2021, and the cost categories and exhibits under which these costs are embedded in the revenue requirement.

[2895] The term "officer" means those employees in positions with titles of Vice President or above, consistent with Rule 240.3b-7 of the Securities Exchange Act.

[2896] Sempra Opening Brief at 384, 679, 668, respectively.

On October 28, 2024, SoCalGas and SDG&E filed their Notice of Compliance with the proposed decision. The compliance filing is further discussed under the comments on the proposed decision Section of the decision.

45. Other Issues - Political Activities Booked to Ratepayer Accounts

Cal Advocates and CEJA contend that SoCalGas improperly charged costs arising from its political activities to ratepayers. Sempra Utilities did not serve direct testimony on how any costs related to lobbying, advocacy, and other political activities (hereafter referred to as Political Activities) might have impacted its GRC forecast, but it served rebuttal testimony in response to intervenor opposition alleging that the Sempra Utilities booked these costs to ratepayer accounts in the past and included such costs in the GRC forecast.

For the purposes of this discussion, "Political Activities" are defined by FERC's USofA – Account 426.4. Account 426.4, titled "Expenditures for certain civic, political and related activities," is used for costs incurred to influence public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances, or to influence the decisions of public officials, is considered below the line, and thus is generally excluded from rate recovery.[2897] FERC presumes that expenses recorded in below-the-line, nonoperating accounts, such as Account 426.4, may not be recovered in rates, without a further showing by the utility that justifies such recovery for ratemaking purposes.[2898]

[2897] 18 C.F.R. 101, Account 426.4.

[2898] 18 C.F.R. 101, Account 426.4.

45.1. Summary of Cal Advocates' and CEJA's Comments

Cal Advocates and CEJA argue that the Commission should reduce SoCalGas's GRC request because SoCalGas has not sufficiently shown that it has excluded expenses for Political Activities from its GRC request.[2899] In addition, Cal Advocates and CEJA argue that SoCalGas has a pattern and practice of improperly billing ratepayers for its Political Activities.[2900] CEJA supports Cal Advocates' recommendation to disallow approximately $80 million of its revenue requirement from various cost categories.

45.2. Cal Advocates

Cal Advocates cites campaigns, vendor contracts, and vendor payments between 2017 and 2019 as evidence of SoCalGas allocating its Political Activities expenses to ratepayers.[2901] Specifically, Cal Advocates recommends 2024 Test Year reductions as follows: (1) an 80 percent disallowance for the estimated total costs of $4.107 million associated with the Regional Public Affairs organization; (2) an 80 percent disallowance for the estimated total costs of $47.223 million associated with the Clean Energy Innovations organization; (3) an 80 percent disallowance for the estimated total costs of $27.227 million associated with the Customer Service – Information organization; and (4) a 35 percent disallowance for the estimated total costs of $47.249 million associated with Administrative and General costs.[2902]

[2899] Cal Advocates Opening Brief at 364-402; CEJA Opening Brief at 132.

[2900] Cal Advocates Opening Brief at 366.

[2901] CA Ex-23-WP-C-R - 318.

[2902] CA Ex-23-C-E-R at 2.

Cal Advocates contends that SoCalGas has failed to provide complete accounting evidence for its political activities, and it is using ratepayer funds to oppose California's climate policies, violating state and federal laws and customer rights.[2903]

Cal Advocates claims that SoCalGas has not demonstrated that it has removed all political advocacy costs from its GRC request.[2904] Cal Advocates argues that until its inquiry, SoCalGas booked nearly all employee costs to ratepayer accounts and only later removed some of them to shareholder accounts in preparation for a GRC.[2905] Cal Advocates contends that SoCalGas has not responded to data requests showing that it has fully removed political activity costs from the GRC.[2906] It further states that SoCalGas has instead discussed its efforts to hire PricewaterhouseCoopers LLP for an independent assessment and subsequent modifications to address its practices and procedures.[2907]

It further argues that SoCalGas is booking $30 million in Account 426.4, as shown in its rebuttal testimony, representing about $10 million yearly from 2020-2022. Cal Advocates argues that these amounts are not credible because of extensive expenditures for political activities, including labor costs.[2908]

Cal Advocates concludes that the utility is unable to quantify employee time spent on political activities accurately.[2909] It states that SoCalGas

[2903] Cal Advocates Reply Brief at 1-2.

[2904] Cal Advocates Opening Brief at 388; Cal Advocates Reply at 4-5.

[2905] Cal Advocates Opening Brief at 388.

[2906] Cal Advocates Opening Brief at 391.

[2907] Cal Advocates Opening Brief at 391, 394, fn. 2013.

[2908] Cal Advocates Opening Brief at 392.

[2909] Cal Advocates Opening Brief at 389, 402.

management has not required employees to follow the Sempra policy requirements and accurately report their time using the internal tracking system (LATS).[2910] Cal Advocates identified cost categories/organizations that it argues have engaged in Political Activities. Cal Advocates traced these costs to at least four organizations seeking funding in this GRC. On this basis, Cal Advocates recommends an $80 million disallowance, representing roughly 1.8 percent of the utility's total revenue requirement request.[2911]

45.3. CEJA

CEJA strongly supports Cal Advocates' proposed $80 million reduction in SoCalGas's revenue request.[2912] CEJA argues that SoCalGas has misused ratepayer funds for political activities. It contends that SoCalGas's targeted campaigns impede the transition to zero-emission vehicles and appliances, harming communities burdened by air pollution.

45.4. SoCalGas's Response

SoCalGas disagrees with Cal Advocates' and CEJA's claim that it has a pattern and practice of intentionally misclassifying Political Activities costs based on its corrections or reduction of GRC forecast to correct for discovered errors.[2913]

SoCalGas contends that Cal Advocates provides no evidence to justify its recommended disallowances, and the 80 percent and 35 percent reductions were "arbitrary" and not based on any calculations or methodology.[2914]

[2910] CA Ex-23-E-R at 27.

[2911] CA Ex-23 at 37.

[2912] CEJA Opening Brief at 132.

[2913] Sempra Reply Brief at 672.

[2914] Sempra Opening Brief at 856, 863.

A summary of SoCalGas's and Cal Advocates' position related to political activity costs is shown below:

Table 45.1
Total O&M by Witness as Addressed in
SCG-245-E Constant 2021 ($000)

Cost Categories	SoCalGas Base Year 2021	SoCalGas 2024 Test Year	Cal Advocates	Change	% Change
SCG-04 (2GD011) Regional Public Affairs	3,843	3,968	794	-3,174	-80%
SCG-12 Clean Energy Innovations	28,462	47,223	9,445	-37,778	-80%
SCG-16 Customer Services - Information	21,647	27,177	5,435	-21,742	-80%
SCG-29 Administrative & General	39,365	47,178	30,666	-16,512	-35%
Total	**93,317**	**125,546**	**46,340**	**-79,206**	**-63%**

SoCalGas asserts that Cal Advocates' auditors recommended no adjustments to SoCalGas's A&G O&M expenses,[2915] for which Cal Advocates recommended a 35 percent reduction related to Political Activities.[2916] SoCalGas claims that it provided Cal Advocates with adjusted-recorded historical costs and offered to provide the same information as it did to their auditors, which Cal Advocates did not use.[2917]

SoCalGas argues that Cal Advocates fails to acknowledge SoCalGas's enhanced policies, controls, governance, and GRC exclusion process that it has

[2915] O&M expenses discussed under SCG Ex-29.

[2916] Sempra Reply Brief at 661.

[2917] Sempra Reply Brief at 661-663.

implemented/enhanced to record Political Activities to FERC Account 426.4 since 2020.[2918] SoCalGas states that it engaged PricewaterhouseCoopers LLC in 2020 to independently assess Civic, Political, and Related Costs, as defined by FERC Account 426.4, from January 1, 2017, through December 31, 2019.[2919] SoCalGas further argues that it manually excluded the costs from the GRC when an error was identified as part of its controls.[2920]

SoCalGas disputes Cal Advocates' adjustments and states that it has removed costs related to four campaigns[2921] between 2017 and 2019 and one vendor contract (Agreement No. 56600056525). It argues that Agreement No. 56600056525 is stricken because the vendor contract is a below-the-line contract and, therefore, does not inform SoCalGas's GRC forecast.[2922] Regarding the four campaigns, SoCalGas contends that these costs occurred from 2017 to 2019, none of which continued into 2021 and are, therefore, not part of the GRC forecast, which is based on 2021 historical data for the disputed cost categories.[2923]

SoCalGas further disagrees with Cal Advocates regarding payments to six vendors for roughly \$2.7 million (per SAP and Cal Advocates' Workpaper

2918 SCG Ex-245 at SPM-4, SPM-5, Appendix E.

2919 Sempra Opening Brief at 856; SCG Ex-245 at SPM-9.

2920 Sempra Opening Brief at 858; SCG Ex-245 at SPM-8.

2921 Sempra Opening Brief at 860. The campaigns are: Influencing decisions made by the Los Angeles Metropolitan Transit Authority (MTA), the Ports of Los Angeles and Long Beach (together the San Pedro Bay Ports or Ports), the Los Angeles World Airports (comprising the LAX and Van Nuys Airports), this Commission, and state and local politicians to ensure the continued use of natural gas.

2922 Sempra Opening Brief at 859. The vendor contract (Agreement No. 56600056525) has been stricken from the record pursuant to the ALJ's June 12, 2023 Ruling.

2923 Sempra Opening Brief at 860-863.

318), which it argues are not in the GRC forecast, other than $494,000, which SoCalGas argues are appropriately recorded as above-the-line costs.[2924]

SoCalGas further asserts that it has used 2021 Base Year costs as a proxy for most of the cost categories because, due to the passage of time and recordkeeping methods at the time, it was not possible to identify exact labor costs for Political Activities during 2017-2020.[2925] SoCalGas argues that Cal Advocates' recommended disallowances would reduce the forecast by 292 FTEs.[2926]

SoCalGas argues that the company has a right to engage in political advocacy so long as ratepayers are not charged those costs.[2927] SoCalGas claims, however, that Cal Advocates' and CEJA's position that any advocacy "in support of the use of natural gas" and "costs of influencing public officials," respectively, should be booked to FERC Account 426.4 would significantly modify and expand the definition of Political Activities under FERC Account 426.4.[2928]

45.5. Discussion

The key questions are whether SoCalGas has met its burden of proof and adequately demonstrated that the costs of its Political Activities are not part of its GRC revenue requirement request, whether there is a pattern of misclassification of Political Activities to ratepayer accounts, and whether Cal Advocates' suggested disallowances, along with recommended or adopted adjustments, are reasonable.

2924 Sempra Opening Brief at 859-–863; SCG Ex-245-E at SPM-19.

2925 Sempra Opening Brief at 861.

2926 Sempra Reply Brief at 668-669.

2927 Sempra Reply Brief at 658.

2928 Sempra Reply Brief at 673.

This decision recognizes the complex and resource-intensive nature of uncovering improperly classified non-operating expenses associated with Political Activities. We have examined the information presented in this proceeding to evaluate the assertions put forth by Cal Advocates and CEJA concerning SoCalGas's allocation of Political Activities costs to ratepayer accounts.[2929]

Our review concludes that the costs of four political campaigns and vendor costs associated with Agreement No. 56600056525 in dispute from 2017 to 2019 were not used to calculate the 2024 Test Year GRC forecast.

For the SAP record on the six vendor contracts under dispute, we decline to authorize $494,000 as an above-the-line cost because SoCalGas did not demonstrate why these costs are just and reasonable for ratepayer recovery.

Cal Advocates recommended disallowing $80 million, but there is no supporting evidence for how these reductions were calculated. Based on our reasonableness review of forecasted costs for Clean Energy Innovations and A&G costs, we are authorizing a reduced cost forecast, which is just and reasonable for providing service. We also adopted a multi-party settlement on Customer Service – Information Network that lowered the cost forecast.[2930] Given the lack of evidence to disallow costs over and above the cost reductions we have adopted, we decline further disallowances.

Historically, SoCalGas misclassified Political Activities costs to ratepayer accounts due to non-compliance and lack of accountability and monitoring, and the record shows a repeat pattern of non-compliance leading up to the GRC

[2929] *Southern Cal. Gas Co. v. Public Utilities Com.* (2023) 87 Cal.App.5th 324.

[2930] Cal Advocates was a party to the settlement.

filing.[2931] SoCalGas testified that in 2021, it implemented governance measures to correct the mis-recording of costs to ratepayers' accounts and to prevent Political Activities costs from being included in this and future forecasts. We cautiously accept SoCalGas's testimony and briefs and remind SoCalGas that it has an obligation to meet its duty of candor to the Commission in its representations and omissions, and we expect and require SoCalGas to meet this duty on an ongoing basis and to notify the Commission in its GRC proceedings if any errors or omissions come to light in the future. To the extent SoCalGas fails to do so, the Commission may take appropriate action within its discretion as deemed necessary to correct such failure. As explained in detail below, in order to provide oversight and ensure that additional items are not inappropriately included in future forecasts, the Commission will now require annual reporting and attestation mechanisms for SoCalGas to demonstrate its compliance and governance activities and monitor proper accounting for Political Activities costs.

The Commission determination is explained in detail in the following sections.

45.5.1. Political Activities in the Test Year GRC Forecast

The law evidences a commitment to ensure that ratepayers will not be charged for any form of advocacy that does not benefit them.[2932] FERC rules are clear, and the utility has no discretion in booking lobbying or advocacy expenses in various accounts other than FERC Account 426.4. All expenditures for civic,

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[2931] CEJA Ex-01, CEJA Testimony, Attach. 4, Response to Data Request CEJA-SEU Ex-009, Supplementary Introductory Statement; SCG Ex-223/SDG&E Ex-227, Cooper Rebuttal at DRC-10:1-8.

[2932] Cal Advocates Opening Brief at 367-368, 370. *See* D.82-12-055, *Pacific Tel. & Tel. Co. v. Public Utilities Com.*, 62 Cal. 2d 634 (1965) at 668-669, D.88232 (1977) at 99, 1977 Cal. PUC LEXIS 233, D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106, and D.14-08-032 (2014) at 566.

political, and related activities must be booked to FERC Account 426.4. Furthermore, Pub. Util. Code Section 796(a) and PURPA require the Commission to disallow ratepayers from being charged for advocacy and advertising encouraging increased energy consumption, ensuring fair treatment for consumers.[2933]

The Commission prohibits the use of ratepayer funds for Political Activities. Any such costs must be recorded in the designated shareholder-funded FERC Account 426.4, "Expenditures for certain civic, political and related activities." Our review of SoCalGas's forecasting methodology and underlying historical costs has revealed instances where political activities have been improperly booked in FERC accounts other than FERC Account 426.4. This may only become evident when reviewing these FERC Accounts, the underlying forecasting methodology, and historical costs.

Cal Advocates states that SoCalGas has not met its burden of proof to demonstrate that all political costs and employee time spent supporting those political activities have been removed from the GRC request.[2934] It also asserts that SoCalGas has a pattern of improperly booking these costs to ratepayer accounts.[2935] Cal Advocates asserts that SoCalGas's SAP financial records appear to reflect that SoCalGas has paid roughly $2.7 million to six vendors between 2017 and 2022 and booked those costs to ratepayer accounts, thereby continuing its pattern of booking advocacy costs to ratepayers.[2936] While it makes this assertion,

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[2933] Cal Advocates Opening Brief at 368-369; 15 U.S.C. Section 3203 (b)(2) and Section 3204(b).

[2934] Cal Advocates Opening Brief at 388.

[2935] Cal Advocates Reply Brief at 14.

[2936] CA Ex-23-E-R at 29-32.

no evidence links the $2.7 million to a specific cost category or a FERC account in this GRC.

We agree with SoCalGas that SAP is the starting point for arriving at the adjusted-recorded historical costs for the GRC.[2937] It does not represent which costs are included in SoCalGas's GRC forecast. We must look at the cost categories and the FERC Accounts to which specific costs have been booked. Cal Advocates' examination of FERC Account 920, a ratepayer account, eventually led SoCalGas to change its accounting to book the campaign costs to FERC Account 426.4, a shareholder account.[2938]

SoCalGas admitted that the costs for those four campaigns[2939] were initially booked to ratepayer accounts.[2940] Specifically, SoCalGas claims that 100 percent of one of the vendor costs[2941] were already excluded from the GRC.[2942] It further asserts that all four campaigns occurred from 2017 to 2019, with none continuing into 2021. Additionally, SoCalGas claims that since it is impossible to identify the exact labor costs of Political Activities due to record-keeping prior to 2021, it has made manual adjustments and used 2021 as a proxy.[2943] SoCalGas asserts that, as a result, its 2021 Base Year forecast does not include any of the adjusted-recorded historical costs for these four political campaigns. The findings of the PricewaterhouseCoopers LLP Report, which found that costs related to Marathon

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[2937] Sempra Opening Brief at 862.

[2938] CA Ex-23-E-R at 17.

[2939] CA Ex-23-R-E at 4; the campaigns include MTA, Ports, C4BES, and Los Angeles World Airports.

[2940] CA Ex-23-R-E at 5.

[2941] Marathon Communication is a consultant that worked on one of the four campaigns.

[2942] Sempra Opening Brief at 860.

[2943] Sempra Opening Brief at 861.

Communication are recorded below the line, further corroborate this information.[2944]

SoCalGas acknowledged an accounting error regarding vendor costs associated with Agreement No. 56600056525. It states that it corrected the accounting on October 31, 2019, effective November 1, 2019, and reclassified costs in the Balanced Energy internal order where the agreement was initially incorrectly charged as above the line.[2945]

Finally, we reviewed Cal Advocates' assertion that the SAP records reflect that SoCalGas paid roughly $2.7 million to six vendors between 2017 and 2022 and booked those costs to ratepayer accounts.[2946] Cal Advocates asserts that one of the vendors on that list was responsible for creating the "We Can" front group, which participated in a campaign related to the Ports promoting higher natural gas consumption.

In response, SoCalGas claims that all but approximately $494,000 of these vendor costs, correctly charged above the line, were excluded from SoCalGas's GRC forecast.[2947] SoCalGas further shows the following data as evidence that it is correctly booking costs in this GRC:

Table 45.2
SoCalGas's Cost Booking

	Correctly Charged below-the-line	Incorrectly Charged above-the-line, but Manually Removed from the GRC	Correctly Charged above-the-line, but not in 2024 Test Year Forecast	Correctly Charged above-the-line and Included in the GRC Forecast	Total
$000s	$1,103	$53	$1,081	$494	$2,730

2944 CA Ex-23-WP-R, WP 189at 415-441.

2945 Sempra Opening Brief at 861-862.

2946 CA Ex-23-C-E-R at 30.

2947 Sempra Opening Brief at 862-863.

Based on our review of the evidence, we conclude that SoCalGas's forecast of 2024 Test Year costs was derived from the adjusted 2021 Base Year and did not include the costs of the four political campaigns and vendor costs associated with Agreement No. 56600056525 that occurred in 2017 through 2019.

However, SoCalGas does not explain why ratepayers are being charged $494,000. Lacking evidentiary support, we deny SoCalGas's request to collect consultant costs of $494,000 from ratepayers.

45.5.2. Pattern of Misclassification

SoCalGas acknowledged that, historically, time spent on advocacy activities was not always consistently recorded correctly.[2948] Our review identified conclusive evidence of SoCalGas's incorrect accounting practices and inconsistencies in reporting during this GRC's five-year historical period (2017-2021).

SoCalGas acknowledges that its employees did not accurately report time spent on political activities. Additionally, SoCalGas management only addressed the issue after Cal Advocates raised concerns.[2949] While SoCalGas maintains there was no intentional misclassification, the lack of initial corrective action and the subsequent audit suggest a need for improved internal controls over expense allocation.[2950]

Complex record-keeping and accounting, claims of confidentiality, and data discovery disputes compound these issues. While unintended errors and policy changes can cause data inconsistencies, the repeated occurrence of accounts being moved from ratepayer-funded (above-the-line) to shareholder-

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[2948] SCG Ex-245 at 8.

[2949] CA Ex-23-E-R at 3.

[2950] Sempra Reply Brief at 672.

funded/non-operational (below-the-line) after errors were identified suggests a pattern of predisposition and misclassification. Given the inherent subjectivity of advocacy, transparent and accurate record-keeping by a utility is essential for seeking cost recovery from ratepayers.

SoCalGas also seeks clarity from the Commission on appropriate bounds around what constitutes Political Activities that should not be recoverable under FERC Account 426.4 by any utility.[2951]

The Commission has adopted, pursuant to Sections 792 and 793 of the California Public Utilities Code, FERC's USofA, as the Commission's "accounting system for electric utilities" with minor modifications.[2952]

The lobbying and advocacy expenses that should be listed under FERC Account 426.4 are broadly defined and listed in the alternative to one another, and the utility has no discretion to book these costs above the line. FERC Account 426.4 states:

> This account must include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials.

Past examples of expenditures the Commission has determined do not benefit ratepayers and were required to be booked below the line include, but are not limited to:

2951 SoCalGas Reply Brief at 676.

2952 *Re Pac. Gas & Co*, No. 54279, [D.84902] 1975 WL 23523, at *43 (Sept. 16, 1975), and for gas corporations, *Re Unif. Sys. of Accts. for Gas Corps.*, [D.87-07-066] 1987 WL 1497504 (July 29, 1987).

- contributions to organizations that provide no specific benefits to ratepayers;[2953]
- all amounts for dues, donations, sponsorships, and contributions;[2954]
- institutional advertising (which tends to benefit the image of the company primarily);[2955]
- advertising that encourages increased consumption of utility services, such as natural gas service, or commodities furnished by regulated utilities;[2956]
- legislative advocacy costs;[2957]

[2953] Cal Advocates Opening Brief at 367; *see*, e.g., D.82-12-055 (1982), 1982 Cal. PUC LEXIS 1209 at 118-119 ("Our policy has been to disallow ratepayer contributions to organizations which provide no specific benefits to ratepayers. The burden is on Edison to show that the contributions for which it seeks ratepayer support provide such benefits.").

[2954] Cal Advocates Opening Brief at 367; *see*, e.g., *Pacific Tel. & Tel. Co. v. Public Utilities Commission*, 62 Cal. 2d 634 (1965) at 668-669 ("We believe that the view expressed by the further declaration in the decision now before us that Pacific 'hereby is placed on notice that it shall be the policy of this Commission henceforth to exclude from operating expenses for rate-fixing purposes all amounts claimed for dues, donations and contributions' . . . states the correct rule; it also accords with the approach adopted in certain other jurisdictions . . . It may be emphasized that the commission's declared future policy does not purport to prohibit the utility from making contributions but only precludes charging them against its ratepayers"); *see also* D.16-06-053 (2016), 2016 Cal. PUC LEXIS 379 at 53-54 ("Consistent with D.86-01-026 we adopt ORA's suggested reduction of $241,465 to corporate expenses for donations, dues, and sponsorships for ratemaking purposes. These expenses are not reasonable as ratepayers have no voice in selecting the recipients and these activities do not increase safety and reliability for Kerman's customers").

[2955] Cal Advocates Opening Brief at 367; *see*, e.g., D.88232 (1977) at 99, 1977 Cal. PUC LEXIS 233 ("We have previously made it clear that institutional advertising (which tends primarily to build the image of the company) will not be charged to the ratepayer.").

[2956] Cal Advocates Opening Brief at 367; *see*, e.g., Pub. Util. Code Section 796(a); *see also*, D. 87-05-074 (1987), 1987 Cal. PUC LEXIS 785 at 24-27.

[2957] *See*, e.g., *Pacific Tel. & Tel. Co. v. Pub. Util. Com.*, 62 Cal. 2d 634 (1965) at 670 (". . . [W]e agree with the general policy of the commission that the cost of legislative advocacy should not be passed on to the ratepayers and find the disallowance proper"); D.84902 (1975), 1975 Cal. PUC LEXIS 949 at 104-105 ("We see nothing improper in PG&E's looking out for its interests in Washington and Sacramento, but we do believe that the cost of such lobbying activities should be borne by PG&E's stockholders. We will adopt the staff recommendation and not include allowances for legislative advocacy in our adopted A&G expense.").

- lobbying activities at federal, state, or local levels, whether directed at legislative or administrative activities;[2958]
- public relations efforts to increase the load;[2959] and
- political advocacy with which ratepayers may disagree.[2960]

Therefore, above-the-line expenses related to hiring consultants, lobbyists, legal firms, and media—among others—for any of the aforementioned purposes were errors that should have been reported as below-the-line costs.

Given SoCalGas's exploration of expanded business opportunities for alternative fuel options, we caution that we will closely scrutinize lobbying and advocacy work influencing matters related to hydrogen, carbon capture, RNG, or any other alternative fuel sources, and the company will need to clearly demonstrate that such work was necessary to benefit ratepayers.

These expenses are considered non-operational costs[2961] and unless the utility can demonstrate that incurring them was necessary to meet the operational

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[2958] D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("[R]atepayers should not pay the costs associated with SoCalGas's lobbying efforts, whether those efforts are at the federal, state or local level, and whether or not the effort is directed at legislation or administrative action…").

[2959] Cal Advocates Opening Brief at 368; D.93-12-043 (1993), 1993 Cal. PUC LEXIS 728 at 105-106 ("Generally speaking, ratepayers should not have to bear the costs of public relations efforts in this area which, according to SoCalGas, are designed primarily to increase load by promoting natural gas use to business and government leaders.")

[2960] Cal Advocates Opening Brief at 368; D.14-08-032 (2014) at 566 ("We are persuaded by TURN that PG&E's limited exclusion of 13% of CCEEB dues for lobbying costs is too narrow, and doesn't account for the other public advocacy activities of CCEEB. We agree that ratepayers should not pay for political advocacy conducted by the CCEEB with which they may not agree.").

[2961] Pursuant to 18 C.F.R. Part 101, Account 426.4, non-operating expenses are not recoverable. These include "expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances… or for the purpose of influencing the decisions of public officials…." These include preparation or planning activities, research, and other background work that advocates for commercial hydrogen technology or non-operational costs that support research for a business opportunity under the

Footnote continued on next page.

needs of serving its natural gas ratepayers it cannot recover them from ratepayers as above-the-line expenses.

As the Commission has previously explained, however, while the USofA "serves a useful purpose in assuring consistency in utility bookkeeping, it is important to remember that ratemaking drives accounting, and not vice versa."[2962] Thus, the USofA is "not binding on [the Commission] for ratemaking purposes," and the Commission may prescribe accounting requirements in addition to those specified by the USofA.[2963] We are not currently adopting additional accounting measures. However, based on our findings regarding misclassification patterns and SoCalGas's request to clarify what we consider lobbying and advocacy and the recent audit results,[2964] it would be prudent to implement additional controls and reporting requirements before introducing further accounting measures. Additional controls and reporting requirements adopted in this Section, including tracking costs (as adopted under the decision Section on Corporate Center-A&G), will support subsequent reasonableness reviews before any cost recovery occurs.

Therefore, on an annual basis, SoCalGas shall provide the following verified report per Rule 1.1, by sworn affidavit or declaration under penalty of

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umbrella of "Clean/Alternative Fuels Alternatives." The utility can engage in all these activities but, as a general matter, cannot book the costs to ratepayer accounts without evaluating and demonstrating support for ratepayer benefits.

[2962] *Order Modifying Decision 90-04-028 and Denying Rehearing*, [D.90-11-031], 38 CPUC 2d 166 (Nov. 9, 1990).

[2963] Pub. Util. Code Section 793.

[2964] *See* D.24-10-012 in R.13-11-005, in which the Commission approved the audit recommendations completed by the Commission's Utility Audits Branch pursuant to D.22-03-010 and D.22-04-034. D.24-10-012 requires SoCalGas to refund $3,989,377 to ratepayers for expenditures on codes and standards activities.

perjury, to the Commission's Executive Director and the service list of A.22-05-015 and A.22-05-016 until and unless the Commission decides it is no longer necessary in all future GRC cycles. SoCalGas shall attest to:

a. In its first annual report, due on March 1, 2025, SoCalGas shall explain its progress on implementing the 10 recommendations from the PricewaterhouseCoopers LLP Report on education, lobbying, and advocacy activities. If any recommendation is not adopted, SoCalGas shall explain its reasoning. Thereafter, SoCalGas shall provide an update on the status of its adopted recommendations each year on March 1.[2965]

b. In addition to the above, SoCalGas shall provide the following attested information in all future GRC proceedings until the Commission decides it is no longer necessary in a future GRC proceeding:

c. That SoCalGas has established and continues to maintain a formal policy and guidance for recording above-the-line costs. This policy should be submitted with the declaration and clearly define what is considered above the line versus below the line for advocacy and lobbying activities.

d. That SoCalGas's employees are trained to record time and expenses differentiating above-the-line and below-the-line activities accurately. SoCalGas shall provide information on business units receiving training, the number of employees per business unit receiving training, the type of training, the frequency of training, and the hours of training. SoCalGas shall provide copies of any written training materials, including presentation materials used therein, as attachments to the report.

e. *S*oCalGas shall identify business units and employees involved in political and lobbying activities. Detailed time records and documentation resulting from such an assessment shall be provided.

[2965] *See* Appendix D of the decision for the detailed PricewaterhouseCoopers LLP Report.

f. SoCalGas shall demonstrate that it has established procedures to monitor and verify that employees have properly identified and booked above-the-line costs. The Company shall explain its procedures and process improvements adopted, if any.

g. To the extent SoCalGas retains outside consultants or law firms to perform Political Activities and these consultants or law firms conduct any work where costs are included in any GRC forecast as benefiting ratepayers, SoCalGas shall provide the FERC accounts these costs are booked under, and a log documenting the time, work performed, total cost incurred, and how such cost is just and reasonable pursuant to Public Utilities Code Section 451, benefits ratepayers and is not deemed political activities.

SoCalGas's efforts to establish an Accounting Compliance group, facilitate training across the organization, and put checks and balances on its time reporting are relatively new, starting from 2021.[2966] The impact and success of these compliance activities remain to be seen. This reporting mechanism will help the Commission assess the success of SoCalGas's compliance and governance in identifying, reporting, and classifying lobbying and advocacy costs.

45.5.3. Disallowance

This Section focuses on whether additional disallowances are warranted, specifically Cal Advocates' proposed disallowances regarding disputed political activity costs: an 80 percent disallowance for Regional Public Affairs, Clean Energy Innovations, and Customer Service Information organizations and a 35 percent disallowance for administrative and general costs, resulting in an $80 million reduction.

[2966] SCG Ex-245 at 9-10.

We decline to adopt the approximately $80 million cost reductions because, while the Commission recognizes a history of non-compliance, there is an insufficient nexus for calculating that degree of disallowances in the forward-looking forecast when weighed against SoCalGas's testimony of its corrective methods.[2967] In a forecasted GRC Test Year, expenses impact ratepayers if: (1) they are included in the adjusted-recorded historical years used as the basis of individual workpapers in SoCalGas's GRC forecast; and (2) the Commission approves SoCalGas's forecast.[2968] Though parties challenge the credibility of this testimony, we find SoCalGas presented sufficient evidence to show that it has not included the disputed political costs in its forecast.

Cal Advocates argues that the $80 million disallowance, in addition to other disallowances, is warranted by extensive expenditures for political activities and the use of law firms to engage in political activities. Additionally, Cal Advocates argues that the utility's quantification of the costs of its political activities in its rebuttal testimony is not credible.[2969]

Keeping the historical pattern of misclassifications in perspective, we reviewed SoCalGas's evidence. SoCalGas provided the costs recorded to FERC Account 426.4 and the manual exclusions since 2017 as evidence that it has accounted for below-the-line expenses.

[2967] In Tr. Vol. 21 at 3767, lines 8-10, the witness confirms that "there's no calculation for the 80 percent and the 35 percent."

[2968] Sempra Reply Brief at 660.

[2969] Cal Advocates Opening Brief at 394.

SoCalGas's publicly available information from FERC Form 2[2970] is shown below:[2971]

Table 45.3
SoCalGas's Publicly Available Information from FERC Form 2

426.4 FERC Form 2 Results 2020-2022	2020	2021	2022
FERC Form 2 Total Costs	$8,040,508	$10,080,718	$12,147,722
Labor	$365,623	$1,145,872	$1,054,981
Non-Labor	$7,674,885	$8,934,846	$11,092,741

While it is unclear which cost categories or FERC Accounts SoCalGas manually adjusted, the FERC Account 426.4 reporting shows an increase in reporting below-the-line costs after it established policies, training, and governance compliance for Political Activities in 2021.

Additionally, SoCalGas claims to have made automated and manual adjustments to the historical data to remove below-the-line costs. A summary of GRC manual exclusions related to FERC Account 426.4 is shown below:[2972]

Table 45.4
Summary of GRC Manual Exclusions Related to FERC Account 426.4

2017	2018	2019	2020	2021	2022	Total
$1,551,287	$1,634,803	$1,354,728	$1,157,771	$3,189,267	$298,853	**$9,186,709**

[2970] FERC Form 2 is designed to collect financial and operational information from natural gas companies subject to the jurisdiction of the Federal Energy Regulatory Commission. These reports are also considered non-confidential public use forms.

[2971] SCG Ex-245 at SPM-6.

[2972] SCG Ex-245 at SPM-6.

It further claims that it used Base Year 2021 forecasting methodology for most disputed Political Activities cost categories.[2973] SoCalGas argues that time spent on Political Activities was not consistently recorded from 2017 to 2020, so it manually adjusted labor costs from 2017 to 2020 in the GRC workpapers using 2021 as a proxy since in 2021 SoCalGas had the enhanced compliance process.[2974]

SoCalGas summarized the forecast methodologies for the various cost categories in Cal Advocates' opposition. Our review of Regional Public Affairs and A&G expenses for cost categories where SoCalGas relied on Base-Year forecast methodology shows that it excluded labor expenses associated with lobbying activities (FERC 426.4). We have already adjusted the A&G expenses based on our review of Exhibit SCG-29 and related exhibits and intervenor comments. We find no reason to reduce costs for these cost categories further.

In Exhibit CA-23-E-R, Cal Advocates claims an 80 percent disallowance for A&G expenses; however, in Exhibit CA-19, Cal Advocates' auditors state that they reviewed whether the transaction should be recorded below-the-line or above-the-line for A&G expenses.[2975] Cal Advocates does not provide evidence of any discrepancies in recorded above-the-line accounts except for disallowances for Claims Payment & Recovery (Legal) and Business Strategy and Energy Policy—O&M. Cal Advocates' inconsistent analysis of A&G costs does not provide strong evidentiary proof to disallow these costs. Cal Advocates recommended the 80 percent disallowances on top of any other cuts it may have

[2973] SCG Ex-245 at SPM-18.

[2974] SCG Ex-245-E (Mijares) at 13, 18, Table SM-5 and Figure SM-4; Sempra Opening Brief at 858.

[2975] CA Ex-19 at 7.

proposed; however, it did not provide a basis for calculating this percentage of disallowances.[2976]

As previously mentioned, reviewing non-operational costs, such as Political Activities, can be complex. We recognize the efforts of Cal Advocates and CEJA in bringing forward the information. However, we do not have evidence to support the additional disallowances Cal Advocates suggested. A case-by-case analysis might be necessary to determine if a cost is non-operational.[2977] In such cases, if evidence suggests a cost is not related to utility operations, and the utility cannot justify its inclusion as an operating expense, it will be reasonable for the Commission to disallow the cost.

Our review of Clean Energy Innovations, Gas Distribution, including the Regional Public Affairs department, A&G, and Customer Service Information Network, has been completed. We have considered the reasonableness of forecasted labor and non-labor expenses and adjusted SoCalGas's request accordingly.

46. Summary of Earnings, Revenues and Rates

The Update revenue requirement requested by SoCalGas is $4.434 billion (a 25.3 percent increase over 2023 authorized revenue).[2978] The Update revenue requirement requested by SDG&E is $3.007 billion (an 18.7 percent increase over

[2976] Sempra Opening Brief at 863; in Transcript Volume 21 at 3767, lines 8-10, the witness confirms that "there's no calculation for the 80 percent and the 35 percent."

[2977] *See* the Section on Clean Energy Innovations, disallowing $2.923 million for consultant costs and $561,789 for Hydrogen Council dues from the Base Year forecasts because the costs are considered non-operational.

[2978] SCG Ex-401/SDG&E Ex-401 at 23.

2023 authorized revenue) on a combined basis and $2.348 billion and $658.732 million for the electric and gas departments, respectively.[2979]

The Update revenue requirements reflect other changes agreed to by SoCalGas and SDG&E during discovery, in rebuttal testimony, or at hearings.[2980]

Based on the Update Testimony, a typical residential non-CARE customer's monthly bill for SoCalGas customers increases by $11.62 (or +16.8%) compared to 2023 current rates.[2981] A typical SDG&E electric residential customer's monthly bill increases by $11.09 (6.4%) compared to 2023 current rates.[2982] For SDG&E's gas customers, a typical residential non-CARE customer would see a monthly bill increase of $12.49 (or +21.8%) compared to 2023 current rates.[2983]

Sempra Utilities describes two changes impacting revenue requirement calculations due to the downstream impacts of the updates made to other items in the Update Testimony. These changes include Shared Services Overheads due to the payroll tax rate updates, updated escalation factors, and updated medical cost escalation factors. Sempra requests that these changes be reflected in the PTY revenue requirement that the Commission approves.

EDF states that Sempra Utilities' proposed revenue requirements, costs, and recovery mechanisms for the 2024 Test Year are not just and reasonable and should not be adopted by the Commission and reflected in rates.[2984]

[2979] SCG Ex-401/SDG&E Ex-401 at 23.

[2980] SCG Ex-401/SDG&E Ex-401 Attachments I and J showing Summary of Update Testimony of Results of Operations incorporated by SoCalGas and SDG&E, respectively.

[2981] SCG Ex-401/SDG&E Ex-401 at 23-24.

[2982] SCG Ex-401/SDG&E Ex-401 at 23.

[2983] SCG Ex-401/SDG&E Ex-401 at 23-24.

[2984] EDF Opening Brief at 64.

SBUA opposes Sempra's Present and Proposed Electric Revenues and Rates. SBUA references the Energy Information Administration's report from 2022, arguing that SDG&E has among the highest retail rates in the country.[2985]

In its reply brief, Sempra argues that SDG&E's bills are below the national average, and that bills are a better indicator than rates of affordability.[2986]

46.1. Discussion and Analysis

In our review of the requests in this GRC, we have thoroughly analyzed all evidence, arguments, and economic conditions presented by the parties. We have examined each cost category, including specific O&M and capital requests, objections, and recommendations. While considering affordability, we also prioritize safety, risk mitigation, and reliability to ensure utilities can provide their customers with a safe and reliable service. We have approved only necessary projects demonstrating a clear need and reasonable costs, rejecting certain expenses and projects based on facts, positions, and recommendations from intervenors and our review. This decision aligns with Pub. Util. Code Section 451, requiring utilities to provide safe and reliable service at just and reasonable rates. The Commission will continue to evaluate future rate increase proposals carefully.

The decision adopts a 2024 Test Year revenue requirement of $3.805 billion for SoCalGas and $2.698 billion for SDG&E (including $2.192 billion for electric and $506.062 million for gas).

Based on a high-level estimate, it is anticipated that an average SoCalGas residential non-California Alternate Rates for Energy (CARE) customer can expect

[2985] SBUA Ex-01 at 6-7.

[2986] Sempra Reply Brief at 653-654.

an average monthly bill increase of $2.48 or 3.5 percent.[2987, 2988] An average SoCalGas residential CARE customer can expect an average monthly bill increase of $1.40 or 3.5 percent.[2989]

Based on a high-level estimate, it is anticipated that a typical non-CARE SDG&E residential electric customer can expect a monthly bill increase of $4.38 or 2.6 percent, and a CARE residential electric customer can expect a monthly bill increase of $2.85 or 2.7 percent.[2990] An average SDG&E non-CARE residential gas customer can expect a monthly bill increase of $1.02 or 1.8 percent, and a CARE residential gas customer can expect an increase of $0.71 or 1.8 percent for gas services.

Appendix A of the decision provides a summary of earnings, revenue requirement, base margin comparison, PTY results, bill impacts, and direct cost comparison.

In D.23-05-012, the Commission granted SoCalGas and SDG&E each authority to establish a GRC memorandum account (GRCMA). The Commission authorized the use of the GRCMA to track the difference in revenue requirement in effect on December 31, 2023, and the final revenue requirement authorized in this decision effective January 1, 2024.

[2987] Using 37 therms per month.

[2988] Appendix A-3 of this decision contains the Bill Impacts, which reflects the bill comparison for SoCalGas and SDG&E.

[2989] Using 27 therms per month.

[2990] These averages are for inland and coastal combined, Non-NEM bundled customers using 400 kilowatt-hours. The bill calculation excludes the California Climate Credit and includes the impact of the 2024 TY only, with 18-month amortization.

We find it reasonable to require SoCalGas and SDG&E to amortize the balance recorded in each utility's respective GRCMA in rates over 18 months from the date the new tariffs are implemented.

47. Escalation and Post Test Year Ratemaking

Pursuant to D.07-07-004, SoCalGas and SDG&E updated their cost escalation request as part of their Update Testimony. They request to escalate the Test Year 2024 revenue requirement based on the labor, materials, and services expenses they expect to incur in 2024. The escalation factors account for the effects of inflation on the utility's expenses between 2021 and 2024.

Beyond the 2024 Test Year, SoCalGas and SDG&E propose that the base margin revenue requirements be escalated each year according to the PTY Ratemaking, also known as attrition year adjustments. The Commission uses the attrition mechanism to establish a revenue requirement for the remaining years of the rate case period. The PTY Ratemaking provides utilities with funds needed to provide safe and reliable service to its customers, as well as an opportunity to earn the authorized rate of return during the PTYs, although the latter is not guaranteed. In this proceeding, the PTYs are 2025, 2026, and 2027. Under the Commission's recently revised Rate Case Plan, this proceeding sets the revenue requirement for a four-year rate case cycle, while in the past the Commission has set the revenue requirement for three years. SoCalGas and SDG&E state that they have updated the revenue requirement in their Update Testimony to incorporate the latest adopted rate of return approved in D.22-12-031.[2991]

[2991] SCG Ex-401/SDG&E Ex-401 at 24.

47.1. Cost Escalation

SoCalGas and SDG&E presented the cost escalation factors used to reflect the effect of external inflation on SoCalGas's and SDG&E's labor O&M, non-labor O&M, and capital-related costs in their respective 2024 Test Year revenue requirements and annual PTY adjustments. On July 7, 2023, SoCalGas and SDG&E served their Update Testimony, including cost escalation updates.[2992] The updated cost escalations were developed using IHS/Markit Global Insight's (Global Insight) indexes from the first quarter of 2023, published in April 2023. The parties have not disputed the cost escalation factors presented by the utilities nor the updated cost escalations. Pursuant to D.07-07-004, the escalation is adopted to determine the utilities' 2024 Test Year revenue requirement.

The parties' briefing did not completely incorporate updates made in Update Testimony. To provide for the transparent incorporation of updated figures not incorporated in this decision, Sempra shall provide citations to any additional requests to incorporate figures from Update Testimony in its official comments on the proposed decision.

47.2. PTY Ratemaking Request

47.2.1. Sempra's Position

SoCalGas requested a PTY revenue requirement of $4.726 billion (6.58 percent increase) in 2025, $4.987 billion (5.52 percent increase) in 2026, and $5.367 billion (7.63 percent increase) in 2027. SDG&E requested a PTY revenue requirement of $3.352 billion (11.49 percent increase) in 2025, $3.684 billion (9.91 percent increase) in 2026, and $3.988 billion (8.23 percent increase) in 2027.[2993]

[2992] Sempra Reply Brief at xxvii.

[2993] SCG Ex-401/SDG&E Ex-401 at 25.

Sempra states that its PTY proposals are designed to: (1) align PTY revenue requirements to account for unique cost escalation issues, such as the expected increase in employee medical costs; and (2) to account for SoCalGas's and SDG&E's capital investments that mitigate risk and improve safety and reliability of the utility infrastructure. However, Sempra's proposals are not designed to cover all anticipated expenses and capital-related investments but to provide a reasonable level of funding necessary to maintain operational and financial stability and support important safety, reliability, and technology projects, while promoting productivity and efficiencies during the next GRC cycle.[2994]

Sempra's PTY proposals include the following:[2995]

1) A four-year term (2024-2027) for this GRC cycle, consistent with D.20-01-002;
2) A PTY Ratemaking mechanism to adjust authorized revenue requirements for:
    a) Labor and non-labor costs based on Global Insight's forecast;
    b) Medical costs based on Willis Towers Watson's (WTW's) forecast shown in July 2023 Update Testimony; and
    c) Calculating PTY capital-related revenue requirements using:
        i. An escalated 5-year average level of capital additions;
        ii. For SoCalGas capital additions beyond 2024 Test Year, forecasts for:
            a. Honor Rancho Compressor Modernization project capital additions;

[2994] Sempra Opening Brief at 835.

[2995] Sempra Opening Brief at 835-836.

b. CIS project capital additions;

c. SoCalGas's Gas Integrity Management Program (TIMP, DIMP, SIMP, FIMP, GSEP) capital additions;

d. Continuation of the currently authorized Z-factor mechanism; and

e. Use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.

iii. For SDG&E capital additions beyond 2024 Test Year, forecasts for:

a. Wildfire Mitigation Plan (WMP) capital additions;

b. Moreno Compressor Upgrade capital additions;

c. Smart Meter 2.0 capital additions;

d. SDG&E's Gas Integrity Management Program (DIMP, TIMP, FIMP, GSEP) capital additions;

e. Continuation of the currently authorized Z-factor mechanism; and

f. Use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.

47.2.2. Cal Advocates Position

Cal Advocates asserts that utilities are not guaranteed post-test year revenue increases.[2996] It argues that Sempra Utilities' proposed attrition increases in this rate case are higher than the increases authorized by the Commission in any GRC in the last three rate case cycles, and the requests are overstated and under-supported.[2997] Cal Advocates recommends that the Commission adopt

[2996] Cal Advocates Opening Bried at 350.

[2997] Cal Advocates Opening Brief at 351.

adjustments no greater than base revenue attrition year increases of 3% each year for 2025, 2026, and 2027, plus certain capital-related exceptions.[2998]

Cal Advocates does not oppose SoCalGas's request for post-test year capital-related exceptions associated with DIMP, TIMP, SIMP, FIMP, and GSEP for 2025, 2026, and 2027.[2999] However, it opposes including capital-related exceptions associated with the CIS Replacement Program and the Honor Rancho Compressor Modernization project.

For SDG&E, Cal Advocates does not oppose its request for post-test year capital exceptions associated with DIMP, TIMP, FIMP, and GSEP.[3000] However, Cal Advocates opposes the inclusion of capital-related exceptions associated with the Moreno Compressor Modernization and proposes reductions to the exceptions associated with the Smart Meter 2.0 program and wildfire mitigation.

47.2.3. Other Parties' Positions on Sempra's PTY Ratemaking Request

Various intervenors opposed different components of Sempra's PTY Ratemaking request.[3001] Many of the intervenors also opposed the Sempra and Cal Advocates motion to adopt a settlement referenced above. The intervenors' positions are summarized below under each disputed component of Sempra's PTY Ratemaking request.

47.2.4. Discussion

47.2.4.1. PTY Ratemaking

The decision adopts a base margin revenue (O&M and capital revenue requirement) increase of 3 percent each year for 2025, 2026, and 2027 plus certain

[2998] Cal Advocates Opening Brief at 351.

[2999] Cal Advocates Opening Brief at 354.

[3000] Cal Advocates Opening Brief at 553-354.

[3001] Sempra Reply Brief at 636-653.

wildfire mitigations, including undergrounding and covered conductor. It authorizes the continuation of the currently authorized Z-factor mechanism and the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements. These outcomes are explained in detail below.

Sempra proposes to escalate O&M expenses to adjust authorized forecasts for labor and non-labor costs based on Global Insight's proprietary utility-specific indices, except for medical expenses.[3002]

Cal Advocates proposes PTY increases of 3 percent each year for 2025, 2026, and 2027, with no differing escalation for medical costs or O&M and certain exceptions to capital.[3003] For SoCalGas and SDG&E, TURN-SCGC and TURN recommend escalating PTY O&M expense using CPI-U or adjusting CPI-U by a maximum of 50 basis points. For SDG&E, FEA recommends using the same Global Insight Index utility escalation factors used to calculate SDG&E's PTY O&M to determine PTY medical costs. Sempra opposes all of these proposals.[3004]

Sempra's proposed capital-related PTY Ratemaking mechanism is designed to account for the anticipated growth in capital additions in excess of depreciation in the PTY period.[3005] As discussed below, following the Test Year of Sempra's last GRC, both utilities' capital additions were escalated from 2021-2024 using the mechanisms authorized in the last GRC.

Cal Advocates recommends that the Commission adopt attrition adjustments no greater than base revenue attrition year increases of 3 percent each year for 2025, 2026, and 2027 plus certain capital-related exceptions for

3002 Sempra Opening Brief at 835.

3003 Cal Advocates Opening Brief at 352.

3004 Sempra Reply Brief at 636.

3005 Sempra Opening Brief at 841-843.

several reasons.[3006] First, Cal Advocates states the attrition mechanism is not an entitlement, nor is it a method of insulating the company from the economic pressures which all businesses experience. Neither the Constitution nor case law has ever required automatic rate increases between general rate case applications.[3007] For the period between GRC proceedings, the Commission has, in some cases, granted attrition-type increases and, in other cases, has not provided such increases. For example, in PG&E's 1999 GRC decision, the Commission denied attrition increases for the year 2000 and, in D.03-03-034, the Commission denied PG&E's attrition increase request for 2002. In SCE's 2018 GRC, the Commission authorized attrition increases for 2019 and 2020 while adopting a 9.27 percent revenue decrease for 2018.[3008] Second, Cal Advocates states that as of February 2023, San Diego was the most expensive city in the U.S. for electricity rates at $0.475 per kilowatt hour. Finally, Cal Advocates contends that California ratepayers are facing an affordability crisis and should not continue enhancing Sempra's record profits through excessive attrition increases.[3009]

EDF has suggested a budget-based PTY mechanism and recommends, in the alternative, a negative adjustment percentage, to account for declining demand in both capital and operating costs. EDF argues further that with the assumption of stable or growing demand no longer valid, the Commission needs

[3006] Cal Advocates Opening Brief at 351.

[3007] D.93-12-043; 52 CPUC 2d 471, 492.

[3008] Cal Advocates Opening Brief at 350.

[3009] Cal Advocates Opening Brief at 351.

to establish a standard for PTY mechanisms in a world of declining demand, rather than escalating rates.[3010]

PCF suggests that denying the capital attrition adjustment is reasonable considering Sempra's opportunity to earn its authorized rate of return, increased profits and earnings per share, and the lack of disclosure of planned expenditures on a project basis in the PTYs.[3011]

In reply, Sempra argues that Cal Advocates' general escalation mechanism does not reasonably account for anticipated capital beyond 2024.[3012] Sempra argues that TURN's methodology is insufficient because rate base increases and the related capital revenue requirement components increases resulting from capital additions exceeding depreciation are unrelated to inflation. In addition, Sempra states that rate base growth has no correlation to CPI.[3013]

In opposition to PCF's arguments, Sempra contends that its 5-year average (2020-2021 recorded and 2022-2024 forecasted) takes into account more current data and can provide a more accurate representation of future capital needs.[3014] However, Sempra has not demonstrated how an attrition increase is necessary to account for capital additions in excess of depreciation in the PTY period in terms of changes in capital revenue requirement components (authorized returns on rate base, depreciation expense, and taxes).

CEJA proposes to exclude remaining 2024 revenue for new business construction from SoCalGas's and SDG&E's proposed PTY Ratemaking

[3010] EDF Opening Brief at 95-98.

[3011] PCF Opening Brief at 61-64.

[3012] Sempra Reply Brief at 642.

[3013] Sempra Opening Brief at 642-643.

[3014] Sempra Reply Brief at 644, 652.

mechanism to account for the full impact of D.22-09-026's elimination of gas line extension allowances.[3015]

The Commission has in the past authorized the escalation of O&M costs in the PTYs to offset the financial risk experienced by the utilities between general rate cases.[3016] As noted by TURN-SCGC, the Commission has also adopted for SoCalGas and SDG&E in D.13-05-010, CPI-U plus 75 basis points.[3017] This mechanism provides a reasonable offset to increasing costs that is not a guarantee of earnings.[3018]

In this rate case cycle, cost escalators were used to adjust for inflation the costs from 2021 nominal dollars into 2024 Test Year nominal dollars, using various escalation series from IHS/Markit Global Insight's Utility Cost Information Service (UCIS). As stated above, we authorize a labor escalation index based on a weighted average of three Global Insight wage and salary cost indexes as part of the nominal dollar escalation. As a result, SoCalGas is receiving $136.243 million, and SDG&E is receiving $64.127 million in escalation for the 2024 Test Year revenue requirement.

Notably, these escalations have not been subject to the usual regulatory review process due to their automatic nature. Moreover, no party disputed the cost escalation factors used to reflect the effect of external inflation in SoCalGas's and SDG&E's labor O&M, non-labor O&M, and capital-related costs. The updated

[3015] CEJA Ex-01 at 16.

[3016] D.92497, Cal. PUC LEXIS 1024; 4 CPUC2d 725 (December 5, 1980) at *101.

[3017] TURN-SCGC Opening Brief at 90-91.

[3018] D.04-05-055, p. 26 (citing D.85-12-076, Finding of Fact 1, 9 CPUC 2d 453,476); *see also* TURN-SCGC Opening Brief at 85.

cost escalations are in the Update Testimony.[3019] However, continuing to allow for automatic escalation of PTY O&M and capital costs in attrition years using the Global Insight index would allow rates to continue to increase unsustainably at an unjust and unreasonable pace, contrary to statutes requiring greater scrutiny of rates,[3020] as discussed above. Sempra also has not demonstrated the need for additional funds to account for anticipated growth in capital additions in excess of depreciation in the post-test year period, especially since SoCalGas and SDG&E have earned in excess of their authorized rate of return in previous rate cycles. Therefore, it is reasonable to consider a CPI inflation index in the PTY Ratemaking because it allows the utility to continue to increase its revenue requirement at a just and reasonable rate without overburdening ratepayers with high inflationary indices that could outpace the CPI. In deciding what an appropriate adjustment should be, the Commission considers many factors, including allowing the utility to earn its authorized rate of return and the ratepayer affordability in the current economic environment.

Based on the S&P Global 1st Quarter 2023 utility cost forecast, the escalation rates were relatively higher between 2021-2024 than any other period between 2021-2027. Since we allow escalation to the 2024 revenue requirement from 2021 to 2024, applying a high second escalation or the utilities' proposed attrition escalation to an already increased rate would burden ratepayers. We find this would result in a compounding effect, leading to a more significant overall increase in rates that would not be just or reasonable. Cal Advocates recommends a 3 percent escalation plus additional increases for certain capital-related

[3019] Sempra Reply Brief at xxvii.

[3020] Pub. Util. Code Section 739 *et seq*, Section 747.

exceptions. The percentage increase is guided by a recent independent forecast of the CPI for the PTYs.[3021] TURN-SCGC recommends that the Commission use an adjusted CPI-Urban plus 50 basis points.[3022] Cal Advocates recommends an additional increase for capital-related exceptions, and TURN-SCGC proposes a separate adjustment for capital attrition.[3023]

We agree with Cal Advocates and TURN-SCGC that CPI reflects the general price increases ratepayers endure and expect. Escalating PTY revenue requirements based solely on the Global Insight index is not a given. Alternative escalation indices can be considered. Additionally, PTY revenue increases guided by the CPI serve as a reasonable benchmark, helping to moderate utilities' proposed cost increases.

We adopt Cal Advocates' and TURN-SCGC's recommendations with a modification to increase the PTY GRC base margin revenue (O&M and capital revenue requirement) by 3 percent each year for years 2025, 2026, and 2027 plus additional increases for PTY wildfire mitigation capital exceptions. This approach allows Sempra to fund incremental capital additions for wildfire mitigation programs that are important for infrastructure safety. To provide a mechanism for funding Gas Integrity Management Programs in the post-test years, the Commission authorizes SoCalGas and SDG&E to record costs in the gas integrity memorandum accounts for TIMP, DIMP, and SIMP in amounts prudently incurred to comply with regulatory standards.

Accordingly, the Commission adopts Cal Advocates' recommendation to increase the PTY GRC base revenue by no more than 3 percent each year for 2025,

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3021 CA Ex-20 at 2.

3022 TURN-SCGC Opening Brief at 90.

3023 TURN-SCGC Opening Brief at 90.

2026, and 2027 as escalation-related increases plus additional increases for PTY wildfire mitigation capital exceptions. This adjustment strikes a balance between denying utility-specific PTY attrition indices, and granting additional basis points, ensuring both just and reasonable returns for the utilities and affordable rates for ratepayers.

47.2.4.2. Medical Cost Escalation

Sempra proposes to escalate medical costs based on a forecast separate from the Global Insight indices. Sempra proposes to use a forecast prepared by actuary and benefits broker WTW instead of the IHS Markit indices[3024] because WTW's medical escalation rate considers demographic factors specific to Sempra that Sempra states are key drivers of medical plan costs[3025] consistent with recent SCE GRC decisions. Sempra's proposal would set PTY medical escalation at 6.5 percent for 2025, 6.5 percent for 2026, and 5.5 percent for 2027.[3026]

TURN recommends against separately escalating medical costs based on WTW's actuarial forecast for three reasons. First, SoCalGas fails to address the Commission's reasoning for denying the same request in the 2019 GRC. Second, TURN contends that WTW has consistently over-forecasted medical cost escalation (and medical costs) from 2014-2019. Finally, TURN states that comparisons to the Commission's treatment of SCE's medical cost escalation during the attrition years is inapposite because SCE's medical costs are subject to a two-way balancing account, unlike Sempra's.[3027] In addition to the reasons given by TURN, the Commission does not find it reasonable to make an exception

[3024] Sempra Opening Brief at 836.

[3025] Sempra Opening Brief at 840.

[3026] Sempra Opening Brief at 840.

[3027] TURN-SCGC Opening Brief at 91.

to the attrition mechanism for O&M expenses, consistent with the Commission's Rate Case Plan.[3028] The Commission does not find it appropriate to use a separate PTY attrition mechanism for any Operations and Maintenance expenses, and denies escalating PTY medical expenses using the WTW escalation method.

47.2.4.3. Z-Factor Mechanism and Memorandum Account

The Z-Factor mechanism includes nine criteria described by the Commission in D.05-03-023 to identify unforeseen external events largely beyond a utility's control but that have a material impact on costs that qualify for rate adjustments prior to the next general rate case's Test Year.[3029]

Sempra proposes continuation of the currently authorized Z-Factor mechanism and the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements related to the Z-Factor.[3030]

No party opposes continuation of the currently authorized Z-Factor mechanism or the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.[3031] Based on Sempra's testimony, the Commission finds it reasonable and adopts the continuation of Sempra's currently authorized Z-Factor mechanism.

[3028] D.20-01-002, *Decision Modifying the Commission's Rate Case Plan for Energy Utilities* (January 16, 2020).

[3029] D.20-12-005, *Decision Modifying the Commission's Rate Case Plan for Energy Utilities* (January 16, 2020) at 333.

[3030] Sempra Opening Brief at 835.

[3031] Sempra Reply Brief at 653.

47.1. Post-Test Year Capital Exceptions

47.1.1. SoCalGas and SDG&E Requests

SoCalGas and SDG&E propose exceptions to the PTY capital mechanism based on annual budgets for a limited number of projects in certain cost categories. These exceptions are shown with the capital-related cost for each capital project or cost in the two tables below.[3032]

Table 47.1
Capital Post-Test Year Exceptions Revenue Requirement Summary

($ in millions)	2025	2026	2027
DIMP	$46.7	$85.3	$124.9
TIMP	$21.4	$44.8	$66.8
SIMP	$2.9	$6.8	$10.7
FIMP	$0.3	$0.6	$0.9
GSEP	$16.3	$39.1	$66.1
CIS Replacement Program	-	$11.5	$40.9
Honor Rancho Compressor Modernization (HRCM)	-	-	$92.4
Total	**$87.6**	**$188.1**	**$402.7**

Table 47.2
SDG&E
Capital Post-Test Year Exceptions Revenue Requirements Summary

($ in millions)	2025	2026	2027
DIMP	$13.4	$26.0	$40.1
TIMP	$1.6	$2.7	$3.9
FIMP	$0.0	$0.0	$0.1
GSEP	$4.7	$9.1	$12.8
Smart Meter 2.0	$4.4	$20.7	$33.0
Moreno Compressor Modernization	$0.0	$52.1	$70.8
Wildfire Mitigation	$97.7	$201.3	$311.4
Total	**$121.7**	**$312.0**	**$472.2**

3032 Sempra Opening Brief at 844-845.

SoCalGas and SDG&E state that costs related to the proposed PTY capital exceptions are based on the estimated in-service date. SoCalGas and SDG&E are not seeking to recover a revenue requirement for these capital exceptions in the PTY until the project (asset) goes into service.

For example, SoCalGas's Honor Rancho Compressor Modernization project and SDG&E's Moreno Compressor Modernization project are estimated to go into service in 2027 and 2026, respectively, which is why there are zero dollars for those two projects in 2025.

47.1.2. Party Positions

Cal Advocates, TURN-SCGC, and UCAN oppose certain post-test year budgets,[3033] which are addressed above in the sections corresponding to those requests in the 2024 Test Year.

In Opening Comments, Sempra states that the Commission must adopt budget-based capital exceptions for the ongoing Gas Integrity Management Programs (TIMP, DIMP, and SIMP as defined in the proposed settlement agreement), GSEP, and SDG&E's wildfire mitigation work, to adequately fund replacing capital assets at a necessary pace in each attrition year.[3034]

47.1.3. Post-Test Year Capital Exceptions

SoCalGas and SDG&E propose exceptions to the PTY capital mechanism based on annual budgets for a limited number of projects in certain cost categories.[3035] SoCalGas and SDG&E claim that additional capital is needed for certain activities in the post-test years so that authorized revenue is adequate to execute projects and initiatives that are largely needed for safety and reliability.

[3033] Sempra Opening Brief at 847-848.

[3034] Sempra Opening Comments at 10-11.

[3035] Sempra Opening Brief at 844-845.

However, the Commission has found that Sempra has not provided sufficient evidence to demonstrate the need for additional capital in the post-test years for gas integrity programs TIMP, DIMP, SIMP, FIMP, and GSEP. Therefore, the Commission denies the PTY capital exceptions for these gas integrity programs. The Commission denies the inclusion of capital-related PTY exceptions for SoCalGas's Customer Information System (CIS) Replacement Program and SDG&E's Smart Meter 2.0. These exceptions are discussed in detail in the CIS Replacement Program and SDG&E's Customer Services Field Operations Sections, respectively.

The Commission has authorized PTY ratemaking capital exceptions in the past. For example, in D.19-09-051, continued by D.21-05-003, the Commission authorized a PTY capital exception for SoCalGas's PSEP, recognizing that the capital-related costs were not fully reflected in the Test Year forecast because PSEP is being incorporated into the GRC for the first time. Similarly, in SCE's 2012 GRC[3036] and in PG&E's 2023 GRC,[3037] the Commission found reasonable and adopted a PTY adjustment for costs not fully reflected in the Test Year.

In this GRC, the Commission finds that safety and reliability support budget-based capital expenditures for attrition years 2025-2027 for one forecast.

For wildfire mitigation, SDG&E requests a post-test year capital exception of $557.181 million in 2025, $580.546 million in 2026, and $603.911 million in 2027[3038] for the entire Wildfire Mitigation and Vegetation Management (WMVM) capital budget category (which comprises Risk Assessment & Mapping, Situational Awareness & Forecasting, Grid Design & System Hardening, Asset

[3036] D.12-11-051.

[3037] D.23-11-069 at 713-716.

[3038] Sempra Opening Brief at 454.

Management & Inspections, Grid Operations & Protocols, Data Governance, Emergency Planning & Preparedness, and Stakeholder Cooperation & Community Engagement). SDG&E escalates the amount of $518.507 million in 2024 (for the entire WMVM capital budget category) based on future project costs.[3039] SDG&E states that this capital exception would allow for Strategic Undergrounding, Covered Conductor, and Generator Grant Program activities to proceed at an increased rate.

Cal Advocates recommends a 10% reduction each year in the post-test years of SDG&E's WMVM costs consistent with Cal Advocates' proposed reductions to SDG&E's capital programs.[3040]

TURN recommends reducing SDG&E's WMVM post-test year capital costs, consistent with its recommendations for the post-test years.[3041] Consistent with the Commission's adoption of TURN's post-test year capital WMVM recommendation above, the Commission authorizes revenue requirement in the post-test years of 2025-2027 for SDG&E's covered conductor and undergrounding as stated in this decision's Wildfire Mitigation and Vegetation Management Section.

For the remaining capital budget categories within WMVM, their post-Test Year authorizations are included as part of the 3% base revenue requirement increases.

In the post-test years, costs for the Moreno Compressor Modernization and the Honor Rancho Modernization projects may be recovered through existing balancing accounts and Advice Letters. With those mechanisms in place, the

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[3039] SDG&E Ex-45-R-E at 8-10; SDG&E Ex-13 at 169-170.

[3040] CA Ex-20 at 23.

[3041] TURN Ex-08 and TURN Ex-08, Attachment at 11.

Commission denies post-test year capital exceptions for the forecasts for the Moreno Compressor Modernization and the Honor Rancho Modernization projects.

For the Gas Integrity Management Programs, including TIMP, DIMP, SIMP, and GSEP in the post-test years (2025-2027), SoCalGas and SDG&E may record costs in the memorandum accounts for these programs for amounts prudently incurred to comply with regulatory standards.

In the next GRC, Sempra shall present its request for post-test year exceptions consistently in terms of forecasted costs and revenue requirements.

47.1.3.1. PTY Revenue Requirement and Implementation

The following tables compare Sempra Utilities' request and the PTY revenue requirement authorized in the decision.

Table 47.3
Sempra's Proposed PTY Revenue Requirement

($ in millions)	2024	2025	2026	2027
SoCalGas Revenue Requirements	4,435	4,726	4,987	5,368
% Increase		6.58%	5.52%	7.63%
SDG&E Revenue Requirements	3,007	3,353	3,685	3,988
% Increase		11.49%	9.91%	8.23%

The decision adopts the following PTY revenue requirement:

Table 47.4
Adopted PTY Revenue Requirement ($ millions)

SoCalGas	**2024**	**2025**	**2026**	**2027**
3% Revenue Requirement increase				
$ increase 3%		$ 190.2	$ 116.4	$ 119.9
Total Revenue Requirement	$ 3,805.6	$ 3,995.9	$ 4,112.3	$ 4,232.2
Total Increase ($)		**$ 190.2**	**$ 116.4**	**$ 119.9**
Total Increase (%)		**5.0%**	**2.92%**	**2.92%**

SDG&E	**2024**	**2025**	**2026**	**2027**
3% Revenue Requirement increase + cap exception for WMP ($ million)				
$ increase 3%		$ 114.5	$ 84.5	$ 87.0
Grid Design & System Hardening		$ 32.5	$ 66.6	$ 101.2
Total Revenue Requirement	$ 2,698.9	$ 2,845.9	$ 2,964.5	$ 3,086.2
Total Increase ($)		**$ 147.0**	**$ 118.6**	**$ 121.7**
Total Increase (%)		**5.45%**	**4.17%**	**4.11%**

Sempra shall file a PTY Ratemaking adjustment advice letter for the upcoming attrition years 2025, 2026, and 2027. The attrition year revenue requirement and percentage adjustments for each attrition year shall be based on the authorized Test Year 2024 revenue requirement. Sempra shall adjust its base margin revenue requirement by 3 percent each year for 2025, 2026, and 2027. In addition, Sempra shall implement any changes resulting from changes to its authorized Cost of Capital for 2025, 2026, and 2027.

48. Settlements

This Section addresses three settlements proposed by the parties. Testimonies (including direct, supplemental, revised, errata, update, and rebuttal) were served through May 2023 by SoCalGas and SDG&E and the intervenors. Evidentiary hearings were held from June 5, 2023, through June 29, 2023. Opening briefs were filed on August 14, 2023, and reply briefs on September 7, 2023. As required by Rule 12.1(b), a seven-day prior notice with an opportunity to participate in a settlement conference was provided to all parties on October 12, 2023. A virtual settlement conference was held on October 19, 2023, with attendance by representatives from 14 intervenors.

48.1. Standard of Review for Settlements

The Commission has long favored the settlement of disputes. This policy supports many worthwhile goals. These goals include reducing litigation costs, conserving scarce resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.[3042]

Although the Commission favors settlements, all matters decided by the Commission must necessarily meet the overall "just and reasonable" standard of the Public Utilities Code.[3043] Further, the Commission will not approve a settlement unless it meets certain criteria, including submission and review.[3044]

Commission Rule 12.1 sets forth the requirements for submission and review of a settlement. In particular, a settlement cannot be submitted until at least one settlement conference is held. (Rule 12.1(b).) Further, the Commission may only adopt a settlement after determining whether the settlement satisfies the three tests in Rule 12.1(d):

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

SoCalGas and SDG&E bear the initial burden of proof to show that their requests are just and reasonable, and any related ratemaking mechanisms are fair. To approve a proposed settlement, the Commission must find that the settling

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[3042] D.05-03-022 at 9; D.23-11-069 at 752.

[3043] Pub. Util. Code Section 451 requires that all public utility charges "shall be just and reasonable" and that every "unjust or unreasonable charge… is unlawful."

[3044] *See* Rules 12.1 to 12.7.

parties had a sound and thorough understanding of the application, and of all the underlying assumptions and data included in the record. This level of understanding of the application and the record is necessary to meet our tests for considering any settlement.[3045]

48.2. Settlements

On October 24, 2023, settlement agreements were filed on several issues, including: (a) insurance, (b) customer services – information (CSIN), and (c) 16 other specific issues (collectively, the Settlement Agreements).[3046]

48.2.1. Settlement Agreement on Insurance

On October 24, 2023, the Applicants, Cal Advocates, TURN, UCAN, and CommLegal (Insurance Settlement Parties) filed a joint motion requesting that the Commission adopt and find reasonable a settlement agreement on all insurance issues (Insurance Settlement or ISA).[3047] On November 27, 2023, EDF filed comments on all settlement motions, including an opposition to the ISA. No other party filed comments in support or opposition to the ISA.

On the Insurance Settlement, EDF stated that it has not taken a position on electric revenue requirements in this GRC.[3048] EDF recommended not adopting

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[3045] D.23-11-069 at 752-753.

[3046] The 16 issues are (1) SoCalGas Customer Information System Replacement Program, (2) SoCalGas Cybersecurity, (3) SoCalGas SAP Transformation Project, (4) the Principal component of the SoCalGas Honor Rancho Compressor Station Modernization Project, (5) the Principal component of the SDG&E Moreno Compressor Modernization Project, (6) SoCalGas Control Center Modernization Project and Gas Control Center, (7) SoCalGas and SDG&E Integrity Management Programs; (8) Medical, Dental, and Vision health benefits, (9) SDG&E Field Service Delivery, (10) SDG&E Smart Meter, (11) SDG&E Wildfire Mitigation & Vegetation Management, (12) Depreciation, (13) Electric Generation, (14) SDG&E Clean Energy Innovations, (15) Post-Test Year, and (16) Tax.

[3047] The Insurance Settlement is Attachment A to the joint motion.

[3048] EDF Comments on the Settlement Motions at 8.

the insurance settlement for the gas business-related insurance. EDF contends that while the cost of insurance for electric lines of business is substantial, the cost of insurance for gas lines of business is not, and the minimal reductions are not enough to ensure fair gas rates.

On December 12, 2023, the Insurance Settlement Parties filed joint reply comments to EDF's objections. The reply comments state that the Insurance Settlement is reasonable as for SoCalGas, the difference between litigation positions was approximately $2 million, and the settlement figure of $82.3 million represents something closer to a "split the difference" outcome.[3049] The Insurance Settlement Parties further contend that the majority of cost reductions under the Insurance Settlement Agreement are achieved through negotiated forecasts for wildfire liability insurance costs and approximately 99 percent of the total utility wildfire liability insurance expense forecast is allocated to SDG&E, which is consistent with its electric utility operations. The Insurance Settlement Parties argue that the Commission has not established that a limited and focused settlement on its own must "ensure just and reasonable gas rates." The Insurance Settlement resolves all insurance issues in this proceeding. The motion for adoption in combination with the Insurance Settlement summarizes each party's positions with references to exhibits and briefs; summarizes and states the provisions of the Insurance Settlement; includes illustrative calculations (with regard to administration of wildfire claims, administration of costs that differ from forecasts, and self-insurance decisions); and includes a comparison exhibit.

SoCalGas's and SDG&E's insurance requests and the Insurance Settlement's agreed-upon 2024 Test Year O&M forecast amounts are as follows:

[3049] Joint Reply Comments at 3.

Table 48.1
Insurance Requests and Settlement Amounts
($000)

Line No.	Insurance Item	SDG&E		SoCalGas	
		Request	**Settlement**	**Request**	**Settlement**
1	Liability[3050]	299,191	233,715[3051]	73,314	72,432
2	Property	16,874	16,874	9,852	9,852
3	Surety Bonds	107	107	73	73
4	**TOTAL**	**316,172**	**250,696**	**83,239**	**82,357**

48.2.1.1. General

The Insurance Settlement resolves all insurance issues. On disputed issues, the Insurance Settlement Parties agree to support Commission adoption of the Insurance Settlement. On non-disputed issues, the Insurance Settlement Parties agree to support or not oppose Commission adoption of SoCalGas's and SDG&E's insurance proposals.

48.2.1.2. Wildfire Liability

The Insurance Settlement Parties agree to a 2024 Test Year forecast of $173.0 million for wildfire liability insurance, with an annual cap of $1 billion on wildfire liability insurance coverage.[3052]

[3050] This includes (a) $173.0 million for Wildfire Liability Insurance ($172.697 million for SDG&E and $0.303 million for SoCalGas) and (b) $2.0 million for D&O Insurance ($0.912 million for SDG&E and $1.088 million for SoCalGas).

[3051] Joint Motion for Adoption of a Settlement Agreement Resolving All Insurance Issues at 6.

[3052] SoCalGas and SDG&E secure liability coverage (either by self-insurance or by insurance policies purchased on the insurance market) for $1 billion. The California Wildfire Fund provides coverage for claims in excess of $1 billion. (Pub. Util. Code Section 3280(f).)

48.2.1.3. Directors and Officers (D&O) Liability Insurance

The Insurance Settlement Parties agree to a 2024 Test Year forecast of $2.0 million total D&O liability insurance.

48.2.1.4. Self-Insurance Option

The Insurance Settlement Parties agree to an option for SoCalGas and SDG&E to self-insure all types of wildfire liability claims up to the first $50 million annually for the four-year 2024 Test Year GRC cycle (2024-2027) in lieu of purchasing this insurance on the commercial market. The Insurance Settlement Parties agree to an annual recovery and accrual of $14 million per year to support the $50 million of coverage, subject to reduction if the annual accrual exceeds $50 million. The Insurance Settlement Parties further agree that the $14 million in annual accruals are part of and not incremental to the $173 million in wildfire liability insurance.

If SoCalGas and SDG&E exercise the self-insurance option, the Insurance Settlement Parties agree that any such costs will be recorded in a Self-Insurance Sub-Account of the already existing Liability Insurance Premium Balancing Account. According to the Insurance Settlement Parties, this treatment will ensure that funds collected for self-insurance are used only for that purpose. The Insurance Settlement Parties agree that the self-insurance funds shall not be subject to refund or reimbursement for the 2024 Test Year GRC cycle.

If SoCalGas and SDG&E do not exercise the self-insurance option before July 1, 2026, then they must prepare an analysis of self-insurance and present the results to Cal Advocates, TURN, and UCAN no later than October 1, 2026, with specific elements of the analysis stated in the Insurance Settlement.

Regardless of whether SoCalGas and SDG&E exercise the self-insurance option during the 2024 Test Year GRC Cycle, they must provide information explaining their self-insurance decisions during the 2024 Test Year GRC Cycle in their next GRC showing (e.g., the 2028 Test Year). This will include assumptions and conclusions and be part of a supplement to SoCalGas's and SDG&E's master data request for the next GRC cycle due by October 1, 2026.

The Insurance Settlement Parties agree to support the continuation of the LIPBA authorized in the 2019 Test Year GRC (D.19-09-051) with limited modification. For example, the Insurance Settlement Parties agree to support adding the Self-Insurance Sub-Account for administering accruals if SoCalGas and SDG&E exercise the self-insurance option.

48.2.1.5. Under Limits Sub-Account

If there are no wildfire claims, SoCalGas and SDG&E may annually submit a Tier 2 Advice Letter seeking recovery of the balance. If there are wildfire claims, SoCalGas and SDG&E may submit a Tier 3 Advice Letter to seek recovery of the balance and any other self-insurance cost arising from wildfire claims.

48.2.1.6. Over Limits Sub-Account

If the Wildfire Administrator maintains the threshold amount of eligible claims for access to the Wildfire Fund at $1 billion, SoCalGas and SDG&E may receive rate recovery of costs of wildfire liability insurance coverage in excess of $1 billion but only if authorized by Commission Resolution disposing of the Tier 3 Advice Letter.[3053] If the Wildfire Administrator increases the threshold amount of

[3053] A Wildfire Fund was created by legislation adopted in 2019 (AB 1054, ch. 79; and AB 111, ch. 81). The purpose of the Wildfire Fund is to provide money to reimburse eligible claims arising from a covered wildfire caused by a utility company and allows utility companies to recover certain costs and expenses arising from covered wildfires. The Wildfire Fund is administered by the Wildfire Fund Administrator, who is appointed by the California Catastrophe Response Council. The Wildfire Fund Administrator is required to periodically review and make a recommendation as to the appropriate amount of insurance coverage. (*See* Pub. Util. Code Sections 3280–3297 and Gov. Code Sections 8899.70–8899.72.)

eligible claims for access to the Wildfire Fund above $1 billion, SoCalGas and SDG&E may submit a Tier 2 Advice Letter to seek rate recovery of the costs of obtaining additional wildfire liability insurance for claims up to the threshold amount.

48.2.1.7. Self-Insurance Sub-Account

The Self-Insurance Sub-Account is the new sub-account that the Insurance Settlement Parties agree to add to LIPBA to administer accruals if SoCalGas and SDG&E exercise the self-insurance option.

48.2.1.8. Adoption of Insurance Settlement Agreement

The Insurance Settlement meets our tests for approval. As discussed below, we find that the Insurance Settlement is reasonable in light of the whole record, consistent with law, and in the public interest. We also find the Insurance Settlement Parties had a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. We conclude that the insurance costs and ratemaking provisions in the Insurance Settlement are just and reasonable.

48.2.1.9. Reasonable in Light of the Whole Record

We find that the Insurance Settlement is reasonable in light of the whole record. The record includes the testimony and exhibits of all parties presenting evidence on insurance issues, and the cross-examination of those witnesses. Parties also filed opening briefs and reply briefs on these issues. A settlement reached after evidentiary hearings and briefs provides the Insurance Settlement Parties with a fully litigated record to consider during settlement negotiations, including knowledge of the relative strengths, weaknesses, and nuances of each other’s litigation positions.

The record shows that SoCalGas and SDG&E met their initial burden of proof, establishing both a reasonable possibility of the necessary costs for insurance and the likely fairness of proposed ratemaking mechanisms. TURN, Cal Advocates, and UCAN presented evidence in support of, or arguing for much lower, insurance costs and alternative ratemaking mechanisms. Settlement negotiations and ultimate agreements occurred over 76 days, beginning on August 9, 2023,[3054] and concluding with the filing of the joint motion for adoption of the Insurance Settlement on October 24, 2023. The record demonstrates that the Insurance Settlement Parties had a thorough understanding of all scoped issues, and all underlying assumptions and data, thereby allowing them to make informed decisions in the settlement process.

The Insurance Settlement Parties actively engaged in settlement negotiations over nearly 11 weeks based on a thorough understanding of the issues and negotiated a compromise within their positions. Therefore, we find that the Insurance Settlement is supported by and consistent with the whole record. No party asserts the Insurance Settlement is unreasonable in light of the whole record.

The Commission concludes that the Insurance Settlement is reasonable in light of the whole record.

48.2.1.10. Consistent with Law

We find that the Insurance Settlement is consistent with law.

The Insurance Settlement Parties state that the Insurance Settlement complies with all applicable statutes and prior Commission decisions. Only one party, EDF disagrees.

[3054] Joint Motion for Adoption of Insurance Settlement at 2.

EDF asserts that the insurance costs in the Insurance Settlement fail the fundamental legal requirement that all public utility charges be just and reasonable.[3055] To support its position, EDF says:

> …while the cost of insurances for the *electric* line of business are substantial, the cost of insurances for the *gas* lines of business are not. These *de minimis* reductions are not sufficient to ensure just and reasonable gas rates. For this reason, the Insurances Settlement with regards to gas business-related insurances should not be adopted.[3056]

Whether a cost reduction is large or small does not determine whether the results are just and reasonable. The Commission must base its decisions on record evidence. EDF presents no evidence to establish a reasonable level for "gas business-related insurances," does not cite to any such evidence, and does not present a basis for its assertion. Without record evidence, the Commission cannot base its just and reasonableness determination on whether a reduction is *de minimis*.

Therefore, the Commission concludes that the Insurance Settlement is consistent with law.

48.2.1.11. In the Public Interest

The Commission finds that the Insurance Settlement is in the public interest.

The Insurance Settlement is the product of substantial negotiations and compromise by the Insurance Settlement Parties. The Insurance Settlement Parties include all parties who presented evidence on insurance-related issues except for

[3055] Pub. Util. Code Section 451.

[3056] EDF Comments on Settlement Agreement Motions, November 27, 2023, at 8.

one party, and that one party does not oppose the Insurance Settlement.[3057] The Insurance Settlement Parties are knowledgeable and experienced regarding the issues in this proceeding and have a well-documented history of strongly held positions, leading to different conclusions in many areas.

The Commission believes, absent compelling evidence otherwise, that a settlement is in the public interest when it both (a) commands the broad support among participants fairly reflective of the affected interests and (b) does not contain terms contrary to the law or prior Commission decisions.[3058] The Insurance Settlement meets both tests.

Further, the Commission has expressed its general policy in favor of settlements.[3059] This policy supports many worthwhile goals, including the reduction of litigation expenses, conservation of scarce Commission and party resources, and reducing risk relating to unknown and potentially unacceptable or unreasonable litigation outcomes. Approval of the Insurance Settlement here will provide such benefits.

The Commission concludes that the Insurance Settlement is in the public interest.

48.2.2. Customer Services – Information (CSIN) Settlement Agreement

On October 24, 2023, SoCalGas, SDG&E, TURN, Cal Advocates, SBUA (collectively, the CSIN Settling Parties), filed a joint motion for the Commission to

[3057] Joint Motion for Adoption of Insurance Settlement at 2.FEA is the only intervenor not signing the Insurance Settlement who submitted testimony and briefing in response to SoCalGas's and SDG&E's insurance-related testimony. However, the settling parties understand that FEA does not oppose adoption of the Insurance Settlement.]

[3058] Joint Motion for Adoption of Insurance Settlement at 15 (citing D.10-06-015 at 11–12 and D.92-12-019 at 7).

[3059] D.05-03-022 at 8; D.88-12-083 at 54.

adopt a settlement agreement regarding SoCalGas's and SDG&E's Customer Services – Information (CSIN) requests (CSIN Settlement). The CSIN Settling Parties assert that the CSIN Settlement is intended to resolve all disputed CSIN issues between them in the 2024 Test Year GRC Applications except for Cal Advocates' recommendations associated with political activities.[3060]

The CSIN Settlement would authorize 2024 Test Year CSIN O&M forecasts of $25.445 million for SoCalGas and $22.691 million for SDG&E.[3061] These amounts represent a compromise between the positions of the CSIN Settling Parties.[3062] As part of the CSIN Settlement, SoCalGas and SDG&E also agree to "dedicate a portion of the Test Year forecast to develop a one-time customer insight research effort for small business customers that addresses issues of affordability, payment options, and saving options for small business customers."[3063] The research effort will commence within nine months of the Commission approval of the CSIN Settlement.

On November 27, 2023, CEJA and EDF filed separate comments opposing the CSIN Settlement and urging the Commission to reject the settlement. Both focus on the settlement's amounts for SoCalGas's CSIN O&M. The CSIN Settling Parties filed a joint reply to the comments of CEJA and EDF on December 12, 2023.

[3060] Joint Motion to Adopt the CSIN Settlement at 1, 4; *see* CA Ex-10 (Campbell) at 48-51.

[3061] Joint Motion to Adopt the CSIN Settlement at 5.

[3062] Joint Motion to Adopt the CSIN Settlement at 5.

[3063] Joint Motion to Adopt the CSIN Settlement at 5.

48.2.2.1. Discussion

As discussed in more detail above, Rule 12.1(d) mandates that the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest.

The CSIN Settling Parties assert that the Commission should find the CSIN Settlement reasonable in light of the whole record, consistent with law, and in the public interest. The CSIN Settling Parties indicate that a robust record has been developed since this proceeding commenced in May 2022, consisting of their testimony, briefs, workpapers, exhibits, the CSIN Settlement and the Joint Motion.[3064] They contend that their testimony and workpapers were reviewed and analyzed by the parties and vetted through data requests, independent analysis, and discussions between the parties. The CSIN Settling Parties also claim that the CSIN Settlement is in the public interest. They claim it is a "product of substantial negotiation efforts and compromise" through the active participation of parties representing diverse interests and "results in a reduction in the requests to ratepayers of $1.732 million and $1.662 million for 2024 for SoCalGas and SDG&E ratepayers, respectively."[3065] The CSIN Settling Parties argue that the settlement will help support small business customers through a new customer insight research effort.[3066]

In comments filed on November 27, 2023, CEJA argues that the CSIN Settlement is not reasonable in light of the record in that it "represents an arbitrary set of cost reductions with no evidentiary basis, and it fails to address parties' challenges to the legality of recovery of SoCalGas's requested CSIN

[3064] Joint Motion to Adopt the CSIN Settlement at 6.

[3065] Joint Motion to Adopt the CSIN Settlement at 8.

[3066] Joint Motion to Adopt the CSIN Settlement at 8.

costs."[3067] CEJA asserts that the CSIN Settling Parties have not justified or explained the proposed amounts sufficiently and questions the significance of the CSIN Settlement given Cal Advocates' continued position on political activities expenses.[3068] CEJA also contends that the CSIN Settlement fails to account for CEJA's evidence regarding expenses allocable to promoting gas, hydrogen, biomethane, and carbon capture technologies.[3069]

In comments filed on November 27, 2023, EDF argues that the Commission should not approve the CSIN Settlement. EDF asserts that the reductions in the settlement are insufficient to ensure gas rate affordability and unreasonable due to expected declines in gas demand.[3070] EDF claims that if the Commission adopts the CSIN Settlement, it needs to find greater cuts "in the remaining GRC requests in order to achieve just and reasonable gas rates."[3071]

In their December 12, 2023 reply comments, the CSIN Settling Parties contest CEJA's arguments against the CSIN Settlement. They argue that an absence of terms regarding the issues raised by CEJA in the settlement does not render it unreasonable in light of the record. The CSIN Settling Parties emphasize that the CSIN Settlement represents a reasonable compromise, and that the settlement does not need to explain the cost reductions explicitly.[3072]

The CSIN Settling Parties also contest EDF's general objections to the CSIN Settlement, claiming they are misplaced. They indicate that EDF did not: (1)

[3067] CEJA Comments on CSIN Settlement at 3.

[3068] CEJA Comments on CSIN Settlement at 3.

[3069] CEJA Comments on CSIN Settlement at 3.

[3070] EDF Comments on Settlement Motions at 7.

[3071] EDF Comments on Settlement Motions at 7.

[3072] Joint CSIN Settlement Reply Comments at 3.

support the objections with record evidence; or (2) provide specific testimony or briefing on either SoCalGas's or SDG&E's CSIN proposals or requests.[3073] The CSIN Settling Parties also argue that EDF's comments do not comply with Rule 12.2 because its comments do not specify the portions of the settlement that EDF opposes, the legal basis of its opposition, and the factual issues that it contests.[3074]

48.2.2.2. Adoption of the CSIN Settlement

We find that the CSIN Settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The record in this proceeding is robust and provides a sufficient basis for approval of the settlement. Additionally, the CSIN Settlement reflects a mutually agreeable compromise of strongly held and well-articulated positions on all contested issues. There is strong Commission precedent to find a settlement reasonable in light of the whole record when parties have made substantial concessions, resulting in a reasonable compromise. Such concessions and reasonable compromises are reflected in the record of this proceeding.

We find the CSIN Settlement is consistent with the law. The settlement does not contravene or compromise any statutory provisions or prior Commission decisions.

We also find that the CSIN Settlement is in the public interest. The CSIN Settling Parties represent a wide array of interests, including both ratepayer advocates, small business advocates and SoCalGas and SDG&E. We conclude that the costs in the CSIN Settlement are just and reasonable. The process followed in arriving at the settlement led to a series of compromises that are mutually

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[3073] Joint CSIN Settlement Reply Comments at 5.

[3074] Joint CSIN Settlement Reply Comments at 5.

beneficial to the CSIN Settling Parties. Furthermore, the CSIN Settlement serves the public interest by avoiding further litigation costs in this proceeding.

48.2.3. Settlement Agreement on Other Issues

On October 24, 2023, SoCalGas, SDG&E, and Cal Advocates (collectively, the Other Issues Settling Parties) filed a joint motion for the Commission to adopt a settlement agreement regarding certain specified requests in SoCalGas's and SDG&E's respective 2024 Test Year GRC Applications (Other Issues Settlement).

The Other Issues Settlement included two settlement agreements. The request in Settlement A pertains to these 15 issues:

a. SoCalGas Customer Information System Replacement Program;
b. SoCalGas Cybersecurity;
c. SoCalGas SAP Transformation Project;
d. The principal component of the SoCalGas Honor Rancho Compressor Station Modernization Project;
e. The Principal component of the SDG&E Moreno Compressor Modernization Project;
f. SoCalGas Control Center Modernization Project and Gas Control Center;
g. SoCalGas and SDG&E Integrity Management Programs;
h. Medical, Dental, and Vision health benefits;
i. SDG&E Smart Meter & IT;
j. SDG&E Field Service Delivery & IT;
k. SDG&E Wildfire Mitigation & Vegetation Management;
l. Depreciation;
m. Electric Generation;
n. Post-Test Year Ratemaking; and
o. SDG&E Clean Energy Innovations.

Settlement B included a settlement on Tax issues.

The Other Issues Settling Parties state that the settlement results in a cumulative reduction in SoCalGas's and SDG&E's 2024 O&M and 2022–2027 capital requests of approximately $1.3 billion and $1.1 billion, respectively.[3075] It further states that the Commission's approval of the Other Issues Settlement would not resolve issues other than those contained in the settlement agreements, would not resolve contested issues related to SoCalGas's political activities, and would not resolve outstanding contested issues raised by non-settling parties.[3076]

Pursuant to Rule 12.1(b), SoCalGas and SDG&E provided notice to all parties to the proceeding of a Settlement Conference that was held on Thursday, October 19, 2023. The Other Issues Settling Parties contend that pursuant to Rule 12.1(d), the Commission should adopt their settlement as reasonable in light of the whole record, consistent with law, and in the public interest.

Air Products, CEJA, EDF, Joint CCAs, PCF, TURN, SBUA, MGRA, SCGC, and UCAN filed responses opposing the Other Issues Settlement. TURN also filed two additional joint responses opposing the Other Issues Settlement, one with SCGC and the other with SBUA and MGRA.

48.2.3.2. Discussion

As discussed in more detail above, Rule 12.1(d) mandates that the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest. The Other Issues Settling Parties argue that the settlement as a whole produces a just and reasonable outcome that satisfies the requirements of Rule 12.1(d).[3077] They request that the Commission consider and approve each of the two settlement

[3075] Joint Motion to Adopt Settlement on Other Issues at 3.

[3076] Joint Motion to Adopt Settlement on Other Issues at 3.

[3077] Joint Reply Comments regarding Settlement on Other Issues at 3.

agreements that are part of the Other Issues Settlement as a whole, with no modification.

Based on our review of the Other Issues Settlement, and the evidence in this rate case, we find that the provisions of the Other Issues Settlement are not reasonable in light of the whole record, are not consistent with the law, and are not in the public interest as items and dollar amounts proposed in the settlement have been disallowed where SoCalGas and SDG&E have not met their burden in proving such items and amounts to be just and reasonable, given the facts on record. Including a project or program in a settlement cannot make it reasonable in and of itself.

Pursuant to Rule 12.1(d), the following areas or issues under Settlement Agreement A are not reasonable in light of the whole record, consistent with the law, and in the public interest:

- Issue I: SDG&E's Smart Meter and IT: The decision rejects SDG&E's request for IT costs to replace existing Smart Meter and Smart Meter Upgrades. It requires a separate application due to insufficient evidence and transparency. The Other Issues Settlement fails to address potential supply chain challenges for gas modules, repair options, and other technologies that could delay replacement. As a result, it is unclear whether the settlement terms serve the public interest. For detailed information and analysis, refer to the IT Section of this decision.
- Issue M: SDG&E's Electric Generation: The Other Issues Settlement recommends approving the Palomar Hydrogen Systems and Hybrid at Miramar projects. However, this decision denies both projects because SDG&E has not met its burden of proof to demonstrate a clear need and measurable benefits at a reasonable cost to the ratepayers. It is unclear how the Other Issues Settlement addressed SDG&E's claim that the hydrogen produced at Palomar is clean energy or reduces greenhouse gas emissions and

whether federal incentives for the solar and hydrogen installations at the pilot site were considered. Therefore, the Other Issues Settlement does not meet the Pub. Util. Code Section 451 requirement to ensure the rates are just and reasonable and it is not in the public interest.

- Issue O: SDG&E Clean Energy Innovations: The Other Issues Settlement requests $14.152 million in capital costs for the AES project for 2022–2024.[3078] Meanwhile, SDG&E requested $13.797 million.[3079] Moreover, this decision finds that SDG&E lacks evidentiary support to show that it has authorization to build a hydrogen energy storage system as part of the original AES project. The Other Issues Settlement is not reasonable in light of the whole record, consistent with the law and in the public interest. For further information, the issue is explained under the Clean Energy Innovations Section of this decision.

The remaining issues under Settlement Agreements A and B are addressed in the relevant Sections of this decision. While the remaining projects are not denied, each is evaluated in light of the record before the Commission and not as a part of the settlement presented here. As the Other Issues Settlement, in its entirety, is not reasonable in light of the whole record and is not found to be in the public interest, we have reviewed and adopted each issue independently regarding O&M costs, capital expenditures, ratemaking, and regulatory accounting provisions, as detailed in the relevant Sections of this decision.

[3078] Other Issues Settlement at 71.

[3079] Sempra Opening Brief at 300.

Therefore, it is reasonable to deny the Other Issues Settlement.

Table 48.2
Other Issues Settlement and Relevant PD Section

Areas Listed in the Other Issues Settlement	PD Section
A. SoCalGas Customer Information System Replacement Program	Customer Service
B. SoCalGas Cybersecurity	Cybersecurity
C. SoCalGas SAP Transformation Project	IT Section for SoCalGas
D. SoCalGas Honor Rancho Compressor Station Modernization Project	Gas Storage Operations and Construction (SoCalGas only)
E. SDG&E Moreno Compressor Modernization Project	Gas Transmission Operations
F. SoCalGas Control Center Modernization Project and Gas Control Center	Gas Distribution
G. SoCalGas and SDG&E Integrity Management Programs	Gas Integrity Management Programs
H. Medical, Dental, and Vision health benefits	Compensation and Benefits
I. Smart Meter and IT	IT Costs for SDG&E
J. SDG&E Field Service Delivery & IT	Customer Services Field And Advanced Meter Operations and IT
K. SDG&E Wildfire Mitigation & Vegetation Management	Electric Distribution
L. Depreciation	Depreciation
M. SDG&E's Electric Generation	Electric Generation
N. Post-Test Year Ratemaking	Post-Test Year Ratemaking
O. SDG&E Clean Energy Innovations	Clean Energy Innovations
P. Taxes	Taxes

49. Motions

49.1. Summary of EDF Motion and Party Comments

On October 19, 2023, EDF filed a Motion to Sever Hydrogen Requests, asking the Commission to deny hydrogen-related proposals without prejudice and undertake an additional phase of the proceeding to ensure the removal of associated costs (EDF Motion). The EDF Motion argues that utility provision of hydrogen service is a nascent issue, leading to unresolved questions of policy, law, and fact that merit a standalone application. EDF highlights that the U.S. Department of Energy awarded California up to $1.2 billion in federal funding for the Alliance of Renewable Clean Hydrogen Energy Systems (ARCHES) initiative. The EDF Motion recommends severing hydrogen-related projects from the GRC because it is unclear how they will interact with this federal funding.

Air Products, Clean Energy, and IS filed timely responses supporting the EDF Motion. PCF argues that the Commission should decline all requests for increased revenue requirements and consider rate reductions instead of severing hydrogen projects.

SoCalGas and SDG&E oppose EDF's Motion, which they characterize as an improper third brief, arguing that it would delay utility hydrogen adoption, potentially increase ratepayer costs, unduly revise the October 10, 2022 Assigned Commissioner's Scoping Memorandum and Ruling (Scoping Ruling), duplicate the federal funding review process established in Resolution E-5254, and reflects a misconception that its requests are for new lines of business rather than targeted, limited activities. Utility Workers Union of America, Local 483 also opposes EDF's Motion, stating that it would jeopardize clean hydrogen investment and associated union jobs necessary for its members if California phases out natural gas.

49.1.1. Discussion

The EDF Motion is denied because it raises the same fundamental issue presented at the PHC and in its briefs: to remove hydrogen projects from the GRC Application. We recognize that new opportunities for federal funding became available under ARCHES after the Reply Briefs were filed. However, this new development does not alter the underlying principle of reviewing hydrogen-related projects in this GRC. Not all projects listed by SoCalGas and SDG&E will go through ARCHES funding, and even if a project receives some level of funding, the Commission should review the reasonableness and feasibility of the project if it is added to the rate base.

The Scoping Ruling determined it is reasonable to include the Clean Energy Innovations projects, which included the majority of hydrogen demonstration projects, within the GRC scope with an understanding that the proposals are comparable to the infrastructure and RD&D requests forecasted in a GRC or a formal rate recovery application. Severing the projects from Track 1 of the GRC and creating a new phase after the briefs were filed would increase the regulatory burden and delay the operability of projects that demonstrate ratepayer benefit.

The EDF Motion expects that the “Commission will want to similarly align all other hydrogen investments—including those presented in this GRC with ARCHES—both in terms of funding and environmental integrity requirements.”[3080] However, the EDF Motion does not map the ARCHES funding to the projects in the GRC; instead, it reiterates the arguments presented in its briefs.[3081] It is important to ensure that hydrogen issues receive thorough consideration, but we disagree that such deliberation cannot emerge from the GRC process or that undertaking an additional phase of the proceeding is the most efficient way to evaluate the reasonableness of the Companies’ proposals. For example, a separate application for targeted efforts in this area could be filed,

[3080] EDF Motion at 5.

[3081] EDF Motion at 5–9.

similar to the review process for the hydrogen blending projects or the Angeles Link project.

Our findings on the hydrogen projects reaffirm the Scoping Ruling's decision to keep these reviews within the GRC and give guidance to strengthen future regulatory compliance. Considering their merits, the utilities' hydrogen proposals are largely ineligible for cost recovery due to the lack of clear benefits to gas service ratepayers. However, they are also often lacking in other areas, which this decision addresses on a case-by-case basis. Several proposals lack critical details, such as how requested costs translate to specific line items, potential impacts on market competition, ESJ community effects, and long-term plans for making capital expenditures useful for gas service provision. Some proposals, like the Palomar Hydrogen Fueling project and the Hydrogen Build Ready Infrastructure project, are premature because the burgeoning nature of hydrogen energy means that necessary comparison data and resource planning guidance are not yet available. Finally, considering the clean fuel sector's rapid acceleration, it is necessary that the Companies demonstrate that these projects are not duplicative of efforts elsewhere and leverage all available funding opportunities, including public-private partnerships.

49.2. Cal Advocates' Motion to Take Official Notice

On May 17, 2024, Cal Advocates filed a Motion for Official Notice of the Performance Audit issued by the Utility Audits Branch on April 2, 2024 (Motion). On June 3, 2024 SoCalGas filed an opposition in its response to the Motion. A June 7, 2024 email ruling by the ALJs granted Cal Advocates' request to file its reply to SoCalGas's response to the Motion. On July 11, 2024, Cal Advocates filed its reply to SoCalGas's response.

Cal Advocates' Motion requests the Commission to take official notice of the Energy Efficiency Codes & Standards Program Performance Audit of SoCalGas prepared by the Commission's Utility Audits Branch, covering the period January 1, 2014, through December 31, 2022.

We have reviewed the Motion, response, and reply. On September 13, 2024, the Commission issued a proposed decision in R.13-11-005, which approves the recommendations of the audit completed by the California Public Utilities Commission's Utility Audits Branch pursuant to D. 22-03-010 and D.22-04-034. The proposed decision requires SoCalGas to refund $3,989,377 to ratepayers for expenditures on codes and standards activities. If adopted, it will impact SoCalGas's rates.

Therefore, pursuant to Rule 13.10 of the Commission's Rules of Practice and Procedure, it is reasonable to grant Cal Advocates' Motion.

50. Procedural Matters

This decision affirms all rulings made by the ALJs and the assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

51. Comments on Proposed Decision

The proposed decision of ALJ Manisha Lakhanpal and John H. Larsen in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on November 7, 2024, and reply comments were filed on November 12, 2024. Comments were filed by SoCalGas and SDG&E, Clean Energy, Cal Advocates, Air Products, Local 132, EDF, IS, CUE, TURN, UCAN, CEJA, PCF, MGRA, CommLegal, PG&E, SCE, SCGC, Joint CCAs, SBUA. Reply comments were filed by SoCalGas and SDG&E, Local 132, MGRA, AirProducts, CommLegal, Clean

Energy, IS, Joint CCAs, TURN and SCGC, TURN, SBUA, UCAN, CEJA, Cal Advocates, and CUE. Pursuant to Rule 14.3(c), "[c]omments shall focus on factual, legal or technical errors in the proposed decision and in citing such errors shall make specific references to the record or applicable law. Comments which fail to do so will be accorded no weight." Pursuant to Rule 14.3(d), replies to comments "shall be limited to identifying misrepresentations of law, fact or condition of the record contained in the comments of other parties." Parties provided helpful and extensive comments on a wide range of issues, and all comments were considered carefully. In response to comments, the proposed decision has been changed to clarify, correct inadvertent errors, maintain consistency, and update the revenue requirement.

Sempra starts its Opening Comments with the statement that the proposed decision errs in misapplying the standard of proof and ignoring well-established precedent. Sempra then reiterates the standard of proof described in the decision in Section 2 on the burden of proof and evidentiary standards. Any language that departs from the standard in the decision was inadvertent and has been corrected.

Most of the reductions to requests in this decision are based on SoCalGas and SDG&E not providing sufficient information specific to the cost increases requested, including information required by the Rate Case Plan. See for example the many unexplained requests for increases, such as an insufficiently explained request for field support (Section 8.2.2.1) of $3.798 million in 2024. To maintain and increase regulatory certainty, it is incumbent for Sempra to better support its requests in the next GRC.

The Commission also notes that the evidentiary standards include consideration of a variety of factors in determining whether an incurred or forecasted cost is reasonable. Besides safety and reliability, the Commission must also consider affordability and cost-effectiveness. Contrary to Sempra's comments,[3082] ratepayer benefits are not a new consideration or evidentiary standard, as the cost of service to ratepayers is a fundamental aspect of the regulatory compact and in determining whether rates are just and reasonable.[3083]

In other areas, the Commission applies risk assessment tools for measuring and reducing risk that have been developed over the last decade (Section 7). The Commission's application of risk assessment tools necessitates departures from past funding practices. These risk assessment tools are particularly helpful as the Commission incorporates new tools for assessing risk and affordability in balancing IOU and ratepayer interest in the GRCs.

To provide further clarity, the Commission addresses some specific issues raised by Sempra Utilities and intervenors in their comments on the proposed decision. The parties frequently differ regarding the right balance between affordability and reliability and safety. The resulting decision and changes in this revision highlighted below are matters of policy that are within the Commission's discretion. SoCalGas and SDG&E state that the proposed decision's blanket O&M and capital escalation rate is insufficient to fund incremental capital additions.[3084] SoCalGas and SDG&E repeat their request for budget-based capital exceptions for the ongoing Gas Integrity Management Programs (TIMP, DIMP, and SIMP), GSEP, and SDG&E's Hardening Alternative and contend that denying such is inconsistent with the Commission's recent approvals of separate PTY ratemaking treatment of capital and O&M in recent GRC proceedings. As discussed in this decision, O&M and capital costs for each project and cost category were reviewed

[3082] Sempra Opening Comments at 2.

[3083] D.19-05-020 at 7-12.

[3084] The proposed decision included a 4% attrition rate.

based on the evidence and the merits of the project. While the past Commission decisions are not precedent, they provide guidance, and we have reviewed the cost forecasts in this GRC proceeding based on their merit. We grant a budget-based PTY capital forecast to address Sempra Utilities' concerns that SDG&E's Undergrounding & Covered Conductor capital expenditure will increase its overall rate base, which the revenue requirement may not cover.

We disagree with Sempra Utilities that gas integrity management programs, such as TIMP, DIMP, SIMP, and GSEP, are underfunded through the denial of budget-based capital forecasts. The decision allows Sempra Utilities to record Gas Integrity Management Program costs to memorandum accounts subject to reasonableness review. If truly justified spending occurs beyond their authorized levels during the attrition years, Sempra Utilities will have an opportunity to request specific recovery of capital expenditures in excess of authorized revenues. If past decisions are to be relied upon as suggested by Sempra Utilities, it should be noted that the Commission has not found budget-based attrition allowances necessary for the Gas Integrity Management Programs in the past.[3085] We agree with SCGC that declining to adopt a budget-based capital forecast approach is not an error.

The Commission authorizes spending for Aldyl A plastic pipe replacement after reconsidering the risk analysis and proposed funding
to accelerate the replacement of plastic pipe with an elevated risk profile. The initial amount authorized includes the targeted replacement of LDIW Aldyl A at a level previously authorized for this specific pipe identified by TURN's alternative recommendation, with the opportunity to replace additional pipe if warranted by

[3085] D.23-11-069 at 715-716, D.19-09-015 as referenced in Section 45.

the Commission's risk-based decision-making process. This departure from past authorizations places greater weight on the cost-effective maintenance of infrastructure without potentially compromising safety and reliability.

Considering that the Commission is granting the budget-based capital forecast for wildfire mitigation work and the various Gas Integrity Management memorandum accounts, we further evaluated whether the 4 percent escalation factor was still reasonable. We adopt Cal Advocates' recommendation to increase the post-test year GRC base revenue by no more than 3 percent each year for 2025, 2026, and 2027 as escalation-related increases plus additional increases for PTY wildfire mitigation capital exceptions. As discussed above under the PTY ratemaking Section, we have already allowed Sempra Utilities to escalate 2021 Base Year amounts to 2024 using the Global Insight Index and further are allowing capital exceptions as we are granting budget-based capital exceptions for wildfire mitigation work. Granting a 4 percent escalation rate and capital exceptions for the significant category of wildfire capital, as well as memorandum accounts for gas integrity programs, would be excessive. Therefore, we balance the need for SoCalGas and SDG&E to maintain their financial health and keeping rates affordable.

The Commission makes minor changes to the wildfire mitigation orders but does not change the balance struck between funding covered conductor and strategic undergrounding. SDG&E comments request greater total funding of these activities for various reasons,[3086] including safety and proportionality with the last PG&E GRC decision.[3087] The Commission finds this request is inapposite

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[3086] Sempra Opening Comments at 4.

[3087] D.23-11-069.

for several reasons. First, neither the PG&E decision nor any other case serves as a binding precedent for this decision. Second, PG&E and SDG&E have different past and present risk profiles and mitigations, and the Commission evaluated PG&E's and TURN's proposals based on the evidence in the record. However, the Commission also notes that the amount of undergrounding authorized by this decision could be considered to be proportionately higher for SDG&E than the amount the Commission authorized for PG&E in its last GRC.[3088] Finally, the Commission rejects Sempra's argument that the WMP suspends the Commission's duty to ensure just and reasonable rates. The Commission's orders and decisions ratifying IOU's WMPs are clear that WMP approval does not constitute authority to recover costs in rates.[3089] This structure is reinforced by the requirement for Energy Safety and the Commission to consult with each other on adjustments to utility wildfire safety oversight processes, procedures, and practices that would yield administrative efficiencies and focus utility investments and activities on cost-effective wildfire mitigation measures that reduce wildfire ignition risk while managing costs to electric ratepayers.

Regarding hydrogen-related projects, SoCalGas and SDG&E argue that the proposed decision contains errors and commits policy errors by denying funding for hydrogen initiatives. We have carefully reviewed each hydrogen program and project for just and reasonable costs. To allocate ratepayer funds, we prioritized projects with immediate safety and reliability benefits over projects in development or testing phases and even the ones that did not have prior

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[3088] TURN Opening Comments at 4-5.

[3089] Commission Resolution SPD-16, *Resolution Ratifying Action of the Office of Energy Infrastructure Safety on San Diego Gas & Electric Company's 2023-2025 Wildfire Mitigation Plan Pursuant to Public Utilities Code Section 8386* (November 30, 2023).

approval. This led to excluding projects like the Palomar Hydrogen System and the Hydrogen Home, which were not previously authorized. The IOUs are aware that without prior authorization, any recovery for such projects cannot be assumed, and the mere fact that money was spent on a project is not a sufficient basis to grant recovery. We acknowledge the potential contributions hydrogen can add to California's clean energy transition, but also recognize its current limitations in terms of cost effectiveness and infrastructure. To bridge this gap and expedite the adoption of hydrogen technology, we support public-private partnerships as a means to share the risks and rewards of developing and deploying hydrogen solutions. Hydrogen has been identified as a component of California's greenhouse gas reduction strategy in the California Air Resources Board adopted Scoping Plan. The Commission continues to partner with CARB and interagency partners to understand the role of investor-owned utilities in the hydrogen market.[3090] Commission staff are monitoring the creation of CARB's SB 1075 report on hydrogen development, deployment, and use, which will help serve as the foundation for building the hydrogen market in California and guide analysis to review future utility proposals for hydrogen infrastructure development.

[3090] Resolution G-3601 approved SoCalGas's R&D research on hydrogen in several places; Under A.22-09-006, the Commission is reviewing hydrogen blending projects and demonstration of on-site electrolyzers. With these new technologies still under development and review it would be imprudent to authorize additional ratepayer funding before we are certain of the outcome of these projects; D.22-12-055 grants SoCalGas the authority to establish the Angeles Link Memorandum Account to record the costs of performing Phase One feasibility studies. The objective of the Angeles Link Project is to develop a clean, renewable hydrogen energy transport system to serve the Los Angeles Basin (not blending hydrogen but a hydrogen-dedicated pipeline); D.22-12-057: directs the development of pilot projects to evaluate standards for the safe injection of hydrogen into California's common carrier pipeline system by specifying permissible injection thresholds, locations, testing requirements, and independent analysis.

Cal Advocates states that the proposed decision should be modified to order comprehensive audits from 2010 to 2023.[3091] It further states that, should the audit find that advocacy activities were improperly booked to ratepayers, the Commission should order refunds and consider sanctions against the utilities. While the decision finds a pattern of misclassification of accounting practices, we are not persuaded to order an audit dating back to 2010. Instead, we take a forward-looking approach with compliance and corrective measures for accounting practices. We expect the annual reporting process and reports required as part of the GRC applications moving forward will allow greater transparency and visibility into Sempra Utilities' accounting practices. However, nothing in the decision prevents the Commission from ordering such an audit if it later determines that one should be conducted.

Regarding the October 28, 2024 Notice of Compliance filing, we find that SoCalGas and SDG&E have demonstrated that their compliance with SB 901's revised Section 706 began on January 1, 2019, by: (1) opening new OCMA accounts in compliance with Resolution E-4963 (OCMA2019), and (2) removing the costs previously supported in the Test Year 2019 GRC evidentiary showing from their authorized rates, as required by D.19-09-051. SoCalGas and SDG&E explain the steps taken to not book any expenses related to SB 901 executive officer compensation to ratepayers in 2021 and the manual adjustments to remove costs from historical costs, so no costs were embedded in the revenue requirement. SoCalGas and SDG&E filed a Motion to File Under Seal (MFUS) non-public individual employee compensation information included as part of the Notice of Compliance. Good cause being shown, the MFUS should be granted.

[3091] Cal Advocates Opening Comments at 3.

52. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Manisha Lakhanpal and John H. Larsen are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. Over 716 exhibits were identified and used during the course of the proceedings.

2. San Diego Gas & Electric Company and Southern California Gas Company are related companies due to their corporate structure of being subsidiaries of Sempra and because they are in the same business of providing utility services to customers.

3. Shared services are activities performed by one utility (or Sempra Utilities' corporate center) for the benefit of the other utility, the corporate center, or an unregulated affiliate company and are allocated and billed to the entity receiving the service while Non-Shared services are activities that benefit only the utility performing the activity.

4. There is a lack of transparency at the program level when Southern California Gas Company and San Diego Gas & Electric Company request ratepayer funding for previously authorized work based on safety and reliability, which was deferred to a future rate case cycle.

5. Pursuant to Decision 23-05-012, San Diego Gas & Electric Company and Southern California Gas Company are authorized to establish General Rate Case (GRC) memorandum accounts for the recording of the 2024 Test Year GRC revenue requirements effective January 1, 2024, for Track 1.

Sempra Utilities: Affordability Metrics and Affordability Analysis

6. Sempra Utilities presented affordability metrics (Affordability Ratio and Hours-at-Minimum-Wage) and related data (Areas of Affordability Concern, essential usage bills, and average usage bills) based on the available data at the time of filing its general rate case application.

7. Given Sempra Utilities' proposed revenue request, low-income households, especially those with minimum-wage earners, may face increased financial burdens and longer working hours to afford essential utilities.

Sempra Utilities: Gas Distribution

8. The evidence does not show possible exponential growth or uncertainty to a degree that warrants a Locate and Mark Balancing Account to track these costs for either Southern California Gas Company or San Diego Gas & Electric Company.

9. Sempra Utilities' (Sempra's) evidence has not demonstrated sufficient uncertainty to warrant the authorization of a Litigated Project Cost Memorandum Account. Sempra is not at significant risk of experiencing systematic major unfunded capital costs due to court-ordered reversals of the classification of capital projects that were originally deemed to be collectible (supported by the fact that, during the six-year period from 2017 through 2022, no court-ordered classification reversals have occurred for any Gas Transmission projects or Gas Distribution projects). Utility regulation, especially when based on a future Test Year (TY), is not designed to be 100 percent risk-free but is designed to allow a utility to retain the difference between what it was authorized in the future TY and what it spent, if it can devise more cost-effective ways to do business.

10. Mobile Home Park (MHP) Utility Upgrade Program (Reasonableness Review):

a. It is reasonable to reduce San Diego Gas & Electric Company's (SDG&E's) 2021 MHP To-the-Meter (TTM) capital expenditures by $25.32 million (derived by adopting Southern California Gas Company's (SoCalGas's) Total Cost Per Space Converted of $7,631 instead of SDG&E's $11,361 amount and multiplying the difference by the 6,788 TTM spaces converted) given that SDG&E's MHP Subtotal TTM Cost Per Space Converted is 49 percent higher than SoCalGas's Subtotal TTM Cost Per Space Converted for the same or similar MHP activity without compelling evidence to substantiate the difference.

b. It is reasonable for the Commission's Utility Audits Branch (UAB) to conduct an audit to clarify the accounting and verify SoCalGas's and SDG&E's labor and other MHP-related costs, to document how SoCalGas and SDG&E determined their MHP labor rates and costs, to document the degree to which they may differ from prevailing wages, and to report audit finding recommendations given substantial questions about each utility's costs for this program (e.g., SDG&E's substantially higher costs; why SDG&E's Beyond-the-Meter costs include "civil/trenching" costs while SoCalGas's costs do not; why SDG&E's "other" cost category is over three time higher on a per space conversion basis than SoCalGas's; and if SoCalGas's labor costs are 50 percent higher because it does not reap cost efficiencies SDG&E may reap when performing combined gas and electric work, or if SoCalGas's labor costs are higher because it includes in its labor amount costs that SDG&E includes in the "other" category).

c. Pending audit results and recommendations, the evidence does not support full capital cost recovery, but it is reasonable to allow capital cost recovery of $83.44 million for SDG&E (half of SDG&E's request less the disallowance based on SDG&E's TTM capital cost being 49 percent higher than that of SoCalGas), and $90.2 million for SoCalGas (half of SoCalGas's request); and, after the audit, to allow each utility to file an application to seek recovery of other capital costs.

d. It is reasonable to allow MHP Program operations and maintenance cost recovery of $3.5 million for SDG&E (based on SDG&E's 2017-2021 data) and $4.6 million for SoCalGas (based on SoCalGas's 2016-2021 data).

11. Southern California Gas Company (SoCalGas) Non-Shared Operations and Maintenance (O&M):

a. Field Support: It is reasonable to adopt an amount for 2024 Field Support of $16.957 million based on SoCalGas's data of the average cost over 2019-2021; and given that SoCalGas does not support its forecast of a 21 percent cost increase over the amount adopted in 2021 by failing to explain why its labor and non-labor costs will continue to grow beyond 2021, failing to explain whether the field support for the Control Center Modernization (CCM) is needed (or whether it is excluded from the CCM project costs), and concluding that the work is incremental to support activities in 2024 without the underlying information required by the rate case plan.

b. Locate and Mark Expenses: A forecast in 2024 of $20.300 million is reasonable based on the 2022 adjusted amount (which was after implementation of both pieces of legislation that affected costs) and then increased by 3 percent (to reflect costs of the legislation not fully included in 2022 and other increases, consistent with SoCalGas's workpapers).

c. Leak Surveying:: It is reasonable to adopt SoCalGas's 2024 forecast of $7.548 million, which is a $2.9 million reduction to 2021 recorded costs and includes expenses associated with federal and state pipeline safety regulation.

d. Leak Survey: It is reasonable n future general rate cases (GRCs) to require an increase in the transparency of accounting for work performed either as Business as Usual (BAU) (required by federal, state or local safety ordinances) or SB 1371 (accelerated leak abatement work to minimize emissions) since these areas overlap, with SoCalGas and San Diego Gas & Electric Company being required to (i) define the full impact of activities under SB 1371 on cost forecasting (with the definition including the identification of specific thresholds of work that otherwise would not be performed under BAU activities) and (ii) demonstrate the prudency of work placed into the SB 1371 Electric Service Provider (ESP) to show all activities in ESP are in excess of BAU work and are reasonable to perform.

e. Main Maintenance: A five-year historical average of $5.871 million is reasonable to use for the 2024 forecast because it accounts for variability in the activity of this routine maintenance that is not captured using only the base year of 2021.

f. Tools, Fittings, and Materials: It is reasonable to adopt $19.330 million for this item based on a three-year average (2019-2021), and reject SoCalGas's request for a 20 percent increase from the 2021 adopted amount because SoCalGas fails to provide information sufficient to support (i) how it derived the increased forecast beyond its use of a three-year linear trend; (ii) why an increase in construction and maintenance is required; (iii) why over $4 million more in additional tools, fittings, and materials is needed to support an unspecified amount of construction; and (iv) assumptions used by SoCalGas to derive its 2024 estimate as required by the rate case plan.

g. Measurement and Regulation: It is reasonable to adopt SoCalGas's 2024 forecast of $11.147 million based on SoCalGas's use of 2021 as the best estimate of the cost of maintaining current assets plus the cost of additional work associated with monitoring capabilities provided by CCM, as quantified in SoCalGas's workpapers.

h. Cathodic Protection (CP): It is reasonable to adopt $17.193 million for 2024 using the 2021 base year, and reject SoCalGas's requested increase of $1.142 million (6.64 percent) over the base year, because (i) the base year is already higher than the cost of this item in 2019 and 2020; (ii) the three-year average (2019-2021) plus the incremental amount of $1.142 million is still less than SoCalGas's cathodic protection cost for 2021; and (iii) it is unreasonable to adopt an amount for this item above the already high base year.

12. Other Southern California Gas Company (SoCalGas) Non-Shared operations and maintenance (O&M): It is reasonable to adopt a 2024 forecast of $13.119 million for asset management, which reflects the 2021 base year amount, and reject SoCalGas's requested 19.6 percent increase over the 2021 base year given that SoCalGas supports its requested increase saying asset management work is driven by the level of O&M activity in other workgroups but the Commission has not found all of SoCalGas's increases in these other dependent activities to be reasonable.

13. Shared operations and maintenance (O&M): No party disputes Sempra Utilities' (Sempra's) request of $410,000 in 2024 (which is the same as the adjusted recorded expenses for 2021) and Sempra's estimate is reasonable.

14. Southern California Gas Company (SoCalGas) Capital:

a. New Business Construction: It is reasonable to adopt capital amounts for SoCalGas of $40.414 million in 2022, $40.300 million in 2023, and $39.917 million in 2024 based on The Utility Reform Network's (TURN's) evidence supporting an approximate one-third reduction to SoCalGas's estimate of new customers in light of (i) current market conditions and new business construction costs; (ii) Commission action and other activities to reduce gas consumption; and (iii) the 2022 California Gas Report's projection that total gas demand will decline at an annual rate of 1.5 percent from 2022 to 2035; and based on rejecting SoCalGas's forecast of $62.164 million for 2024 (a 16.7 percent increase over the forecasted amount of $53.273 million for 2021) as unreasonable considering (i) the activity to reduce gas consumption; (ii) SoCalGas's recent spending (of 29 percent less than previously forecasted for 2022); and (iii) the more reasonable forecast by TURN of new customers.

b. SoCalGas estimates that the elimination of the line extension allowance will reduce new business costs in 2024 that would have been charged to ratepayers as non-collectibles by 63 percent, which would reduce the New Business costs recoverable from ratepayers in the 2024 Test Year to $15.54 million.

c. Pressure Betterments: It is reasonable to find that no additional pressure betterment work will be performed in 2024 and adopt a forecast of zero cost for this category given (i) the substantial policy efforts to reduce gas consumption (thereby reducing the need for pressure betterments); (ii) the unreliable and unsupported SoCalGas forecast for pressure betterment projects (that rely on historic data that does not reflect future changes in gas demand); (iii) SoCalGas's inclusion of routine maintenance (such as replacing deteriorated pipelines, installing cathodic protection systems, and installing electronic monitoring devices for pressure tracking and monitoring) in pressure betterment work; and (iv) SoCalGas's failure to demonstrate how any pressure betterment work is needed in addition to what SoCalGas has already requested in other cost categories.

d. Pressure Betterments: In the next general rate case, any forecast for pressure betterment work must be based on planned work in order to properly reflect reduced gas consumption, to prevent continued use of unreliable and unsupported prior forecasts and allow proper charges in this versus other cost categories where recovery for the same work is requested.

e. Mains and Services Abandonments: A reasonable amount for this category is $11.898 million each year for 2022, 2023, and 2024 based on the 2021 base year of the same amount; SoCalGas's request for an increase in this cost category of

18.8 percent over the 2021 amount is unsupported and unreasonable because SoCalGas fails to quantify the work and provide a convincing explanation for the increase in activity and cost (including the cost of removing pipelines, leaving them in place or removing them, or the necessity for removing abandoned lines).

f. Main and Services Abandonments: In its next general rate case, SoCalGas must provide more information regarding the expenses and capital costs for leaving mains and services in place, removing them, and the number of requests for removal, along with the other information required by the rate case plan, to support its forecasted cost.

g. Regulator Stations: The reasonable amount for this category is $8.292 million for each year in 2022, 2023, and 2024 based on the same amount in the 2021 base year; SoCalGas fails to present a compelling reason in support of its request of a 20.77 percent increase over 2021 (by, for example, not clearly explaining and supporting its proposed increased rate of replacement from an average of 14 stations per year to 22 stations per year when the forecast is based on eight stations over an unspecified period of time); and fails to incorporate an Risk Spending Efficiency (RSE) value to support its requested rate of replacement/addition.

h. Regulator Stations: In seeking to meet its burden of proof in its next general rate case, SoCalGas's forecast must provide more information, including the proposed rate of regulator station replacement, the data supporting the rate, their unit cost, and the other information required by the rate case plan.

i. Control Center Modernization (CCM): The reasonable total project costs are $21.931 million in 2022, $24.588 million in 2023, and $19.879 million in 2024 based on using San Diego Gas & Electric Company (SDG&E's) lower hourly labor rates for the same or similar work; and SoCalGas's failure to present evidence to meet its burden of proof in support of its 43 percent increase in requested costs for 2024 compared to the 2021 base year (given scattered information among SoCalGas's and SDG&E's operations and maintenance (O&M) and capital costs without coordination, and an unsupported 33 percent higher average hourly labor rate (2022-2024) for SoCalGas's labor compared to SDG&E's labor for the same CCM Project).

j. Cathodic Protection: Reasonable costs are $6.527 million for each year in 2023 and 2024 as forecast by SoCalGas (based on a five-year average of historical costs to account for variability) and $6.993 million for 2022 (using SoCalGas's request of $6.527 million plus $466,000 in reasonable cost for the purchase and installation of 1,553 remote monitoring units).

k. Pipeline Relocations – Franchise: The reasonable amount is $17.727 million for each of 2022, 2023, and 2024 based on SoCalGas's reasonable use of a five-year average (to account for typical project cost fluctuations year to year) but excluding a $12.811 million transfer of funds from its 2020 gas transmission cost without explaining why the transfer would be representative of 2024 costs.

l. Meter Protection: SoCalGas plans to install meter protection at 10,000, 12,000, and 14,000 meter locations in 2022, 2023, and 2024, respectively, for a 64 percent increase in its 2024 forecast cost over the 2021 base year.

m. Meter Protection: SoCalGas's forecast for increased meter protection work is not reasonable because SoCalGas does not document how many of its requested installations are for new installations versus replacements, the condition of meter protection sites needing replacement, their age or useful life, and why the previous rate of replacement is no longer adequate.

n. Meter Protection: The reasonable cost is $3.143 million each year for 2022 2023, and 2024 based on a five-year average (2017-2021), a moderate RSE score, the lack of justification for increasing this work, and existing high gas rates.

o. Meter Protection: To seek to meet its burden of proof in its next general rate case, SoCalGas must provide more information regarding its forecast, including the number of new installations, replacements, the condition of meter protection sites needing replacement, their age or useful life, and their unit cost along with the other information required by the rate case plan.

p. Measurement and Regulation Devices – Meters: Costs are reasonable in the amounts of $24.933 million in 2022, $22.572 million in 2023, and $23.783 in 2024 based on (i) a five-year historical average (which is consistent with reductions adopted in this decision for the 2024 new business forecast (given SoCalGas says new business installations are an underlying cost driver), plus reductions in 2022 and 2023 consistent with reductions adopted in this decision for SoCalGas's new business programs); and (ii) rejecting SoCalGas's unsupported expectation that meter costs will increase (but without stating the contract renewal process or whether the increased costs would be reasonable) and unsupported description of customer growth along with SoCalGas's lack of adequate consideration of trends towards decreasing gas demand and lack of assessing the risk to be mitigated by ultrasonic meters or their degree of cost-effectiveness.

q. Measurement and Regulation Devices – Regulators: Costs are reasonable in the amounts of $5.152 million in 2022, $4.888 million in 2023, and $5.834 million in 2024 based on (i) a five-year average for these costs along with considering the relationship of purchased meters to purchased regulators with the reductions adopted in this decision for purchased meters; (ii) rejecting SoCalGas's requested forecast for 2024 that is a 41 percent increase over the 2021 base year given SoCalGas's regulator forecast lacks the support required by the rate case plan; SoCalGas fails to support its assumption of regulator cost increases by explaining the contract renewal process or whether increased costs would be reasonable; and SoCalGas does not reasonably address customer growth or consider trends of decreasing gas demand, and SoCalGas does not specify the number of meters for which regulators are needed and is unclear how much of the installation expenses are covered under new business work.

r. Measurement and Regulation Devices – Electronic Pressure Monitors (EPM): Costs are reasonable in the amounts of $0.272 million for each of the years 2022, 2023, and 2024 based on (i) this being the 2021 base year amount and (ii) SoCalGas failing to justify its forecasted increase of 2.5 times the 2021 amount to $0.678 million in 2024 (without specifying over what time period SoCalGas will install and replace its claimed 200 EPM installations, nor explaining what work it anticipates to perform for its requested $0.678 million in 2024).

s. Measurement and Regulation Devices – Gas Energy Management Systems (GEMS): Costs are reasonable in the amounts of $0.724 million for each of the years 2022, 2023, and 2024 based on (i) SoCalGas's average costs in 2017-2021 (excluding 2019 as unrepresentative due to non-labor costs being three times higher in 2019 than other years during 2017-2021); and (ii) SoCalGas failing to justify its forecast by failing to (a) explain why it plans to install or replace twice as many GEMS devices in 2024, (b) sufficiently describe the factors it used to determine the replacement rate for these devices (such as SoCalGas's basis for economic growth), and (c) address the following discrepancies in SoCalGas's calculation of its 2021 average weighted non-labor unit costs: (1) SoCalGas's non-labor costs in 2019 were over three times higher than other years during the 2017-2021 period, (2) average non-labor unit costs being over five times higher than average labor unit costs, and (3) SoCalGas uses the same unit costs for new installations and for replacement installations.

t. Measurement and Regulation Devices – Gas Energy Management Systems: To seek to meet its burden of proof in its next general rate case, SoCalGas must provide more information to support this request, including the basis of its new customer growth, the age of these components, and past and projected replacement rates.

u. Field Capital Support: Costs are reasonable in the amounts of $75.272 million in 2022, $77.929 million in 2023, and $70.689 million in 2024 based on the relationship between Field Capital Support and Gas Distribution capital costs noted by SoCalGas and the Commission's reduction for SoCalGas's total capital costs (excluding Field Capital Support costs) by 19.32 percent in 2022, 21.80 percent in 2023, and 23.92 percent in 2024.

15. Remaining Southern California Gas Company (SoCalGas) Capital Requests: Undisputed SoCalGas reduced capital forecasts are reasonable for 2022, 2023, and 2024 in the amounts shown in the Gas Distribution Section of the decision in these six categories: Main Replacements, Service Replacements, Pipeline Relocations – Freeway, Other Distribution Capital Projects, Capital Tools, and Remote Meter Reading.

16. Southern California Gas Company's gas distribution system is about six times larger than San Diego Gas & Electric Company's when measured by miles of gas mains, miles of service lines, or number of customer meters.

17. Non-Shared Operations and Maintenance (O&M) Expense:

a. Other Services: The reasonable amount is zero for this workgroup based on rejecting as unreasonable San Diego Gas & Electric Company's (SDG&E's) request of $90,000 in 2024 (a 30 percent increase over the $69,000 in the 2021 base year) because (i) these categories are not unrelated to other workgroups (such as service maintenance, leak surveys, and cathodic protection); (ii) the amounts in question if broken down further are de minimis; (iii) even though Southern California Gas Company (SoCalGas) is about six times larger, SoCalGas has not requested miscellaneous gas distribution expenses; and (iv) even if tracking such relatively minor expenses were reasonable, SDG&E does not explain why it would be reasonable to expect miscellaneous expenses for gas distribution to increase 30 percent.

b. Other Services: Given the reasons to adopt zero funding for other services, it is not reasonable for the Commission to review such expenses in the future.

c. Locate and Mark: The reasonable amount is $3.648 million for 2024 based on a 9 percent increase in ticket volume above SDG&E's 2021 ticket volume multiplied by SoCalGas's far lower 2021 unit cost per the Underground Service Alert ticket considering that (i) SDG&E fails to demonstrate the necessity of a 42 percent increase in Locate and Mark expenses over its 2021 base year amount (when SoCalGas requests only 12 percent over its 2021 base year), particularly when considering the amount of mitigated risk and cost-effectiveness of this activity; (ii) SoCalGas uses the more reasonable increase of 9 percent; and (iii) SoCalGas uses the more reasonable lower unit cost per ticket request for the same expense.

d. Main Maintenance: The reasonable amount is $4.693 million for 2024 based on a five-year average of historical costs (which is consistent with the methodology used by SoCalGas for its main maintenance work rather than the five-year linear trend used by SDG&E and given SDG&E's failure to show an increase in activity level sufficient to support its forecasted increase.

e. Service Maintenance: The reasonable amount is $2.772 million in 2024 based on a five-year average of historical costs for the same reasons the Commission uses a five-year average of historical cost methodology for SDG&E's main maintenance work.

f. Measurement and Regulation: The reasonable amount is $5.153 million in 2024 as requested by SDG&E based on a five-year average of historical costs plus an additional amount for the new distribution Control Center Modernization project.

g. Asset Management: The reasonable amount is $1.375 million for 2024, which is the unopposed request by SDG&E based on the cost in the 2021 base year plus costs for two other activities: (i) Gas Geographic Information System work; and (ii) Compliance/Quality Assurance/Engineering work.

h. Operations Management, Supervision and Training: The reasonable amount is $9.128 million for 2024, which is the unopposed request based on its cost in the 2021 base year plus increased estimated costs in four areas: (i) a night welding class; (ii) two senior welding instructors; (iii) Operator Qualification Compliance Advisor; and (iv) virtual training development.

i. Operations Management, Supervision and Training: SDG&E did not adequately describe in this General Rate Case proceeding how staff positions in this cost category are not duplicated in other cost categories.

18. Uncontested Non-Shared Operations and Maintenance (O&M) Expenses: Uncontested San Diego Gas & Electric Company reduced O&M expense forecasts for 2024 are reasonable in the following amounts: Leak Survey in the amount of $2.068 million, Tools in the amount of $1.667 million, Electric Support in the amount of $0.495 million, and Cathodic Protection in the amount of $1.834 million.

19. Utility Consumers' Action Network's (UCAN's) Recommendation: Contrary to UCAN's recommendation to reduce San Diego Gas & Electric Company's 2024 gas distribution operations and maintenance forecast by 30 percent based on declining gas demand, declining gas demand does not proportionally reduce the necessity of maintaining gas distribution infrastructure that is still needed to deliver gas service in a safe and reliable manner.

20. San Diego Gas & Electric Company (SDG&E) Gas Distribution Capital:

    a. Utility Consumers' Action Network's (UCAN's) Recommendation: Contrary to UCAN's recommendation to reduce SDG&E's 2024 gas distribution total capital forecast by 30 percent based on declining gas demand, declining gas demand does not proportionally reduce the necessity of maintaining gas distribution infrastructure that is still needed to deliver gas service in a safe and reliable manner.

    b. Coalition of California Utility Employees's recommendation for higher funding to increase the rate of replacement of three vintages of steel gas pipe is not reasonable.

    c. SDG&E's funding requests for the three Risk Assessment and Mitigation Phase (RAMP) pipe replacement programs are reasonable based on SDG&E's replacement goals and other forecast rationales, including the mitigation of safety risks identified in the 2021 RAMP Report.

    d. New Business: The reasonable amount is $8.613 million in each of the years 2022 and 2023, and $7.103 million for 2024 based on (i) the 2021 base year amount and (ii) rejecting SDG&E's proposed increases for 2022–2024 as unsupported due to insufficient quantitative support and insufficient explanation for the increases (with particularly large increases in 2022 and 2023).

    e. Adjusting SDG&E's New Business costs recoverable from ratepayers in the 2024 Test Year for elimination of the line extension allowance and removing purging by 71 percent and $569,000, respectively, results in $2.333 million in non-collectible New Business capital expenditures for 2024 Test Year.

    f. Gas Meters and Regulators: The reasonable amount is $8.374 million for each of the years 2022, 2023, and 2024 based on (i) the adopted amount for 2021 and (ii) SDG&E's failure to sufficiently explain the need for an increase above the 2021 adopted forecast, and SDG&E's forecast for this cost category being based on its forecast for new business that the Commission finds is unsupported.

g. SDG&E Tools and Equipment: The reasonable amount is $3.659 million for each of the years 2022, 2023, and 2024 based on (i) this being the adopted amount in 2021 and (ii) SDG&E's failure to support cost increases given SDG&E has (except for a small amount for virtual training in 2024) already incurred the cost of the two mitigation measures it asserts justify the increase (virtual training and Kleiss Emergency Pipeline Plugging Equipment (Balloon Stopper)).

h. Leak Repair Request: The reasonable amount is $10.082 million for each of the years 2022, 2023, and 2024 based on (i) this being the amount spent by SDG&E for leak repair at the 2021 recorded-adjusted level and (ii) SDG&E's failure to (a) make the distinction clear between the costs for the Natural Gas Leak Abatement program (in which over $40 million has been recovered, or is pending recovery, by Advice Letters in 2023 to 2026) and its normal pipeline safety costs, and (b) justify its requested increases as not being excessive and possibly duplicative of other recovered costs.

i. Leak Repair Request: By the time of, and in its next general rate case, a separate Advice Letter process for the Natural Gas Leak Abatement program will cease and cost forecasts of that program will be included with SDG&E's pipeline repair costs.

j. Cathodic Protection (CP) Program: The reasonable amount is $4.409 million for each of the years 2022, 2023, and 2024 based on (i) this being the amount in the 2021 base year and (ii) SDG&E failing to explain how it anticipates an increase in activity (especially when it forecasts a decrease in funding for the cathodic system enhancements program).

k. CP System Enhancements: The reasonable amount is zero for each of the years 2022, 2023, and 2024 because SDG&E has failed to demonstrate the reasonableness of (i) spending more than the $4.409 million adopted for basic CP (which is 68 percent of the amount authorized for SoCalGas when SDG&E has one-sixth (16.7 percent) of SoCalGas's territory);

(ii) spending $1.996 million for enhancements which, when added to the $4.409 million for CP, is $6.405 million (which is close to the 2024 amount requested by SoCalGas for its CP program for a territory that is about six times the size of SDG&E's territory); (iii) any cost for enhancements when it has high transportation rates; and (iv) any cost for enhancements when the CP System Enhancements program has low general rate case and Risk Spending Efficiency (RSE) scores.

l. System Reliability and Safety: The reasonable amount is $0.645 million each year for 2022, 2023, and 2024 based on (i) this being the same amount adopted in 2021 and (ii) SDG&E's failure to present numerical explanation and support for an increase by, for example, referring the Commission to its workpapers (when the workpaper support is unclear), and not making clear whether the boundaries of this cost category overlap with others.

m. System Reliability and Safety: SDG&E failed in this proceeding to provide sufficient detail regarding System Reliability and Safety work to enable the Commission to evaluate its reasonableness and must, in seeking to meet its burden of proof, provide that sufficient detail in its next general rate case.

n. Dresser mechanical couplings join two sections of pipe together without the need for welding, but these couplings cannot resist lateral movement and over time the rubber in the seals degrades.

o. Early Vintage Component Program to Remove Dresser Mechanical Couplings: The reasonable amount is $0.5 million for each of the years 2022, 2023, and 2024 based on (i) maintaining this program but at a lower level than the $2.0 million forecast for each year by SDG&E and (ii) SDG&E's failure to support its requested increase by the presentation of convincing evidence on the annual removal target, unit cost, alignment of the rate of removal with this program's relatively low risk represented by an RSE value of 1, and other important information such as the life of these couplings, their age, failure rates, and similar information that may support the alternative of encapsulating couplings.

p. Early Vintage Component Program to Remove Dresser Mechanical Couplings: If more Dresser Couplings need replacement, then SDG&E must, in seeking to meet its burden of proof, provide supporting data in its next general rate case, including the information missing in this request.

q. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones: The reasonable amount is $0.893 million for each of the years 2022, 2023, and 2024 based on (i) the same amount adopted in 2021 and (ii) SDG&E's failure to (a) support its requested increase by the presentation of convincing evidence on the annual removal target, unit cost, alignment of the rate of removal with this program's relatively low risk represented by an RSE value of 1, and failure rates, and (b) explain why it increases its forecast for the closed valve removal program (which has an RSE of 1) while SDG&E decreases its forecast for the Oil Drip Piping Removal program by approximately 60 percent (which has an RSE value of 10 or ten times higher than that of the closed valve removal program).

r. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones: If more closed values need replacement, then SDG&E must provide supporting data in its next general rate case, including the information missing in this request.

s. Control Center Modernization (CCM) Project: SoCalGas will integrate data for 7.01 times more Electronic Pressure Monitors (EPMs) and 6.7 times more meters than SDG&E (an integration of 6.88 times more EPMs/meter devices than SDG&E) at a SoCalGas requested cost of $14.9 million in 2024 non-labor costs compared to SDG&E's request of $2.431 million; scaling up SDG&E's request by 6.88 raises SDG&E's request to $16.745 million, which is 12.4 percent more than that of SoCalGas.

t. CCM Project: SDG&E ‘s non-labor costs are unreasonably higher by 12.4 percent in 2024 than those of SoCalGas for the same amount of EPM/meter work.

u. CCM Project: The reasonable amounts in years 2022, 2023, and 2024 are $0.424 million, $3.010 million, and $3.778 million, respectively based on reducing SDG&E’s non-labor capital request by 12.4 percent**.**

v. CCM Project: An audit is necessary to (a) document any differences in capital CCM yearly costs that fund similar SDG&E and SoCalGas costs categories and how they were determined (including, but not limited to, a comparison of SDG&E’s and SoCalGas’s yearly labor (per full time equivalent) and non-labor costs, total number of regulator station enhancements, meters, and EPMs) and (b) explain cost differentials in categories and sub-categories not explicitly mentioned in Sempra Utilities’ 2024 general rate case workpapers.

w. CCM Project: SDG&E did not in this proceeding adequately compare SDG&E’s Non-Shared CCM gas expenditures to those of SoCalGas, in similar categories, and document how different costs for similar categories are determined by SDG&E and SoCalGas.

x. Curb Valve Replacement: The reasonable amount is $1.0 million each year for 2022, 2023, and 2024 based on (i) SDG&E’s forecast for 2022 and (ii) SDG&E’s failure to support increased costs for 2023 and 2024 by basing its forecast on both a list of unquantified cost drivers and an unspecified annual removal target, along with not providing the estimated number of valves to replace, the number required by regulations within a certain time frame, the unit cost for valve replacement, and how its rate of removal is aligned with this program’s relative risk represented by an RSE value of 11.

y. Compressed Natural Gas (CNG) Stations Upgrades: The reasonable amount is zero dollars for 2022-2024 based on (i) SDG&E failing to explain how many facility upgrades it plans to complete each year, the unit cost of a facility upgrade, why an upgrade would be necessary, or whether new installations were included in the five-years (2017-2021) upon which SDG&E based its forecast; (ii) the question of whether ratepayers, who are transitioning to zero-emission vehicles, should subsidize the cost of CNG station upgrades as CNG stations appear to be used primarily by businesses and government entities; and (iii) the goal of disincentivizing the use of natural gas by requiring users to pay a greater cost of maintaining CNG supply.

z. Local Engineering Pool: The reasonable amounts are $22.990 million in 2022, $23.764 million in 2023, and $23.764 million in 2024 based on (i) adopting SDG&E's forecast for 2022 but using the 2021 base year for 2023 and 2024; (ii) the Commission's not fully adopting the capital expenditures SDG&E requested in other capital forecasts that employ the Local Engineering Pool; and (iii) being subject to a Tier 2 Advice Letter seeking an adjustment to these amounts based on the amount of total to direct capital expenditures adopted in other capital categories that use the Local Engineering Pool and other supporting information, but excluding engineering support for projects on hydrogen blending in natural gas pipeline systems given the Commission's denial of costs associated with the use of hydrogen in this decision.

aa. Gas System Reinforcement and Pressure Betterment: It is not reasonable to authorize additional SDG&E pressure betterment work, and it is reasonable to adopt a 2024 forecast of zero cost for this category given (i) the substantial policy efforts to reduce gas consumption (thereby reducing the need for pressure betterments); (ii) the unreliable and unsupported SDG&E forecast for pressure betterment projects (that rely on historic data that does not reflect future changes in gas demand); (iii) SDG&E's inclusion of routine maintenance (such as replacing deteriorated pipelines, installing cathodic protection systems, and installing electronic monitoring devices for pressure tracking and monitoring) in pressure betterment work; and (iv) SDG&E's failure to demonstrate how any pressure betterment work is needed in addition to what SDG&E has already requested in other cost categories.

bb. Remaining Uncontested SDG&E Capital Requests: The reasonable amounts strike an appropriate balance between gas distribution pipeline safety, risk reduction effectiveness, and the impact on ratepayer costs by decreasing the forecasts and are in the SDG&E Opening Brief (Section 10.4.2, Table titled "Gas Distribution" at 115-116) for each of the following cost categories: System Minor Additions, Relocations, and Retirement; ; Street and Highway Relocation; Code Compliance; each of the three Underperforming Steel Replacement Programs; Early Vintage Program – Oil Drip Piping Removal; Pipeline in Vaults Replacement Program; Gas Distribution Overhead Pool; and Gas Distribution Contract Administration Pool.

21. Remaining Uncontested San Diego Gas & Electric Company (SDG&E) Capital Requests: California Environmental Justice Alliance's proposed 50 percent reduction in SDG&E's 2024 forecast for the cost of Gas System Reinforcement is unsupported given that new business (growth) is not a substantial or primary driver of costs in this area.

Sempra Utilities: Gas System Staff and Technology

22. Southern California Gas Company's undisputed forecasts for 2024 in the following cost categories are based on 2021 base year costs adjusted for expected growth along with increases or decreases for specific activities, and are reasonable: (1) $6,479,000 for Gas Operations Training & Development, (2) $4,909,000 for Enterprise Asset Management, (3) $675,000 for Damage Prevention, (4) $1,088,000 for High Pressure Project Record Closeout, and (5) $607,000 for Geographic Information System Data Asset Integrity.

23. Southern California Gas Company's undisputed forecasts for 2024 in the following cost categories are based on 2021 base year costs adjusted for expected

growth along with increases or decreases for specific activities, and further adjusted to remove short-term vehicle rental costs, and are reasonable: (1) $4,305,000 for Damage Prevention, (2) $2,342,000 for Pipeline Policy, (3) $3,011,000 for Operator Qualification, and (4) $168,000 Gas System Staff.

24. An increase in San Diego Gas & Electric Company's (SDG&E's) costs in 2024 for Non-Shared operations and maintenance from the 2021 base year amount of $95,000 is reasonable but SDG&E has not supported a more than nine times increase to $901,000.

25. San Diego Gas & Electric Company's actual cost for Non-Shared operations and maintenance was $423,000 in 2022 (an increase of $328,000 from $95,000 in the 2021 base year) and is reasonable to adopt for 2024.

26. Southern California Gas Company and San Diego Gas & Electric Company seek recovery for costs incurred in the amounts of $4.168 million and $0.698 million, respectively, for program administration activities from July 17, 2017, through December 31, 2021, that have been posted to the Natural Gas Leak Abatement Program Memorandum Account but neither company has provided workpapers detailing that these costs are for incremental work, are for incremental costs for which rates have not yet been implemented, are not already included in other requested administrative costs, nor any other evidence that they are otherwise reasonable.

27. Program administration costs posted to the Natural Gas Leak Abatement Program Memorandum Account have already been recovered through Resolution G-3538 (for 2018, 2019, and 2020), Resolution G-3576 (for 2021) and Resolution G-3577 (for 2022), including forecast administrative costs for 2021 and 2022 (in 2019 dollars) of $4,900,206 for Southern California Gas Company and $482,214 for San Diego Gas & Electric Company.

Sempra Utilities: Gas Transmission

28. The 2024 Test Year forecast for Pipeline Instrumentation and Operations of $17.771 million is reasonable because it is based on the 2021 recorded adjusted amount, supports the seven employees hired in 2021 who are necessary for compliance with increased regulations, is consistent with the rejection in this decision of the Hydrogen Home, and does not include Southern California Gas Company's requested nine additional employees whose contribution beyond the work of the seven added in 2021 is not reasonably explained.

29. The 2024 Test Year forecast for Compressor Operations of $11.981 million is reasonable because it is based on the additional number of staff in 2022 that were needed for safe and reliable operations in compliance with applicable regulations relative to the Blythe compressor station modernization but does not include the further additional employees beyond those in 2022 requested by Southern California Gas Company (SoCalGas) due to SoCalGas's not meeting its burden of proof for those further employees beyond those in 2022 (i.e., given SoCalGas's (a) lack of transparency and accountability in the wide variability in needed staff between 2017 and 2024 and (b) failure to provide a time study to explain the necessity of the total number of employees needed for a modern, automated facility that likely needs even less staff to safely and reliably operate).

30. It is reasonable to require in its next general rate case that Southern California Gas Company provide a time study documenting the time needed to perform employee tasks to support a reasonable level of staffing for Compressor Operations.

31. The unopposed 2024 Test Year funding requests of Southern California Gas Company for Cathodic Protection, Technical Services, Storage Products Manager, and Control Center Modernization Operations are reasonable.

32. The 2024 Test Year forecast of $0.230 million for Director of Gas Transmission Operations is reasonable given Southern California Gas Company's (SoCalGas's) estimate of average costs for 2017-2021 but excluding 2020 and 2021 (because San Diego Gas & Electric Company was not fully staffed for this work in 2021 and SoCalGas does not reasonably explain the spike in costs in 2020).

33. The 2024 Test Year forecast of $0.682 million for Governance and Compliance is reasonable based on two employees for this work during 2017-2019 and two added employees based on Southern California Gas Company's showing, but excluding two others due to lack of evidence of their need and that their work is not already adequately performed by other work groups.

34. The 2024 Test Year forecast of $3.489 million for Gas Control Room Monitoring and Operation is reasonable based on The Utility Reform Network's evidence of the need to add a reasonable number, but not all, of Southern California Gas Company's (SoCalGas's) request for 34 new employees to achieve operational efficiencies, combined with SoCalGas's failure to meet its burden of proof to justify adding all 34 new employees given reasonably expected increased efficiencies from SoCalGas's installation of new software systems and automation.

35. The uncontested 2024 Test Year forecast of $5.501 million for San Diego Gas & Electric Company's gas transmission Non-Shared operations and maintenance is reasonable based on a decrease of $60,000 for Pipeline & Instrumentation Operations in the five-year average, no change in the forecast for Compressor Station Operations compared to the 2021 base year, and no change in the forecast for Technical Services compared to 2021.

36. A forecast of $10.398 million for 2022, $14.168 million for 2023, and $173,000 for 2024, for Southern California Gas Company's (SoCalGas's) New

Pipeline Construction Capital is reasonable based on The Utility Reform Network's adjustment of about a $1 million reduction to the five-year average (2017-2021), along with SoCalGas's lack of a list of planned projects to support a different number.

37. The forecasts for 2022, 2023, and 2024 of $39.917 million, $39.917 million, and $34.917 million, respectively, for Southern California Gas Company's Gas Pipeline Replacements are reasonable based on pipeline replacement estimates and forecasts for 2022, 2023, and 2024 (which excludes the 2021 adjusted recorded expenditures based on lack of evidence on the reasonableness of 2021 adjusted-recorded expenditures given the substantially lower estimates for 2022 and 2023, as pointed out by The Utility Reform Network).

38. The forecast of $1.701 million for 2022 and $0.201 million for 2023 and 2024 for Southern California Gas Company's Gas Pipeline Relocation-Freeway is based on a five-year average and is reasonable.

39. The 2024 Test Year forecast of $7.022 million for Southern California Gas Company's Pipeline Relocation-Franchise or Private is based on the 2022 actual amount for each of 2022, 2023, and 2024 and is reasonable.

40. The 2024 Test Year forecast of $2.038 million for Southern California Gas Company's (SoCalGas's) capital expenditures on the Control Center Modernization project is reasonable because it is based on the 2022 estimated cost, and SoCalGas failed to show that this project, which was already approved in the 2019 general rate case, should be funded at an even higher cost given that SoCalGas failed to provide a sufficient explanation of the delays in the schedule and sufficient justification to change the scope and reevaluate the project.

41. The cost of $6.914 million ($6.065 million in capital expenses and $0.849 million in operations and maintenance (O&M) expenses), including

ongoing O&M for Southern California Gas Company's successful implementation of the Core Balancing Project (including Advanced Metering Infrastructure Data Aggregation System and Scheduled Quantity Trading Automation), at a cost which was under budget by $1.786 million, is unopposed and is reasonable.

42. The San Diego Gas & Electric Company Moreno Compressor Modernization project is important for safety and reliability and for mitigating the risk of impacting future customer costs and non-compliance with South Coast Air Quality Management District regulations.

43. The opposition to San Diego Gas & Electric Company's Moreno Compressor Modernization (MCM) project is to the Advanced Renewable Energy's production and use of hydrogen, but there is no opposition to the remainder of the MCM project.

44. San Diego Gas & Electric Company's Moreno Compressor Modernization project costs without the Advanced Renewable Energy component are reasonable in the following amounts: $10.086 million in 2022, $73.667 million in 2023, $163.446 million in 2024, $140.378 million in 2025, $18.921 million in 2026, and $3.237 million in 2027, which is $409.735 million total (in 2021 base year constant dollars) for the compressor installation only when the component goes into service in 2026, and without the additional amount of $19.960 million requested by Sempra Utilities for costs incurred since 2015 but without adequate further explanation.

45. The costs of San Diego Gas & Electric Company's Moreno Compressor Modernization project have significantly risen and the adopted cost controls are reasonable to address those rising costs.

46. Sempra Utilities (Sempra) has not demonstrated sufficient uncertainty to warrant the authorization of a Litigated Project Cost Memorandum Account

given both that (a) Sempra is not at significant risk of experiencing systematic major unfunded capital costs due to court-ordered reversals of the classification of capital projects that were originally deemed to be collectible and (b) utility regulation, especially when based on a future Test Year, is not designed to be 100 percent risk-free.

47. The estimated amounts of $0.230 million for 2022, $0.317 million for 2023 and the forecast of $0.404 million for 2024 Test Year for San Diego Gas & Electric Company's (SDG&E's) Security and Auxiliary Equipment are reasonable based on SDG&E's methodology and adding to the 2021 base year costs the costs for ten methane sensors in 2023 and 20 additional sensors in 2024.

Sempra Utilities: Gas Engineering

48. State policy to combat climate change is more complex than Southern California Gas Company (SoCalGas) claims; there are other competing considerations, such as cost-effectiveness and affordability, which SoCalGas has not sufficiently considered in developing its forecast for Gas Engineering costs related to the use of hydrogen.

49. Considering all relevant State policy, it is reasonable to remove $1.8 million in gas engineering for hydrogen-related projects from Southern California Gas Company's Gas Engineering operations and maintenance costs as follows: decrease the Analysis, Testing, and Materials request by $0.063 million to $2.599 million, and decrease the Director of Gas Engineering, VP of Gas Engineering and System Integrity and Hydrogen cost centers by $1.737 million to $1.907 million.

50. Morongo Rights-of-Way costs incurred prior to January 1, 2019, have been collected in previous general rate case cycles. Further, Southern California Gas Company's (SoCalGas's) request to recover $4.6 million in pre-2019 operations

and maintenance expenses is not supported because such costs were not authorized by either the Morongo Rights-of-Way Balancing Account or Morongo Rights-of-Way Memorandum Account (MROWMA). It is therefore reasonable for SoCalGas to recover $101.2 million in addition to plant-in-service recorded in the MROWMA.

51. Based on the methodologies and their applications to the subcategories in Southern California Gas Company's (SoCalGas's) testimony and workpapers, the following uncontested SoCalGas Gas Engineering Non-Shared operations and maintenance expenditures are reasonable: Analysis, Testing, and Materials: $6.949 million in 2024; Measurement and Regulations: $4.711 million in 2024; Land and Right-of-Way: $3.931 million in 2024; and Research, Plastic Material and Aviation: $0.721 million in 2024.

52. Based on the methodologies and their applications to the subcategories in Southern California Gas Company's testimony and workpapers, the following uncontested operations and maintenance Gas Engineering Shared operations and maintenance expenditures are reasonable: Analysis, Testing, and Materials: $2.599 million in 2024; Measurement and Regulations: $3.997 million in 2024; Research, Plastics and Aviation: $0.078 million in 2024; and Engineering Design and Management: $6.218 million in 2024.

53. Southern California Gas Company's forecast of $1.693 million annually for the years 2022-2024 for the capital cost of Engineering Tools and Equipment is reasonable, since it is based on a five-year (2017-2021) average of recorded labor and non-labor costs and laboratory equipment costs are prone to fluctuations driven by supply and demand and changes in work activities that drive equipment needs.

54. Southern California Gas Company's capital cost forecast for 2022, 2023, and 2024 Aviation Services of $0, $0.08 million, and $0.5 million respectively based on the cost of purchasing drones and ancillary equipment, is an efficient use of resources that will enhance safety, responsiveness, and regulatory compliance.

55. Southern California Gas Company's (SoCalGas's) capital cost forecast for 2022, 2023, and 2024 Land Rights of $1.4 million, $0.4 million, and $3.1 million respectively, which is an increase over 15 times the 2021 Base Year cost of $0.199 is not reasonable. SoCalGas bases this forecast on the five-year average (2017-2021) of recorded labor and non-labor costs of $361,000 for each year, plus one-time expenses. SoCalGas does not sufficiently support the one-time adjustments with historical and forecasted metrics for this work.

56. The five-year average of $361,000 is a reasonable forecast for Southern California Gas Company's capital cost for 2022, 2023, and 2024 Land Rights.

57. Southern California Gas Company's (SoCalGas's) capital cost forecast for Supervision and Engineering Overhead Pool for 2022, 2023, and 2024, of $15.9 million, $15.9 million, and $18.9 million, respectively, is not reasonable. SoCalGas bases this forecast on a three-year average plus an adjustment of $3 million in 2024 to account for the settling of a cost related to construction activity that began in 2020. SoCalGas does not provide sufficient evidence to support the $3 million adjustment, because that adjustment was only for non-labor, which is inconsistent on how it is attributed to both labor and non-labor components in the same workpapers.

58. A capital cost forecast for Southern California Gas Company's Supervision and Engineering Overhead Pool for 2022, 2023, and 2024, of $15.9 million annually for each of the years 2022, 2023, and 2024 is reasonable.

59. Based on Southern California Gas Company's (SoCalGas's) testimony and workpapers, SoCalGas's uncontested capital cost forecast for Engineering Tools and Equipment of $1.693 million in 2022, $1.773 million in 2023, and $2.193 million in 2024, is reasonable.

60. Based on San Diego Gas & Electric Company's (SDG&E's) methodology and its application in SDG&E's testimony and workpapers, SDG&E's uncontested forecast for capital costs for Gas Engineering of $295,000 annually for 2022-2024 is reasonable.

Sempra Utilities: Pipeline Safety Enhancement Plan Programs

61. The benefit of Pipeline Safety Enhancement Plan project contingencies is obviated by the use of balancing accounts for such costs.

62. A reduced forecast for Southern California Gas Company's (SoCalGas's) 2024 Pipeline Safety Enhancement Plan (PSEP) operations and maintenance (O&M) is reasonable based on intervenor recommendations to remove the 2023 and 2024 PSEP project contingencies along with Cal Advocates' unopposed recommendation to normalize Capital Delivery Technology O&M Costs.

63. A forecast for Southern California Gas Company's (SoCalGas's) 2024 Miscellaneous Pipeline Safety Enhancement Plan operations and maintenance cost of $2.677 million is reasonable based on Cal Advocates' recommendation and subtracting $0.855 million from SoCalGas's Miscellaneous cost of $3.532 million to normalize Capital Delivery Technology Costs.

64. The 2022-2024 Pipeline Safety Enhancement Plan capital cost forecasts are reasonable based on Southern California Gas Company's 2022 recorded costs and the removal of project contingencies.

65. Southern California Gas Company has not demonstrated how the large cost overruns for the Dairy Pilot Program capital costs for the December 2015 – December 2020 period are reasonable.

66. San Diego Gas & Electric Company's Pipeline Safety Enhancement Plan costs should not be entitled to collect interest on any amounts that may accrue and be owed on costs unrecovered due to its failure to seek appropriate recovery.

Southern California Gas Company: Gas Pipeline Integrity

67. The Utility Reform Network-Southern California Generation Coalition's recommendation for Non-Shared Southern California Gas Company Transmission Integrity Management Program operations and maintenance of $96 million is reasonable based on using a five-year average (2017-2021) to account for annual reassessment variation in 2021 dollars and a $250,000 per dig allowance for Assessment and Remediation for additional Gas Transmission Safety Rule Part 1 regulations related to validation digs.

68. Converting the Transmission Integrity Management Program Balancing Account to a one-way balancing account and requiring the recording of excess Transmission Integrity Management Program costs and undercollections in a memorandum account will ensure a more thorough reasonableness review through an application process that will better protect ratepayers.

69. Southern California Gas Company (SoCalGas) fails to demonstrate the necessity and reasonableness of continuing to fund an accelerated plastic pipe replacement rate through the Distribution Integrity Management Program in addition to SoCalGas's routine pipeline replacement programs.

70. The Utility Reform Network's Non-Shared Distribution Integrity Management Program operations and maintenance forecast of $47.005 million is reasonable based on reducing the forecast for the accelerated plastic pipe

replacement program and replacing bare steel pipe at a rate close to the 2021 replacement rate.

71. A SoCalGas Vintage Integrity Plastic Plan (VIPP) forecast of $60.653 million, $61.259 million, and $14.259 for the years 2022, 2023, and 2024, respectively, is reasonable based on TURN's alternative VIPP recommendation that provides for accelerated replacement according to Sempra's originally proposed "Second Tier" of the VIPP for over 11 miles of brittle Aldyl A plastic pipe.

72. Authorizing SoCalGas to record the cost of removing additional Aldyl A pipe in the Distribution Integrity Management Program Memorandum Account up to 92 miles is reasonable based on the possible existence of other Aldyl A pipe installed under conditions that could lead to leakage or other failure.

73. A Bare Steel Replacement Plan forecast of $86.578 million, $63.005 million, and $79.737 million for the years 2022, 2023, and 2024, respectively, is reasonable based on maintaining the replacement rate for bare steel pipe, the risk of which has not been fully assessed and which may have a higher risk than Aldyl A plastic pipe, and on using TURN's more appropriate average unit cost.

74. Converting the Distribution Integrity Management Program Balancing Account to a one-way balancing account and requiring the recording of excess Distribution Integrity Management Program costs and undercollections in a memorandum account will ensure a more thorough reasonableness review through an application process that will better protect ratepayers.

75. Converting the Storage Integrity Management Program Balancing Account to a one-way balancing account and requiring the recording of excess Storage Integrity Management Program costs and undercollections in a memorandum

account will ensure a more thorough reasonableness review through an application process that will better protect ratepayers.

76. Southern California Gas Company fails to support how Facilities Integrity Management Program activities are separate from all the other gas integrity programs, how any additional activity costing $14.953 million is needed or reasonable, and how any additional cost for such activity would be cost-effective.

77. Southern California Gas Company lacks centralized management to effectively and efficiently allocate integrity management resources for prevention, detection, and mitigation activities.

78. The Utility Reform Network-Southern California Generation Coalition's recommended forecast for Gas Safety Enhancement Programs capital for 2022, 2023, and 2024 of $4.936 million, $34.340 million, and $82.588, respectively, is reasonable based on reductions associated with not scheduling Integrated Enhancement Safety Plan work at an accelerated rate, which may be completed by mid-2035, by a mid-2028 interim deadline, or as practicable.

79. A Gas Safety Enhancement Programs Balancing Account is not necessary, reasonable, or appropriate.

San Diego Gas & Electric Company: Gas Pipeline Integrity

80. San Diego Gas & Electric Company's Transmission Integrity Management Program, Distribution Integrity Management Program, Storage Integrity Management Program, and Gas Safety Enhancement Programs balancing accounts should be converted to one-way balancing accounts for the same reasons as for the same balancing accounts for Southern California Gas Company.

81. TURN's alternative Vintage Integrity Plastic Plan recommendation that provides for accelerated replacement according to Sempra's originally proposed "Second Tier" of the VIPP for over 14 miles of brittle Aldyl A plastic pipe is

reasonable. Authorizing San Diego Gas & Electric Company to record the cost of removing additional Aldyl A pipe in the Distribution Integrity Management Program memorandum account for the 2022-2024 period and the Post-Test Years is reasonable based on the possible existence of other Aldyl A pipe installed under conditions that could lead to leakage or other failure.

82. Disallowing San Diego Gas & Electric Company's forecasts for Facilities Integrity Management Program (FIMP) Non-Shared operations and maintenance expenditures and capital for the Post-Test Years is reasonable and should be adopted, and a FIMP balancing account is based on the same findings for disallowing the SoCalGas FIMP program and is reasonable.

83. San Diego Gas & Electric Company's Gas Safety Enhancement Programs capital forecast of $4.7 million, $9.1 million, and $12.8 million for 2025, 2026, and 2027 is unsupported.

Southern California Gas Company: Gas Storage

84. Southern California Gas Company's (SoCalGas's) request for an increase in underground storage costs of $0.202 million from $4.686 million in 2021 to $4.888 million in 2024 to operate SoCalGas's four underground storage fields is reasonable, as The Protect Our Community Foundation was the only party recommending a reduction to this amount based on eliminating the Aliso Canyon field, asserting that Aliso Canyon is no longer necessary. However, the necessity of Aliso Canyon is out of the scope of this proceeding because the feasibility of minimizing or eliminating the use of Aliso Canyon while still maintaining energy and electric reliability for the region is scoped into Investigation 17-02-002.

85. Southern California Gas Company (SoCalGas) requests $42.555 million for aboveground storage costs based on a zero-based methodology, which is a 16.8 percent increase over recorded costs in the 2021 Base Year of $36.421 million.

SoCalGas's estimated increase in aboveground storage costs for 2024 is not supported or reasonable, since SoCalGas did not adequately describe how it estimated a base amount with any adjustments for future work. Particularly, SoCalGas does not state what increases in regulations impacting aboveground storage would support a 16.8 percent increase, as opposed to the regulations for underground storage costs that SoCalGas estimates is similar to 2024 costs. Neither does SoCalGas adequately quantify how the volume of maintenance work, along with its complexity and the limited availability of replacement components, may support a higher annual cost.

86. Southern California Gas Company's (SoCalGas's) forecast of $339,000 for Gas Storage Shared Services operations and maintenance, which is a decrease of $28,000 from the 2021 Base Year, is reasonable based on SoCalGas's methodology.

87. The Honor Rancho Compressor Station Modernization project is important for safety and reliability and for mitigating the risk of impacting future customer costs and non-compliance with South Coast Air Quality Management District regulations.

88. The Honor Rancho compressor has reached the end of its useful life, and its replacement is expected to decrease NOx emissions.

89. Because of the opposition to the Advanced Renewable Energy (ARE) component's production and use of hydrogen, the ARE component of the Honor Rancho Compressor Station Modernization project is denied. Although parties oppose pieces of the principal component or the process for approval, parties do not oppose the principal component as part of the project overall.

90. Southern California Gas Company has demonstrated the benefits of the principal component of the Honor Rancho Compressor Station Modernization.

91. Southern California Gas Company's proposed costs for the Honor Rancho Compressor Station Modernization project without the Advanced Renewable Energy component and any hydrogen-related costs are reasonable, as set forth in the conclusions of law below, which contain cost controls since the project's forecasted costs have significantly risen.

92. Southern California Gas Company's (SoCalGas's) request to recover $1.8 million for Aliso Canyon Turbine Replacement (ACTR) Project Company Labor is unsupported and unreasonable, and thus, SoCalGas's recovery for the ACTR should be reduced by $1.8 million.

93. Southern California Gas Company (SoCalGas) does not demonstrate the $2.2 million in Aliso Canyon Turbine Replacement (ACTR) indirect costs are not already included in rate base, and therefore, SoCalGas's request to recover $2.2 million for ACTR indirect costs is unsupported and unreasonable.

94. Cal Advocates did not provide sufficient evidence to support its recommendation to reduce Southern California Gas Company's (SoCalGas's) request for Aliso Canyon Turbine Replacement Company Labor and indirect costs by $12.6 million, but did provide sufficient evidence to reduce SoCalGas's request by $4 million.

95. Southern California Gas Company's recovery of $17.6 million for Aliso Canyon Turbine Replacement is reasonable.

96. Based on the methodologies and their application to the subcategories in Southern California Gas Company's (SoCalGas's) testimony and workpapers, SoCalGas's total decreased costs for Gas Storage Facility Projects capital expenditures, which are uncontested, are reasonable.

Sempra Utilities: Procurement

97. Southern California Gas Company's proposed refund to ratepayers of the balance of the Injection Enhancement Cost Memorandum Account of $167,000 as of March 31, 2022 by amortizing it as of December 31, 2023 in customers' gas transportation rates, and transferring any residual balances to the Core Fixed Cost Account and Non-Core Fixed Cost Account at the end of the amortization period is reasonable.

98. San Diego Gas & Electric Company's 2024 forecast of $1.203 million for its Energy Procurement Resource Planning section is reasonable based on employing 6.9 full-time equivalent employees in 2024, and a five-year average of non-labor costs.

99. San Diego Gas & Electric Company's forecast of $2.479 million for its Origination and Portfolio Design group in 2024 is reasonable based on filling vacancies that existed in 2021 and employing staff in three additional groups for a total of 15.4 Full Time Equivalents in 2024.

Southern California Gas Company: Clean Energy Innovations

100. Southern California Gas Company's Clean Energy Innovations was established as a business unit in 2021 by consolidating other cost categories. However, the breakdown of the 2021 Base Year costs for the cost categories is not provided, and there is no link established between the incremental cost increases and specific projects.

101. Southern California Gas Company requests $388,000 incremental labor cost for Sustainability, but it fails to establish a link with specific tasks and its ASPIRE 2045-related projects that would benefit ratepayers.

102. Southern California Gas Company aggregated its Business Development cost requests for $2.33 million and incremental cost requests under Clean Fuels

Infrastructure Development, making it challenging to verify and assess the reasonableness of its request.

103. The California Environmental Justice Alliance is reasonable in proposing to remove the non-operational cost of $2.923 million from the Business Development forecast for consultant contracts that provide Southern California Gas Company strategic advice on government relations, ensure the U.S. Department of Energy receives appropriations, refine key messages to influence the California Air Resources Board, and pursue new business development opportunities.

104. Southern California Gas Company has not shown that ratepayer funds of $561,789 supporting Hydrogen Council dues directly translate to safe and reliable gas service for ratepayers.

105. The Utility Reform Network-Southern California Generation Coalition's proposal for Southern California Gas Company to record Carbon Capture, Utilization and Sequestration Front End Engineering Design Study Program costs in the Infrastructure Investment and Jobs Act Memorandum Account and seek recovery of the recorded expenses in its next general rate case or a separate application has merit because the Commission has adopted the process.

106. The Utility Reform Network-Southern California Generation Coalition's proposal to deny $2.500 million incremental cost increases for the Clean Fuels Operational Readiness Program is reasonable because Southern California Gas Company's request lacks strong evidentiary support, appears to be for work outside the current proceeding, and does not identify specific benefits to ratepayers.

107. The California Environmental Justice Alliance and Indicated Shippers reasonably argue that utilities should not be granted $357,000 incremental funds

as ratepayers should not be presumed to support discretionary funds for low-emission vehicle programs authorized under Decision 05-05-010 indefinitely.

108. The Utility Reform Network-Southern California Generation Coalition's proposal to deny a $366,000 incremental cost increase for the Clean Fuels Power Generation support team is reasonable because there is no strong evidence to show how Southern California Gas Company's Clean Fuels Power Generation functions differ from the services provided by account representatives to help customers understand the new rules eliminating gas line subsidies.

109. The Utility Reform Network-Southern California Generation Coalition's and the California Environmental Justice Alliance's proposal to deny an increase of $1.295 million to create a Clean Energy Innovations-centric Project Management Office (PMO) when the overall projects are being reduced, resulting in a reduced need for PMO activities, is reasonable.

110. The average cost authorized by the Commission for the Research, Development, and Demonstration (RD&D) budget over the past seven years is $15.915 million. This amount is based on stakeholders providing input on project details, funding levels, ratepayer benefits, and market conditions during the past seven years when the Commission authorized the annual RD&D budgets.

111. Southern California Gas Company's zero-based budget and Cal Advocates' proposal for the Research, Development, and Demonstration budget have not undergone a similar stakeholder vetting process concerning project details, funding levels, benefits to ratepayers, and market conditions.

112. The annual review process of Research, Development, and Demonstration (RD&D) projects established in Decision 19-09-051 works effectively, as the Commission has adopted three Commission Resolutions since 2021, authorizing funding for the RD&D program through 2023. Therefore, denying Southern

California Gas Company's request to move to a Tier 3 Advice Letter process is reasonable.

113. Decision 19-09-051 and Resolutions G-3573, G-3586, and G-3601 approving funding and research projects established program oversight rules currently in effect for this general rate case cycle.

San Diego Gas & Electric Company: Clean Energy Innovations

114. San Diego Gas & Electric Company seeks $5 million for Innovation Technology Development, but it has not shown that it is authorized to conduct research and development with ratepayer funds parallel to the Electric Program Investment Charge program through a general rate case application.

115. The Commission has already established a mechanism to recover carbon sequestration-related projects wherein San Diego Gas & Electric Company can book the expenses under the Carbon Capture, Utilization and Sequestration Front End Engineering Design Study Program in its Infrastructure Investment and Jobs Act Memorandum Account and seek cost recovery in an application or the next general rate case. Moreover, we do not know if $1.3 million is reasonable for ratepayer funding as these are estimated costs, and a reasonableness review is better suited after they are booked to a memorandum account.

116. The California Environmental Justice Alliance's proposal that the Commission deny ratepayer funds for research studies duplicating the California Energy Commission's findings on evaluating hydrogen's potential to decarbonize California's energy grid is reasonable. Moreover, San Diego Gas & Electric Company lacks compelling evidence to justify spending $1.010 million in modeling and surveys for its Hydrogen Strategy and Implementation Department instead of utilizing existing market research studies to assess the benefits of hydrogen technology.

117. San Diego Gas & Electric Company's requests for $155,000 incremental labor costs for Advanced Clean Technology lack evidentiary support because they are based on overly broad descriptions that do not identify the specific projects requiring additional labor costs. Therefore, it is challenging to undertake a reasonableness review of its cost request.

118. San Diego Gas & Electric Company's (SDG&E's) request for $0.282 million in the 2024 Test Year for its Sustainable Communities Program's operations and maintenance costs is not reasonable because there is no evidence to show the criteria for pursuing the projects. It is unclear whether continued funding for lease extensions and maintenance is in the best interest of all SDG&E ratepayers and the broader San Diego community, especially after the program has stopped enrolling participants.

119. Cal Advocates' proposal to reduce labor costs for the Distributed Energy Resource Engineering Department because San Diego Gas & Electric Company's labor estimates lack credibility as they were not based on a defined scope of work is reasonable.

120. San Diego Gas & Electric Company's request for a $438,000 increase in 2024 Test Year costs for the Distributed Energy Resource Engineering Department lacks evidence and is based on an unexplained 76 percent increase in non-labor operations and maintenance costs in the 2021 Base Year. Therefore, normalizing the forecast using the historical average of the past six years for labor and non-labor costs is more reasonable.

121. For the Advanced Energy Storage (AES) project, Decision (D.) 19-09-051 authorized battery energy storage system cost recovery. Therefore, it is reasonable to adhere to the original plan and avoid stranded costs by allowing San Diego Gas & Electric Company (SDG&E) to complete the delayed portion of the AES project

within the authorized budget. However, since the authorized project cost did not include a hydrogen energy storage system, it is not reasonable to approve the additional cost because SDG&E did not provide the cost-benefit analysis of the technology as required in D.19-09-015.

122. A four-year general rate case cycle allows flexibility in managing funds and allocating funds away from authorized projects for other operational needs. Delayed projects could increase project costs and impact future rates for customers. Therefore, the flexibility to reallocate and shift funds without accountability should not come at the expense of ratepayer affordability. It is reasonable to require San Diego Gas & Electric Company to track deferred projects with reallocated funds.

123. Cal Advocates', the Utility Consumers' Action Network's, and The Utility Reform Network's proposal to deny the Advanced Energy Storage 2.0 capital project is reasonable because San Diego Gas & Electric Company's proposal lacks clarity and details on how it will achieve greater reliability and lacks basic information about the project's location, benefits, and storage technology plan.

124. Cal Advocates', the Utility Consumers' Action Network's, and The Utility Reform Network's proposal to deny San Diego Gas & Electric Company (SDG&E) $5.177 million to procure non-lithium-ion energy storage technologies is reasonable because SDG&E has not provided evidence on capacity, energy discharge capability, location, vendor negotiations and selection, site permitting, and economic benefits as evidence of how this technology will directly benefit ratepayers. Such a project can be requested for review and approval via an application pursuant to Decision 21-06-035 or the Electric Program Investment Charge program.

125. San Diego Gas & Electric Company's cost request for Borrego Microgrid 3.0 is reasonable because the evidence shows that expanding the existing microgrid connects more Distributed Energy Resources, serves reliability needs, and reduces ratepayers' costs through a federal grant.

126. San Diego Gas & Electric Company's capital cost request of $1.425 million for the Integrated Test Facility to support grid modernization efforts is reasonable.

127. Cal Advocates has provided reasonable evidence to show that San Diego Gas & Electric Company's (SDG&E's) request for $1.185 million to remove Distributed Energy Resource assets at customer sites under its Sustainable Communities program is not justified. This is because SDG&E's cost estimates are higher than the best-fit line based on historical data, indicating that they are overestimated.

128. San Diego Gas & Electric Company is reasonable in relying on successfully demonstrating its Electric Program Investment Charge-3 projects to request capital project costs of $2.076 million each year in 2022, 2023, and 2024 to purchase three mobile battery systems for the Mobile Battery Energy Storage Program, which aims to increase grid resiliency and flexibility during public safety power shut-off events by deploying the battery systems to at-risk electric systems.

129. Cal Advocates', the California Environmental Justice Alliance's, the Utility Consumers' Action Network's, and Federal Executive Agencies' recommendation to deny San Diego Gas & Electric Company's request of $1.925 million for Hydrogen Build-Ready Infrastructure is reasonable because the project lacks a clear justification for cost-effectiveness and benefits for the ratepayers. Building infrastructure to benefit future potential customers who may or may not choose to

utilize the infrastructure for the electrolyzer's development is not a reasonable use of ratepayer funds and impacts the affordability of rates.

130. While diverse energy storage options are reasonable to procure from a reliability and cost-effectiveness perspective, Cal Advocates' recommendation to deny San Diego Gas & Electric Company's (SDG&E's) $5.252 million capital expense request for the Hydrogen Energy Storage System Expansion project is reasonable because SDG&E has not provided evidence whether the proposed hydrogen energy storage system will be a cost-effective storage option for its customers.

131. Hydrogen projects could be eligible for federal grants, tax credits, and other public funding, which could significantly reduce ratepayers' costs.

San Diego Gas & Electric Company: Electric Generation

132. San Diego Gas & Electric Company (SDG&E) overestimated the operations and maintenance (O&M) expenses for 2022 by 8 percent and capital expenditures by 58 percent compared to what it spent. Therefore, The Utility Reform Network's recommendation to base O&M and capital expenditure forecasts on a six-year cost average (2017-2022) and removing anomalous projects instead of the five years proposed by SDG&E (2017-2021) is reasonable and a better methodology because it is a larger dataset that we rely upon to forecast that SDG&E can cover expected costs when new rates take effect, and it will reduce the possibility of a mismatch between revenues and actual costs due to overestimation that occurred in 2022.

133. The Utility Reform Network's recommendation to exclude specific cost categories from the historical baseline used for forecasting Generation Plant operations and maintenance is reasonable because they are not simply fluctuations in costs, as argued by San Diego Gas & Electric Company, but are

typically single, significant expenses that happened in a particular year and are not representative of ongoing costs.

134. The Utility Reform Network's recommendation to remove estimated costs for five Distributed Energy Facilities projects that are commercially unavailable until Q4 of 2024 is reasonable because ratepayers should not pay higher rates in this general rate case for projects with uncertain in-service dates.

135. The Utility Reform Network's and Cal Advocates' recommendation to decline San Diego Gas & Electric Company's 30 percent upward adjustment to historical non-labor costs for its 20 Distributed Energy Facilities projects is reasonable because the request lacks specific justification and source materials.

136. Lower labor costs are expected based on the expected reduced Distributed Energy Facilities project count.

137. For Plant Administration operations and maintenance costs, Cal Advocates' and The Utility Reform Network's recommendations align with using the more recent cost information, and San Diego Gas & Electric Company's expenses between 2019-2022 have remained relatively consistent, fluctuating by only $0.002 million.

138. San Diego Gas & Electric Company's 2022 capital expenditures for electric generation were 26 percent below 2021 and 15 percent below 2020 levels.

139. San Diego Gas & Electric Company's actual 2022 capital expenditure for electric generation was $15.849 million, 58 percent below forecast, while the forecasted expenses were $37.375 million.

140. San Diego Gas & Electric Company has not demonstrated a specific resource adequacy need requiring additional capacity in the battery storage units regarding the Hybrid at Miramar upgrade project.

141. San Diego Gas & Electric Company's single pro forma financial analysis shows significant negative annual net benefits over the Hybrid at Miramar upgrade project's life.

142. San Diego Gas & Electric Company's (SDG&E's) proposed installation of a Flamesheet Combustor at Palomar Energy Center appears contradictory because an increased use of hydrogen in their gas system could lead to higher nitrogen oxide emissions, for which it wants to invest in a Flamesheet Combustor to reduce those emissions. However, SDG&E's installation proposal does not include a plan for hydrogen fuel blending, so the funding request lacks support and justification.

143. Cal Advocates' recommendation to deny capital costs for the Industrial Control System is reasonable because San Diego Gas & Electric Company lacks evidentiary support for its $2 million incremental capital expenditure forecast each year from 2022 to 2024.

144. San Diego Gas & Electric Company's $2.5 million capital project cost request for a proprietary Infinite Cooling System lacks certainty and ratepayer benefits because the manufacturer had installed a unit on a 20 megawatt (MW) Cogeneration plant in 2018, but we do not have information on the lifespan and efficiency of the system on a larger 588 MW Palomar power plant.

145. Cal Advocates', The Utility Reform Network's, the California Environmental Justice Alliance's, and the Environmental Defense Fund's recommendation to deny San Diego Gas & Electric Company's (SDG&E's) capital expenditures request for the Palomar Hydrogen System is reasonable because SDG&E's proposal lacked evidentiary support on the project's full impact on ratepayers, including the true cost and scalability, and the limited learning opportunity due to the small scale of the pilot.

146. Joint CCAs and San Diego Gas & Electric Company's (SDG&E's) proposal to book both costs and revenues related to all distribution-related batteries to SDG&E's Electric Distribution Fixed Cost Account Balancing Account is reasonable because functionalization of costs and associated revenues from the distribution batteries will ensure that both bundled and unbundled customers pay the actual costs of these distribution assets and share equally in the benefits.

San Diego Gas & Electric Company: Electric Distribution Operations and Maintenance and Capital Costs

147. San Diego Gas & Electric Company's forecast for Rule 20B Non-Collectible Franchise Projects is reasonable based on variations in project costs and increases in the cost of labor and materials.

148. San Diego Gas & Electric Company's updated Overhead Pools forecast is supported by maintenance of the Overhead Pools balancing account and is reasonable.

149. San Diego Gas & Electric Company's North Harbor Underground Cable Replacement Project forecast for 2022, 2023, and 2024 is reasonable based on the scope of work and challenges related to traffic, groundwater, and contaminated soil.

150. San Diego Gas & Electric Company's 2022-2024 forecast for the Planned Cable Replacements program is reasonable based on risk assessments and resource constraints.

151. San Diego Gas & Electric Company's 2022-2024 forecast for total Reliability Improvements of $72.045 million in 2022, $102.256 million in 2023, and $55.774 million in 2024 is reasonable.

152. San Diego Gas & Electric Company's (SDG&E's) 2024 forecast for Capacity and Expansion Planned Investment Projects of $3.536 million in 2022, 2023, and

2024 is reasonable based on legislation requiring SDG&E to promptly upgrade its electrical distribution systems to accommodate future load.

153. San Diego Gas & Electric Company's (SDG&E's) forecast for future capacity projects in the amounts of $6.396 million for 2023 and $7.699 million for 2024 is reasonable based on legislation requiring SDG&E to promptly upgrade its electrical distribution systems to accommodate future load.

154. San Diego Gas & Electric Company's non-collectible forecast for distribution system capacity improvement of $1.962 million for each of the years 2022, 2023, and 2024 based on the use of only non-collectible, ratepayer-funded costs is reasonable.

155. San Diego Gas & Electric Company's transformer forecast of $24.025 million in 2022, $25.213 million in 2023, and $26.461 million in 2024 is reasonable based on the estimated scope of individual projects.

156. San Diego Gas & Electric Company's forecasts for electric meters and regulators for 2022, 2023, and 2024 of $4.802 million, $5.042 million, and $5.294 million, respectively, are reasonable based on the estimated scope of work for projects and recent material and labor rates and are reasonable.

157. San Diego Gas & Electric Company's forecast for Overhead Residential New Business for 2022, 2023, and 2024 is reasonable based on its revised data.

158. San Diego Gas & Electric Company's forecasts for the Overhead Non-Residential New Business program for 2022, 2023, and 2024 are reasonable based on its revised data.

159. San Diego Gas & Electric Company's forecasts for the Underground Residential New Business program for 2022, 2023, and 2024 of $6.487 million, $6.542 million, and $6.599 million, respectively, and its forecasts for the Underground Non-Residential New Business program for 2022, 2023, and 2024 of

$6.569 million, $6.625 million, and $6.681 million, respectively, are reasonable based on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.

160. San Diego Gas & Electric Company's forecasts for the New Business Infrastructure program for 2022, 2023, and 2024 are reasonable based on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.

161. San Diego Gas & Electric Company's non-collectible forecasts for the Customer Requested Upgrades and Services program for 2022, 2023, and 2024 are reasonable based on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth.

162. San Diego Gas & Electric Company's (SDG&E's) non-collectible forecasts for the Conversion from Overhead to Underground Rule 20C program for 2022, 2023, and 2024 are reasonable based on a three-year average of historical data to account for its variability volume, size, and complexity and to account for recent cost increases and customer growth. Factors for such growth were derived from the SDG&E Meterset forecast.

163. Cal Advocates' forecasts for Rule 20B Overhead to Underground Conversions for 2022, 2023, and 2024 are reasonable based on the growth rates provided by San Diego Gas & Electric Company to the three-year historical average of non-collectible capital expenditures.

164. San Diego Gas & Electric Company's (SDG&E's) forecast for Reliability and Capacity operations and maintenance for 2024 of $2.461 million is reasonable based on a three-year average of recorded data with the addition of the costs that

SDG&E states are incremental, including Distributed Energy Resource interconnection workload demands and related compliance projects, annual Synergi software training, and engineering retention costs associated with generation interconnection projects that are offset by interconnection fees received as miscellaneous revenue.

165. San Diego Gas & Electric Company's (SDG&E's) 2024 forecast for Electric System Operations of $29.965 million is reasonable based on decreasing SDG&E's storeroom costs based on the amount of related capital approved by the Commission.

166. A 2024 forecast for San Diego Gas & Electric Company's Electric Regional Operations (ERO) of $36.579 million is reasonable based on total ERO cost data from 2022.

167. The 2024 Test Year forecast for Skills and Compliance Training of $2.855 million is reasonable based on 2022 recorded expenses compared to SDG&E's forecast which lacks support due to accounting changes, historical non-labor spending, and lack of detail on the necessity of requested positions.

168. Cal Advocates' recommended forecasts for San Diego Gas & Electric Company's Compliance Management operations and maintenance expenses of $4.815 million are reasonable based on support for this amount of future work.

San Diego Gas & Electric Company: Electrical Distribution Wildfire Mitigation and Vegetation Management

169. Approval of a Wildfire Mitigation Plan (WMP) by the Office of Energy Infrastructure Safety (Energy Safety) is not synonymous with approval of associated costs, and San Diego Gas & Electric Company's approved WMP may be modified based on this decision and an order by Energy Safety to align the utility's WMP with a ratesetting proceeding at the Commission.

170. San Diego Gas & Electric Company's wildfire mitigation costs begin to increase exponentially at higher levels of risk reduction.

171. San Diego Gas & Electric Company's (SDG&E's) forecasted wildfire mitigation costs are in excess of what is reasonable for SDG&E's wildfire risk profile.

172. San Diego Gas & Electric Company spending six times as much on undergrounding as on covered conductor is not cost-effective and is not reasonable.

173. The Utility Reform Network's recommended capital forecast for installing covered conductor and undergrounding in San Diego Gas & Electric Company's territory of $154.5 million in 2024 is reasonable based on undergrounding 35 miles of electric lines in the highest fire risk areas at a cost of $82.6 million and installing 100 miles of covered conductor at a cost of $71.9 million. In its next rate case, San Diego Gas & Electric Company must provide cost and mileage data separately for these two components of system hardening and explain and justify its selection of circuit segments for undergrounding based on risk analyses or other factors.

174. A unit cost of $0.800 million per mile in 2024 for overhead covered conductor installation is reasonable, and SDG&E did not justify its higher proposed unit cost. SDG&E underestimated the relative costs of undergrounding by not including its 1.2 overhead-to-underground conversion factor in the RAMP RSE Model.

175. A forecast for San Diego Gas & Electric Company lightning arrestors of $3.2 million for 2024 is reasonable based on Cal Advocates' recommended reduction of $0.357 million annually.

176. San Diego Gas & Electric Company's forecast for 2024 operations and maintenance Standby Power Programs of $10.350 million is reasonable based on

shifting to sustainable power offerings such as batteries in lieu of traditional propane generators.

177. Cal Advocates' 2024 operations and maintenance forecast for San Diego Gas & Electric Company Fuels Management of $5.246 million is reasonable based on an average cost in 2021 for clearing structures in High Fire Threat District Tiers 2 and 3.

178. Cal Advocates' 2024 operations and maintenance forecast for San Diego Gas & Electric Company Pole Brushing of $5.369 million is reasonable based on an average cost in 2021 for brushing or clearing poles in High Fire Threat District Tiers 2 and 3.

179. A 2024 operations and maintenance forecast for Vegetation Management and Inspections – Tree Trimming Only within High-Fire Threat District of costs of $26.612 million and Non-High-Fire Threat District of $15.269 million are reasonable based on applying Cal Advocates' unit cost methodology to the corrected unit counts.

180. A budget-based PTY capital exception for wildfire mitigation in the amount of $166.5 million in capital for 2025, $167.4 million in capital for 2026, and $168.6 million in capital for 2027 will allow San Diego Gas & Electric Company to underground its overhead lines and install covered conductor.

Southern California Gas Company: Customer Service: Customer Information System Replacement Program

181. Southern California Gas Company's current Customer Information System legacy system is outdated and inefficient, making it challenging to address evolving technology needs.

182. Customer Information System Replacement is a large-scale project, and the estimated completion date is 2027, which could extend into the next rate case cycle.

Southern California Gas Company: Customer Services Field and Advanced Meter Operations

183. Southern California Gas Company's base year forecasting methodology for Customer Services Field and Advanced Meter Operations, which relies solely on the post-pandemic year 2021 to forecast 2024 costs, is not representative of pre-pandemic expenses, some of which will continue into future years and may introduce biases.

184. Southern California Gas Company failed to provide sufficient evidence to justify its claim that order volume impacted by advanced metering infrastructure will not be further reduced.

185. Neither Southern California Gas Company nor intervenors Cal Advocates and The Utility Reform Network proposed forecasting methods for Customer Services Field and Advanced Meter Operations that fully balance the interests of the utility and ratepayers.

186. Both Cal Advocates' and The Utility Reform Network's (TURN's) forecasting approaches for Customer Services Field and Advanced Meter Operations have limitations. Cal Advocates relies solely on 2019 data, while TURN excludes 2017 data from its historical average.

187. A larger sample size of historical data, including pre-pandemic, pandemic, and post-pandemic trends, captures a broader range of conditions, mitigates biases, and provides a more comprehensive forecast of Customer Services Field and Advanced Meter Operations with factors influencing costs.

188. Southern California Gas Company's assumptions regarding work order volumes, particularly for Change of Account - Hang Tag, are not supported by evidence and may introduce biases.

189. Incremental cost adjustments of $23.097 million for personal protective equipment, Field Employee Skills Training, and Safety-Related Field Orders will allow Southern California Gas Company's employees to perform safety operations.

190. Southern California Gas Company's request for $4.4 million in incremental funding for meter transmission unit warranty enhancements is a new cost estimate not included in historical cost trends.

191. The advanced metering infrastructure modules were authorized for installation in 2010.

192. Southern California Gas Company's supplementary workpapers on meter transmission unit (MTU)-related incremental costs, decision analyses, and warranty indicate the need to address the costs associated with mitigating the potential consequences of not obtaining the MTU warranty. In the absence of a warranty, the risk of meter failure will shift from the vendor to the customers.

193. Based on the failure rate analysis, Southern California Gas Company's (SoCalGas's) decision analysis shows that purchasing the additional warranty for Years 16–18 is more cost-effective, as SoCalGas plans to replace the meter transmission unit in Year 18, beginning in 2030.

194. The disposition of the balance in the Advanced Metering Infrastructure Balancing Account's Escalated Jurisdictions Cost Subaccount was deferred to this general rate case proceeding.

195. Southern California Gas Company seeks to recover $732,624 in operations and maintenance expenses recorded in the advanced metering infrastructure

balancing account (AMIBA) Escalated Jurisdictions Cost Subaccount through March 31, 2022 and to close the AMIBA because all subaccounts will be fully amortized.

196. No intervenor opposed Southern California Gas Company's shared 2024 Test Year cost estimates of $1.617 million for Customer Services Field and Advanced Meter Operations.

San Diego Gas & Electric Company: Customer Services: Field Operations

197. San Diego Gas & Electric Company is requesting $40.452 million for the 2024 Test Year Customer Services-Field Operations, which is a $7.110 million increase from the 2021 Base Year. The increase is primarily due to incremental costs in Field Operations Support and Smart Meter Operations.

198. San Diego Gas & Electric Company's base year forecasting methodology overestimates costs by relying solely on 2021 data and overlooking historical cost trends for an established organization.

199. A six-year historical average (2017-2022 incurred costs) addresses pre- and post-pandemic cost shifts and consumer behaviors, which should be reflected in San Diego Gas & Electric Company's work order volumes.

200. The incremental Smart Meter operations recovery for the Smart Meter 2.0 project will be recorded in the authorized memorandum account.

201. San Diego Gas & Electric Company's 2020 expense of $0.857 million should be excluded from the forecast because it is a one-time expense related to pre-foundational work for the Field Service Delivery Project.

Sempra Utilities: Customer Service Office Operations

202. Southern California Gas Company is considering closing its branch offices, but the status of this closure is uncertain.

203. Southern California Gas Company's 2022 recorded Branch Office operations and maintenance costs were $9.807 million, 24.1 percent less than the forecasted cost of $12.169 million.

204. For Southern California Gas Company's 2022 operations and maintenance cost for Credits and Collections, the recorded cost was $4.916 million, 12 percent less than the estimated $5.6 million.

205. With potential Southern California Gas Company branch closures, the incremental need for payment entry processing units is unknown.

206. There is no evidence to show special banker needs that require Southern California Gas Company to spend $307,000 of ratepayer funds to purchase new printers and scanner units for its branch offices.

207. Historically, Southern California Gas Company's Remittance Payments department has functioned with 22.2–24.8 Full Time Equivalents from 2017-2021.

208. Southern California Gas Company (SoCalGas) has requested seven additional full-time employees for Remittance Payments to support its enhanced activities related to the memorandum of understanding with the Center for Accessible Technology. However, SoCalGas does not include a cost breakdown or a timeline of activities, and the memorandum of understanding expired in December 2023.

209. Southern California Gas Company needs additional Full Time Equivalents, including financial analysts, to support its tasks to comply with additional regulatory requirements related to Risk Assessment and Mitigation Phase and Risk Spending Accountability Reports, which have gradually increased since 2019.

210. Southern California Gas Company has not demonstrated that the 2021 Full Time Equivalent count is insufficient to manage electronic payments.

211. San Diego Gas & Electric Company has received Commission permission to close all branch offices.

212. San Diego Gas & Electric Company's Advice Letters 4447-E-A/3304-G-A approved the closures of four branch offices effective July 8, 2024, meaning the Branch Offices were open for approximately 51 percent of the year.

213. San Diego Gas & Electric Company has not provided evidence that a decreased call volume requires incremental staff positions.

214. San Diego Gas & Electric Company provided inconsistent evidence to support Customer Operations Compliance and Strategy's incremental staffing needs.

215. San Diego Gas & Electric Company's inconsistent evidence regarding postage errors and its corrective processes indicates that it may have unnecessarily spent ratepayer funds and inflated its 2024 Test Year forecast.

216. San Diego Gas & Electric Company's Customer Contact Center of the Future will require ongoing operational and maintenance costs.

217. Southern California Gas Company's 0.310 percent Uncollectible Rate is based on a ten-year rolling average of actual and reserve write-offs from 2012 through 2021, reflecting economic and cyclical variables.

218. San Diego Gas & Electric Company's 0.205 percent Uncollectible Rate reflects the ten-year rolling average methodology.

Sempra Utilities: Supply Management Logistics and Supplier Diversity

219. Cal Advocates reviewed Southern California Gas Company's Supply Management cost request and did not oppose the 2024 Test Year forecast.

220. Cal Advocates reviewed San Diego Gas & Electric Company's Supply Management cost request and did not oppose the 2024 Test Year forecast.

221. Southern California Gas Company's and San Diego Gas & Electric Company's Supplier Diversity programs' compliance with General Order 156 is not at issue in this general rate case.

222. Modifying Supplier Diversity reporting requirements requires more data, wider coordination, and alignment with the Commission's overall policy objectives.

San Diego Gas & Electric Company: Clean Transportation

223. The Commission has previously approved funding for electric vehicle awareness initiatives. San Diego Gas & Electric Company failed to demonstrate how an additional $250,000 would enhance these existing efforts.

224. Pursuant to Decision 22-11-040, public-private partnerships are a better approach for broad consumer awareness campaigns about electric vehicles.

225. San Diego Gas & Electric Company did not provide any evidence to support the creation of Full Time Equivalent positions at $250,000 outside of the incremental electric vehicle infrastructure programs.

226. San Diego Gas & Electric Company's incremental cost request of $906,000 for ongoing data subscription fees for electric vehicle chargers will support the data subscription fees that are necessary to keep the electric vehicle chargers in operation.

227. San Diego Gas & Electric Company's request for $125,000 to fund a data scientist position to support the electric vehicle program will help keep the pace of transportation electrification in California increasing, as is the pace of Commission mandates on the Clean Transportation function.

228. San Diego Gas & Electric Company overspent the $45 million Vehicle Grid Integration Balancing Account by $3.5 million, including $3.5 million in Americans with Disabilities Act compliance costs.

229. In Decision 21-04-014, the Commission previously denied recovery of cost overruns and ordered an audit of the cost overruns.

230. Regarding Vehicle Grid Integration Balancing Account, Vehicle Grid Integration Memorandum Account, Clean Transportation Priority Balancing Account, Working Group Facilitator Memorandum Account, and the High-Power Interim Rate Waiver Balancing Account, these regulatory accounts were created to support various pilot program implementations, which have already been completed, and there is no need for continued use of these regulatory accounts.

231. There are discrepancies in San Diego Gas & Electric Company's treatment of the Electric Vehicle Infrastructure Memorandum Account, as Exhibit SDG&E-21 proposes to close the regulatory account while the witness in Exhibit SDG&E-43 seeks continuation of the regulatory account.

232. No reasonableness review of San Diego Gas & Electric Company's (SDG&E) Electric Vehicle Infrastructure Memorandum Account (EVIMA) has occurred because it opened the EV Infrastructure Rule established in Assembly Bill 841 to customer applications in April 2022. At the time of filing this general rate case application, the EVIMA showed a $0 balance, meaning SDG&E had not booked costs in the EVIMA.

233. Generally, memorandum accounts do not have spending limits. However, establishing a funding cap provides cost certainty, which is warranted by San Diego Gas & Electric Company's history of cost overruns in pilot programs.

Southern California Gas Company: Fleet Services Non-Shared O&M Costs

234. Southern California Gas Company requests $82.509 million in Non-Shared Services operations and maintenance costs in Test Year 2024 for its Fleet Services, an increase of $25.695 million from 2021 Base Year.

235. Southern California Gas Company uses zero-based forecasting for Lease and License, salvage and replacement, and vehicle additions.

236. Southern California Gas Company's projected vehicle acquisitions for Test Year 2024 are higher than historical trends suggest.

237. Between 2014 and 2019, Southern California Gas Company estimated to purchase 3,965 vehicles but only added or replaced 2,020 vehicles.

238. Southern California Gas Company is seeking costs related to laptop purchases that will not recur in the Test Year.

239. Southern California Gas Company plans to purchase 126 commercially available passenger hydrogen fuel cell electric vehicles for $1.109 million in 2024.

240. The evidentiary record supports the addition of only 56 of the 1,051 vehicles that Southern California Gas Company plans to add to its fleet.

241. In Decision 19-09-051, the Commission rejected Southern California Gas Company's request to use methane-burning vehicles and directed it to switch to battery-electric or hybrid electric vehicles.

242. Southern California Gas Company has not established reasonable economic benefits to ratepayers of reducing fleet age to below historical norms.

243. Southern California Gas Company aims to buy 3,100 vehicles from 2022 through 2024, averaging 1,033 annually, much higher than the average of 198 vehicles per year from 2017 to 2021.

244. It is unclear how Southern California Gas Company will manage a large stock of vehicles if it buys additional inventory in this general rate case cycle and receives a backlog of delayed inventory of 1,521 units in 2023-2024.

245. Southern California Gas Company has not established a direct benefit to ratepayers by increasing the percentage of automobiles and compact trucks

aged 0-7 years from 68 percent and 69 percent in 2016 to 87 percent and 80 percent by 2024, respectively.

246. Southern California Gas Company has not established whether it has included in its forecast authorization to catch up with California Air Resources Board requirements in the 2019 general rate case.

247. Southern California Gas Company requests ratepayer funding to build hydrogen refueling stations for its hydrogen vehicle fleet.

248. Generating and supplying hydrogen is not Southern California Gas Company's core business.

249. Southern California Gas Company is installing more than 240 electric vehicle (EV) chargers at nine company locations and plans to have more than 1,500 EV chargers installed by 2025 at its operating bases.

250. The market for light duty vehicles is moving towards electric, including plug-in electric vehicle and hybrid electric vehicle.

251. Electric vehicles have significantly lower operational and lifetime costs than hydrogen-fueled light-duty vehicles.

252. Compared to San Diego Gas & Electric Company, Southern California Gas Company continues to request more natural gas vehicles.

253. Southern California Gas Company (SoCalGas) has not established the cost of collaborating with Ford Motor Company to develop an F-500 Super Duty hydrogen-fuel cell electric vehicle truck for a demonstration project and a temporary Hydrogen refueling station at the Bakersfield SoCalGas facility.

254. Southern California Gas Company reduced its Fleet Management costs by $959,000 from the 2021 Base Year costs.

255. California Environmental Justice Alliance's (CEJA's) proposed reduction of $816,000 from Southern California Gas Company's (SoCalGas's) Fleet

Management costs is reasonable, given that these costs would go toward vehicle maintenance training for light duty hydrogen vehicles, which is not reasonable given this decision's rejection of SoCalGas's request to procure light-duty hydrogen vehicles. The Southern California Gas Company Telematics request of $2.635 million will cover costs for additional safety features.

256. 2021 Base Year operations and maintenance costs for the Director and administrative assistant for Southern California Gas Company's Fleet Services are 150 percent higher than the 2017-2020 average without supporting evidence.

San Diego Gas & Electric Company: Fleet Services Non-Shared O&M Costs

257. San Diego Gas & Electric Company requests $52.732 million for Fleet Services for Test Year 2024, an increase of $14.661 million from 2021 Base Year.

258. San Diego Gas & Electric Company's incremental Fleet Services costs are due to higher vehicle leasing costs, which total $7.057 million to replace older vehicles and $900,000 to meet electrification and zero-emission vehicle goals.

259. For leases and licenses, San Diego Gas & Electric Company relies on zero-based forecasting.

260. The average age of San Diego Gas & Electric Company's vehicles increased from 101 months (8.4 years) in 2016 to 110 months (9.2 years) in 2021 while it plans to reduce the average age to 82 months (6.8 years) by 2024, representing a 20 percent reduction compared to 2016.

261. Based on historical trends, San Diego Gas & Electric Company's forecast overestimates its vehicle replacement and acquisitions.

262. San Diego Gas & Electric Company plans to pilot medium- and heavy-duty hydrogen vehicles, where interest in market growth is more likely to be achieved over the upcoming years.

263. San Diego Gas & Electric Company bases its forecast on a five-year historical for Maintenance Garage Operations and added anticipated costs for incremental Full Time Equivalents and increased costs related to Vehicle Additions to the Fleet.

Southern California Gas Company: Real Estate

264. Southern California Gas Company's Facility Operations and Real Estate operations and maintenance incremental cost request of $1.633 million includes Shared and Non-Shared costs. Intervenors did not contest the costs.

265. Southern California Gas Company estimated $27.371 million for Non-Shared services, $30,000 lower than the 2021 Base Year costs. For Shared costs, it requested $23.925 million, an increase of $1.663 million from the 2021 Base Year.

266. Southern California Gas Company used the Base Year 2021 to forecast 2024 Test Year Rent Non-Shared operations and maintenance costs and escalated them based on contractual obligations and industry-standard annual three percent escalation.

267. Using the most recent six-year historical average (2017-2022) for Facilities Operations and Real Estate Administration Non-Shared operations and maintenance costs, instead of three years (2019-2021) as proposed by Southern California Gas Company, normalizes fluctuations and sets the spending at levels representing the cost of serving customers.

268. Southern California Gas Company's requested Non-Shared labor cost increase for Facility Operations is not commensurate with its operations and is based on ambiguous references to sustainability activities.

269. Southern California Gas Company (SoCalGas) uses different forecasting methods for its Facility Operations and Real Estate Shared operations and maintenance costs, including zero-based, Base-Year, and three-year historical

costs. SoCalGas's escalation is based on Shared Services percentages, contractual obligations, and incremental adjustments.

270. Southern California Gas Company requests $306.741 million for 2022-2024 Facility Operations and Real Estate Capital for infrastructure and improvements, safety and compliance, sustainability and conservation, fleet projects, and fleet alternative refueling infrastructure.

271. Southern California Gas Company does not provide a breakdown of historical spending for infrastructure and improvement cost requests of $117.234 million, making it difficult to assess the real cost drivers and determine reasonable costs. Therefore, without supporting evidence, the cost of creating activity-based and collaborative workspaces as a hybrid work model is excessive, given the need for affordable rates for its ratepayers.

272. Pursuant to Decision 19-09-051, the "Distributions Operations Control Center" is proposed to be built in phases from 2017 to 2021 with an estimated total capital cost of $108 million. Southern California Gas Company (SoCalGas) has incurred costs totaling $29.457 million up to 2019. In this general rate case, the same project is referred to as the Control Center Modernization Building project, and SoCalGas is requesting $75.590 million for the project.

273. Cal Advocates does not object to the Control Center Modernization Building project but requests a Tier 2 Advice Letter to review the construction cost. Since we expect the project to be completed by the time this decision is issued capping the project cost at $77.214 million, there is no regulatory benefit to adopting an Advice Letter mechanism.

274. Southern California Gas Company has not provided a historical breakdown of costs for Physical Security Infrastructure Enhancements and the cost requests are embedded in the overall infrastructure and improvements capital costs.

275. Southern California Gas Company's Facility Operations and Real Estate capital cost forecasting for infrastructure and improvements cost category relies on skewed data that only reflects increased spending on infrastructure and construction—excluding the 2017-2018 data results in overestimating expenses and deviating from reasonable capital expense forecasts.

276. Southern California Gas Company's safety and compliance capital cost forecast relies upon ongoing projects to install automatic doors at branch offices for completion in 2022 and the current and upcoming seismic retrofits and fire safety projects that will increase in 2023 and 2024.

277. Southern California Gas Company requested $32.509 million under Facility Operations and Real Estate capital costs for sustainability and conservation, including light emitting diode lighting, xeriscape, testing technologies for renewable energy generation and storage, and a Hydrogen Home project.

278. The California Environmental Justice Alliance and the Environmental Defense Fund oppose the Hydrogen Home project because it is not supported in the record to expend ratepayers' funds, and it has not received Commission authorization.

279. According to Southern California Gas Company, the historical cost of $2.568 million expended from the 2019 general rate case (GRC) on the Hydrogen Home project is presented as part of this 2024 Test Year GRC request and is included in the rate base forecast. Additionally, it requested $4.573 million in capital costs for the Hydrogen Home project.

280. The Hydrogen Home project does not benefit natural gas ratepayers as it does not deliver safe and reliable gas service to customers. Given the affordability of rates, it is unclear why Southern California Gas Company reprioritized ratepayer funds authorized for other projects in the 2019 general rate case to

showcase a demonstration hydrogen microgrid project that the Commission did not approve.

281. Utilizing funds from ratepayers to assess new technologies related to sustainability and conservation, such as microgrids, fuel cells, renewable natural gas, and hydrogen, could place an unnecessary financial burden on the ratepayers, especially when there are already existing research, development, and demonstration programs that can evaluate these technologies.

282. Southern California Gas Company does not show the baseline costs and its projected cost adjustments for its solar panel project under sustainability and conservation cost categories.

283. The underlying capital cost drivers for the Fleet Project relate to material costs for tools, software, and hardware and vendor estimates for vehicle hoist and telematics installation.

284. Southern California Gas Company's request to upgrade its existing renewable natural gas (RNG) fueling facilities includes adding fueling capacity and replacing deteriorating RNG fueling equipment. The forecasting methodology is zero-based and relies on the work needed at each project location.

285. Southern California Gas Company's interpretation of Decision (D.) 19-09-051, D.95-11-035, and D.02-12-056 is incorrect. These decisions emphasize replacements and upgrades of existing facilities, not the addition of new ones.

286. Southern California Gas Company's plan to spend surplus funds on building new renewable natural gas refueling stations at Visalia and Santa Maria does not benefit ratepayers. On the contrary, there are potential risks of stranded costs and inconsistencies with California's policies to promote zero-emission vehicles.

287. Southern California Gas Company's proposal to own an asset with a 20-year depreciation for the Santa Maria and Visalia renewable natural gas stations ignores the uncertainty of electric truck technology by 2045 and unduly burdens the ratepayers.

288. Southern California Gas Company has not demonstrated the productivity gains the proposed renewable natural gas refueling stations will have, such as reduced response time in emergencies or eliminating non-productive drive time.

289. Southern California Gas Company's argument that there are limited alternative fuel vehicle options is not supported by evidence, as electric and hydrogen fuel cell electric vehicles are available.

290. Southern California Gas Company's proposal to build new renewable natural gas refueling stations in high-pollution areas ignores the impact of methane leakage and construction impacts in Environmental and Social Justice communities.

291. Producing, delivering, and storing hydrogen for public access is not a core utility business for Southern California Gas Company, and the benefits to ratepayers are unknown.

292. Southern California Gas Company proposes building hydrogen refueling stations for its own use to understand the technology and determine future applications. However, there are ample research opportunities in the public sphere and no statutory requirement for ratepayers to bear the cost of transitioning to hydrogen-fueling infrastructure.

293. It is unclear whether Southern California Gas Company has met applicable local, state, and federal requirements for building hydrogen refueling stations in Environmental and Social Justice communities.

294. Southern California Gas Company has access to hydrogen to refuel any vehicles it buys or leases without owning refueling stations at ratepayer expense.

295. The market penetration of public-use hydrogen vehicle refueling at Pico Rivera is unknown, and the financial impact on ratepayers is uncertain.

296. Southern California Gas Company's (SoCalGas's) electric vehicle charging capabilities at employee-assigned facilities allow its employees to access a strategically placed charging network to meet the vehicle charging needs of operations teams across SoCalGas's diverse service territory.

Sempra Utilities: Environmental Services

297. Southern California Gas Company and San Diego Gas & Electric Company use a base-year methodology for Environmental Services forecasts.

298. Southern California Gas Company applies a year-over-year change average (2010-2021) to forecast the Assembly Bill 32 Administrative Fees portion of its New Environmental Regulatory Balancing Account costs.

299. San Diego Gas & Electric Company did not provide a supporting explanation demonstrating how it would deal with mismatched or changing forecasts between its own GRC and SCE's regarding San Onofre Nuclear Generating Station cost methodologies for Marine Mitigation and Worker's Compensation .

300. San Diego Gas & Electric Company can seek to recover San Onofre Nuclear Generating Station Marine Mitigation and Worker's Compensation costs by intervening in the Southern California Edison Company general rate case as it has historically done under the existing SONGS cost recovery process.

301. Replacing the two-way New Environmental Regulatory Balancing Account with a one-way balancing account that may be complemented with a

memorandum account for above-authorized expenditures will provide greater transparency and accountability to avoid cost overruns.

Southern California Gas Company: Information Technology

302. Southern California Gas Company uses five-year historical data to forecast $56.783 million for its 2024 Test Year Information Technology operations and maintenance expense.

303. Southern California Gas Company forecasts $657.032 million in total Information Technology capital costs based on a zero-based methodology.

304. Southern California Gas Company's SAP Transformation project is forecasted to cost $70.612 million in capital, but actual capital expenditures for 2022 were approximately 50 percent lower than projected costs.

305. Southern California Gas Company lacks sufficient evidence to support $70.612 million in capital costs for the SAP Transformation project as the only evidence provided is that project cost estimates are based on input from subject matter experts and the proprietary vendor, as SAP phases out support by 2027.

306. Southern California Gas Company failed to provide a comprehensive business case and cost-benefit analysis to justify Portable Automated Centralized Electronic Retrieval Workforce Management in its initial filing, relying instead on The Utility Reform Network's data request responses as justification.

307. The Utility Reform Network's recommendations to reduce Southern California Gas Company's (SoCalGas's) Portable Automated Centralized Electronic Retrieval Workforce Management system and Customer Contact Center Technology 2024 operations and maintenance forecasts by $3.65 million and $2.4 million, respectively, to account for the benefits as shown in SoCalGas's internal documentation are reasonable.

308. Southern California Gas Company needs to upgrade to AclaraONE software in the Cloud because the vendor will no longer support the onsite version, which can lead to reliability and security risks, and expensive maintenance costs.

San Diego Gas & Electric Company: Information Technology

309. San Diego Gas & Electric Company forecasts $27.113 million for Non-Shared operations and maintenance Information Technology (IT) costs, out of which $6.731 million is designated to support the company's IT infrastructure activities, which is uncontested. The remaining forecast of $20.382 million allocated for applications to support Customer Information System replacement expenses is contested.

310. The new Customer Information System (CIS) went live in April 2021, and amortization of the revenue requirement into rates was approved on February 10, 2022. Therefore, the existing CIS Balancing Account and Transition, Stabilization and Organizational Change Management Balancing Account cannot record ongoing CIS replacement expenses because they were established to support the CIS implementation.

311. San Diego Gas & Electric Company normalized the 2021 Base Year to reflect a full year's cost for Customer Information System operations.

312. San Diego Gas & Electric Company outlines the functions supported by its Non-Shared Information Technology cost request but does not provide supporting information for the incremental costs and doubling of Full Time Equivalent positions from 2021 to 2022.

313. A six-year average incorporating actual 2022 costs and normalized 2021 Base Year expenses considers past spending trends and Customer Information System's most recent spending.

314. San Diego Gas & Electric Company forecasts $83.305 million in Shared Information Technology (IT) costs based on the 2021 Base Year recorded costs and further adjustments. Except for $2.176 million in the forecast related to the Smart Meter 2.0 capital project, the remaining Shared IT costs are uncontested.

315. San Diego Gas & Electric Company forecasts $642.991 million in Information Technology (IT) capital costs (2022-2024), including 58 projects sponsored by the IT division and 56 projects sponsored by other divisions, using a zero-based forecast methodology for IT capital projects.

316. San Diego Gas & Electric Company has failed to demonstrate the urgency of proactively replacing 900,000 gas modules with a reasonable remaining lifespan of five to six years, which might burden ratepayers with unnecessary costs.

317. San Diego Gas & Electric Company has not provided a comprehensive cost-benefit analysis comparing various replacement strategies, including battery replacement, to justify the proposed Smart Meter 2.0 project.

318. Supply chain disruptions for both Smart Meter 2.0 modules and potential battery replacements for gas modules have resulted in significant uncertainties in authorizing ratepayer funding.

319. San Diego Gas & Electric Company has not provided sufficient evidence to justify the significant level of funding requested for the Smart Meter 2.0 project.

320. San Diego Gas & Electric Company should include Smart Meter system upgrade costs in a future Smart Meter 2.0 project application to demonstrate integration into the meter replacement plan and avoid unnecessary costs to ratepayers.

321. San Diego Gas & Electric Company (SDG&E) has not demonstrated that it raised questions with the Smart Meter vendor by asking for replacements,

refunds, or credits for the modules or meters that have failed prematurely, which would be reasonable actions given that SDG&E is planning to procure more meters from the vendor.

322. San Diego Gas & Electric Company has not adequately demonstrated that it explored cost-reduction options, such as technological advancements like smart inverters, before committing to a large-scale meter replacement project.

323. The replacement of end-of-life and appropriate software systems through the Field Service Delivery project is necessary to maintain operational efficiency and improve internal company operations and customer service.

324. San Diego Gas & Electric Company relies on previous general rate case (GRC) decisions to support its cost request for the Field Service Delivery project without providing supporting evidence in this GRC cycle.

325. San Diego Gas & Electric Company's (SDG&E) data request responses to The Utility Reform Network show that in internal documentation, SDG&E estimated 80,000 work hours and $17 million in savings for a total Field Service Delivery project cost of $85 million, but in testimony, SDG&E does not demonstrate whether its project expenditure results in tangible expected cost savings or service improvements.

326. San Diego Gas & Electric Company estimated $13.4 million in 2022 capital costs but incurred $9.187 million for Field Service Delivery.

327. San Diego Gas & Electric Company's Smart Meter system upgrade request is supposed to continue through 2030 when it also plans to replace all Smart Meter 1.0 modules, which may result in cost overlaps and redundancies.

328. San Diego Gas & Electric Company's Smart Meter system upgrade is based on inconsistent data between projected and actual expenditures for 2022, and a

lack of detailed cost breakdowns undermines the reasonableness of the funding request.

329. San Diego Gas & Electric Company has not demonstrated a comprehensive plan for managing the Smart Meter system upgrade costs in conjunction with deploying the Smart Meter 2.0 project.

330. San Diego Gas & Electric Company's Customer Information System enhancements and the category of work listed in Exhibit SDG&E-225-E in Tables BG-WE-7, BG-WE-8, and BG-WE–9, could not have been foreseen and planned in 2018, thereby necessitating the proposed enhancements.

331. Customer Information System enhancements should result in potential cost savings, including the automation of existing manual processes, thereby lowering costs resulting in ratepayer benefits.

332. San Diego Gas & Electric Company needs to upgrade its customer contact center system as the current systems are reaching the end of their life. Vendor support will no longer be available as one vendor has entered bankruptcy, and the other only supports cloud-based solutions.

333. Information Technology costs related to Energy Procurement will help San Diego Gas & Electric Company operate safely and effectively in the California Independent System Operator market and meet its compliance needs.

334. San Diego Gas & Electric Company's uncontested Information Technology capital cost forecasts amount to $173.838 million, $118.348 million, and $94.891 million for 2022, 2023, and 2024, respectively.

Sempra Utilities: Cybersecurity

335. Southern California Gas Company's 2024 Test Year forecast of $3.970 million for Cybersecurity Shared Services is unopposed.

336. The marketplace for cybersecurity personnel is extremely competitive.

337. Southern California Gas Company spent about $47 million for Cybersecurity from 2019 to 2021 and is requesting $108.545 million for 2022 to 2022, a $61 million increase.

338. Southern California Gas Company recorded $18.146 million in capital costs in 2022 for Cybersecurity, which contradicts its forecast of $28.842 million.

339. San Diego Gas & Electric Company's Cybersecurity capital spending is consistent with historic levels.

340. San Diego Gas & Electric Company's Cybersecurity capital costs request is unopposed.

Sempra Utilities: Corporate Center General Administration Utility Allocations

341. Corporate Center Administrative and General cost requests decreased by $5.913 million for the 2024 Test Year from $135.976 million in the 2021 Base Year, primarily due to decreased costs for Facilities and Assets and Pensions and Benefits.

342. Sempra Utilities requests incremental cost increases of sub-cost categories from the 2021 Base Year for the following divisions: Finance, Human Resources and Administration, Legal Compliance and Governance, and External Affairs.

343. Sempra Utilities forecasts outside legal expenses using a five-year average of historical costs.

344. The underlying forecasting method for incremental cost increases is not evident in the actual cost requests for sub-cost categories except for outside legal expenses.

345. Sempra Utilities Corporate Center uses a hierarchy to allocate its costs to Southern California Gas Company, San Diego Gas & Electric Company, and

Infrastructure: Direct Assignment, Causal/Beneficial, and Multi-Factor methodology.

346. There is a lack of supporting evidence for how cost centers within a division apply forecasting methods and the justification for incremental cost requests.

347. Sempra Utilities fails to disaggregate and disclose how forecasting methods are used to allocate each utility's division-level forecasts.

348. Sempra Utilities' request for incremental funding lacks specific justification as it cites generic statements about complying with "existing and potentially new" regulations but fails to demonstrate a direct connection to the requested expense increase.

349. Sempra Utilities mentions infrastructure growth demands but does not link this to a specific workload increase within the Corporate Center.

350. Sempra Utilities has not demonstrated how its expense forecasts directly correlate to the workload in the Corporate Center's departments.

351. Sempra Utilities does not demonstrate a forecasting methodology or explain the reason behind the $3.936 million incremental cost increase under the Finance division.

352. Public Utilities Code Section 451 requires the Commission to ensure that all charges demanded or received by any public utility are just and reasonable.

353. The Commission has not been able to ensure that Corporate Center Administrative and General costs are just and reasonable pursuant to Public Utilities Code Section 451.

354. The burden lies with Sempra Utilities to justify why 36 "privileged audits" are a valid expense for ratemaking purposes.

355. Sempra Utilities fails to meet its burden of showing how the 36 "privileged audits" benefit ratepayers pursuant to Public Utilities Code Section 451.

356. The Utility Reform Network recommends reducing allocated costs for Pension and Benefits by $8.805 million because the Sempra Utilities Incentive Compensation Plan focuses primarily on financial goals and is not supported by a quantitative benefit to ratepayers.

357. In the past, the Commission has reduced incentive compensation based on financial metrics due to insufficient ratepayer benefits.

358. Sempra Utilities has not adequately demonstrated how Incentive Compensation tied to financial goals results in specific ratepayer benefits and rate affordability.

359. Southern California Gas Company's General Order 77-M Reports show that, between 2014 and 2021, the utility never recorded outside legal costs to any Federal Energy Regulatory Commission 426 accounts.

360. Historical costs related to California Energy Commission litigation, an Attorney General's inquiry, and litigation against Cal Advocates at the California Public Utilities Commission are extraordinary events not normally expected to be included in forecasting future Test Year costs.

361. The lack of a clear description of Federal Energy Regulation Commission accounts leads to a lack of transparency on ratepayers' costs.

362. A pattern of misclassification of costs for outside legal expenses in the past requires corrective measures and future reporting requirements.

Sempra Utilities: Compensation and Benefits

363. Denying the Sempra Utilities funding for costs associated with financial incentive compensation metrics is reasonable based on previous Commission

decisions, their lack of ratepayer benefits, and the decreasing affordability of the Sempra Utilities' rates.

364. Cal Advocates' forecast for Southern California Gas Company's and San Diego Gas & Electric Company's Non-Executive and Executive Incentive Compensation Plan of $45.568 million and $33.287 million, respectively, is reasonable based on Commission precedent, shareholders and ratepayers both receiving benefits from incentive compensation programs, and the decreasing affordability of rates.

365. Requiring Sempra Utilities (Sempra) to conduct an independent study of its management efficiency to be filed in the next general rate case is reasonable because Sempra appears to lack incentives to operate in a cost-effective manner.

366. San Diego Gas & Electric Company's total Incentive Compensation Plan of $30.779 million is reasonable based on a reduction of $2.508 million due to the lack of support for the necessity and reasonableness of the 128 of San Diego Gas & Electric Company employees receiving compensation significantly above market compensation.

367. Cal Advocates' recommended 2024 forecasts for medical, dental, and vision benefits for Southern California Gas Company and San Diego Gas & Electric Company are reasonable based on historical data, including 2017-2020 and 2022-2024 headcounts.

368. Cal Advocates' recommended 2024 forecasts for Southern California Gas Company's and San Diego Gas & Electric Company's Nonqualified Retirement Savings Plan and Supplemental Pension are reasonable based on historical data, including 2017-2020 and 2022-2024 headcounts, and equal sharing of this cost between ratepayers and shareholders.

Sempra Utilities: Pension and Post-Retirement Benefits Other than Pensions

369. The uncontested pension and post-retirement benefits other than pensions forecasts for Southern California Gas Company and San Diego Gas & Electric Company of $170.718 million and $35.275 million, respectively, are maintained in a two-way balancing account and are reasonable.

People and Culture Department

370. Southern California Gas Company's methodology, its application, and revised forecast for 2024 Human Resources and Employee Services of $12.143 million are reasonable and more accurate than Cal Advocates' reduced forecast of Base Year 2021 adjusted recorded costs.

371. Southern California Gas Company's forecast for 2024 Workers' Compensation and Long-Term Disability of $23.475 million is reasonable based on adjustments to its 2021 data.

372. Southern California Gas Company's Vice-President of Human Resources, Chief Talent & Culture Officer is an executive officer pursuant to Resolution E-4963 because this position is that of a vice-president in charge of an administrative and policy-making function.

373. Excluding American Gas Association membership from rate base for Southern California Gas Company and San Diego Gas & Electric Company is reasonable because doing so is consistent with Decision 20-07-038 and its finding that a statement on an invoice is an insufficient demonstration for this cost.

374. The amount of $2.190 million for the 2024 Southern California Gas Company (SoCalGas) Executive Offices forecast is reasonable after deducting the amount of $462,000 for SoCalGas's Vice-President for Human Resources, Chief Talent & Culture, $926,581 for American Gas Association dues, and the amount of

$425,746 for excluded Improvement Plan costs from its $4.005 million operations and maintenance cost request.

375. Using San Diego Gas & Electric Company's (SDG&E) growth rate, the Commission finds SDG&E's 2022 forecast for $2.509 million based on 18.1 employees to be an accurate basis for SDG&E's 2024 Test Year Human Resources O&M forecast.

376. Cal Advocates' forecast for San Diego Gas & Electric Company's (SDG&E) 2024 Long-Term Disability is reasonable based on SDG&E's 2019-2021 three-year historical average with adjustments for changes in labor costs.

377. A forecast for San Diego Gas & Electric Company's 2024 Diversity Equity and Inclusion cost is reasonable based on its 2022 costs of $555,000.

378. San Diego Gas & Electric Company (SDG&E) has not provided sufficient information to determine that SDG&E's increased forecast for Diversity and Workforce Management is reasonable based on incremental costs. Instead, SDG&E's recorded 2022 forecast for Diversity and Workforce Management of $2.883 million is a reasonable estimate of SDG&E's 2024 cost for this work.

379. San Diego Gas & Electric Company's (SDG&E's) 2024 forecast for Organization Effectiveness is not supported. Instead, Cal Advocates' recommended forecast for SDG&E's Organization Effectiveness department of $1.819 million is reasonable.

380. A forecast of zero dollars for San Diego Gas & Electric Company's Vice-President for People and Culture is reasonable because Resolution E-4963 excludes recovery for such executive officers as a vice-president in charge of an administrative and policy-making function.

381. San Diego Gas & Electric Company provided insufficient evidence to support its forecast for Edison Electric Institute membership dues of $792,294 benefits ratepayers.

382. San Diego Gas & Electric Company's 2024 forecast for Executive Offices of $1.061 million is reasonable based on excluding Edison Electric Institute membership dues of $0.792 million and American Gas Association dues of $0.123 million.

383. San Diego Gas & Electric Company failed to provide sufficient evidence to support its request for People Research in the amount of $169,000.

Sempra Utilities: Administrative and General Costs and Activities

384. Southern California Gas Company's forecasted increase in Full Time Equivalents for 2024 Test Year Business Strategy and Energy Policy lacks clarity and specific responsibilities and is based on speculative policy developments.

385. The California Environmental Justice Alliance's recommendation to reduce the cost forecast for Business Strategy and Energy Policy is reasonable because Southern California Gas Company has not met its burden of proof demonstrating that its historic spending was necessary for safe and reliable service.

386. Including Southern California Gas Company's Claims Payment and Recovery Costs in 2018 and 2019 as part of the forecast is not reasonable because it is not representative of future costs. Removing these outlier costs and normalizing the forecast on an average of 2017, 2020, 2021, and 2022 is a more reasonable ratemaking approach to set more representative rates.

387. Using a six-year average for uncontested Southern California Gas Company's Administrative and General Costs is reasonable as it provides a more accurate estimate and accounts for backfilling vacant positions.

388. Based on the trend from actual 2017-2021, Southern California Gas Company's and San Diego Gas & Electric Company's franchise fees are reasonable.

389. San Diego Gas & Electric Company's Non-Shared Administrative and General operations and maintenance forecasting methodology relying on its historical five-year average and Base Year forecast to support additional regulatory financial reporting requirement activities, safety and reliability activities, and associated funding levels is reasonable.

390. Southern California Gas Company's and San Diego Gas & Electric Company's methodology for forecasting Shared Administrative and General expenses is reasonable.

Sempra Utilities: Shared Services and Shared Assets Billing Segmentation & Capital Reassignments

391. The Shared Services billing process proposed by Southern California Gas Company and San Diego Gas & Electric Company is unopposed.

392. The Shared Assets billing process proposed by Southern California Gas Company and San Diego Gas & Electric Company is unopposed.

393. San Diego Gas & Electric Company's proposed Business Segmentation allocation process is unopposed.

394. The Capital Reassignment process proposed by Southern California Gas Company and San Diego Gas & Electric Company is unopposed.

395. San Diego Gas & Electric Company's proposed Electric Transmission allocation process is unopposed.

Sempra Utilities: Depreciation

396. Retaining Southern California Gas Company's and San Diego Gas & Electric Company's depreciation service lives for the Test Year strikes a

reasonable balance between the parties' positions and competing policy considerations.

397. The retention of Southern California Gas Company's and San Diego Gas & Electric Company's current net salvage values strikes a reasonable balance between the parties' competing positions.

398. San Diego Gas & Electric Company's proposal to hold depreciation levels for electric and common categories at current rates reasonably considers the impact of future increases in electric use and revenues.

Sempra Utilities: Taxes

399. Southern California Gas Company's forecasts of a 2024 Test Year payroll tax expense of $59.4 million, ad valorem tax expense of $172.8 million, and income tax expense of $188.9 million are not opposed by any party.

400. San Diego Gas & Electric Company's forecasts of a 2024 Test Year payroll tax expense of $23.0 million, ad valorem tax expense of $149.2 million, and income tax expense of $153.1 million are not opposed by any party.

401. The Tax Memorandum Account tracks the revenue requirement impact of any differences between authorized tax expenses and those incurred due to law changes.

402. Southern California Gas Company's and San Diego Gas & Electric Company's payroll, ad valorem tax estimation methodology, and income tax adjustments, deductions, and credits are not opposed by any party.

403. Southern California Gas Company and San Diego Gas & Electric Company decided to adopt the safe harbor accounting method change resulting from Internal Revenue Code Sections 263 or 162.

404. Decision 16-06-054 requires that applicants notify the Commission of any significant tax-related changes, including accounting or procedural changes that

may materially affect revenues of $3 million or more. Southern California Gas Company and San Diego Gas & Electric Company elected the safe harbor method of accounting for gas repairs on October 11, 2024, resulting in an estimated decrease in the Test Year 2024 revenue requirement of $124.5 million and $77.293 million due to 2023 tax deductions for Southern California Gas Company and an estimated decrease in the Test Year 2024 revenue requirement of $34.8 million and $32.654 million due to 2023 tax deductions for San Diego Gas & Electric Company.

405. Delaying implementation of a material revenue requirement impact due to tax changes until the next general rate case or via an Advice Letter filing delays the Commission's opportunity to pass on ratepayer benefits in a timely manner.

Sempra Utilities: Working Cash

406. Southern California Gas Company's forecasted total revenue lag of 46.9 days is reasonable based on Sempra Utilities' methodology and supporting evidence for all its components.

407. Excluding depreciation from work cash for each utility is reasonable to align working cash with operational realities.

408. San Diego Gas & Electric Company's forecasted total revenue lag of 48.6 days is consistent with the methodology in Commission Standard Practice U-16-W and is reasonable.

409. San Diego Gas & Electric Company's (SDG&E's) calculation of estimated goods and services expense lag days for SDG&E of 34.95 days is reasonable based on the same figure used for Southern California Gas Company.

410. San Diego Gas & Electric Company's calculation of proposed Federal Income Tax expense lag days is consistent with Commission Standard Practice

U-16-W and previous Commission decisions, and the employed methodology and value are accurate and reasonable.

411. San Diego Gas & Electric Company's calculation of proposed California State Franchise Tax expense lag of 9.48 days as determined in accordance with Commission Standard Practice U-16-W and previous Commission decisions, according to a sound methodology, is accurate and is reasonable.

412. The remaining components of San Diego Gas & Electric Company's (SDG&E's) Working Cash, including SDG&E's operational cash needs, and total 2024 working cash requirement of $225.472 million is reasonable.

Sempra Utilities: Customer Forecasts

413. The Utility Reform Network's residential gas customer forecast for Southern California Gas Company and San Diego Gas & Electric Company is reasonable based on the most recent ten-year average customer growth rate and the Commission's decision to disallow gas line extensions effective July 1, 2023.

414. San Diego Gas & Electric Company's (SDG&E's) electric residential customer forecasts are reasonable based on the methodologies used and their application to the forecasts in SDG&E's testimony and workpapers.

415. San Diego Gas & Electric Company's (SDG&E's) uncontested non-residential electric customer forecasts are reasonable based on the methodologies used and their application to the forecast used in the subcategories in SDG&E's testimony and workpapers.

Sempra Utilities: Miscellaneous Revenues

416. Southern California Gas Company's (SoCalGas's) uncontested 2024 forecast for miscellaneous revenues totaling $115.359 million is reasonable based on SoCalGas's methodology and supporting documents.

417. San Diego Gas & Electric Company's (SDG&E's) uncontested 2024 forecast for miscellaneous revenues totaling $37.082 million is reasonable based on SDG&E's methodology and supporting documents.

Regulatory Accounts

418. As discussed in the Regulatory Accounts Section, many of the proposals listed in that Section were reviewed, discussed, and addressed in various other Sections of the decision as part of the discussion of other topics that the regulatory accounts address.

Compliance

419. No party challenged or expressed concerns with Southern California Gas Company's and San Diego Gas & Electric Company's compliance requirements.

420. Southern California Gas Company and San Diego Gas & Electric Company have adequately demonstrated compliance with the items listed in their compliance exhibit.

Southern California Gas Company: Other Issues: Political Activities Booked to Ratepayer Accounts

421. Uncovering improperly classified non-operating expenses associated with Political Activities is complex and resource-intensive.

422. Southern California Gas Company's forecast of 2024 Test Year costs was derived from the adjusted 2021 Base Year and did not include the costs of the four political campaigns and vendor costs associated with Agreement No. 56600056525 that occurred in 2017 through 2019.

423. Since 2020, Southern California Gas Company has implemented enhanced policies, controls, governance, and a general rate case exclusion process to record political activities to Federal Energy Regulatory Commission Account 426.4. The impact and success of these efforts have yet to be determined.

424. PricewaterhouseCoopers audited Southern California Gas Company's process of booking political activities-related costs, and the report found that costs related to contested vendor contracts are recorded below the line.

425. Southern California Gas Company failed to justify ratepayer recovery for $494,000 in vendor contract costs.

426. Cal Advocates' recommendation for an $80 million disallowance across Clean Energy Innovations, Administrative and General, Regional Public Affairs, and Customer Service-Information Network to reflect Political Activities-related work lacks supporting evidence.

427. A multi-party settlement further lowered the Customer Service - Information Network cost forecast, and there is no additional evidence for further disallowance.

428. Southern California Gas Company has misclassified political activities costs to ratepayer accounts in the past.

Sempra Utilities: Escalation and Post Test Year Ratemaking

429. Pursuant to Decision 07-07-004, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) used escalation factors based on the Global Insight index to account for the effects of inflation on the utilities' expenses between 2021 and 2024 as part of their Update Testimony. As a result, SoCalGas is receiving $136.243 million, and SDG&E is receiving $64.127 million in escalation for the 2024 Test Year revenue requirement.

430. The Global Insight index escalations have not been subject to the usual regulatory review process due to their automatic nature of escalation.

431. No party disputed the Global Insight index cost escalation factors used to reflect the effect of external inflation on Southern California Gas Company's and

San Diego Gas & Electric Company's labor operations and maintenance (O&M), non-labor O&M, and capital-related costs.

432. Beyond the 2024 Test Year, Southern California Gas Company and San Diego Gas & Electric Company propose that the base margin revenue requirements be escalated in 2025, 2026, and 2027 according to their Post-Test Year Ratemaking request.

433. To continue to allow for automatic escalation using the Global Insight index in Post-Test Year Ratemaking would allow rates to continue to increase unsustainably at an unjust and unreasonable pace.

434. Post-Test Year Ratemaking is not meant to replicate a test year analysis or cover all potential cost changes to guarantee the utility's rate of return during the attrition years. Its purpose is to reduce economic volatility between test years so that a well-managed utility can provide safe and reliable service while maintaining financial integrity.

435. An escalation factor, which is close to the Consumer Price Index inflation index, as recommended by Cal Advocates and The Utility Reform Network-Southern California Generation Coalition for Post-Test Year Ratemaking, can help balance the interests of the utility and its ratepayers.

436. Because the Commission has allowed Post-Test Year (PTY) capital attrition adjustments in some recent general rate cases, while adopting a zero escalation of capital additions in others, prior cases do not set a consistent standard for determining PTY capital attrition adjustments.

437. Sempra Utilities has insufficiently demonstrated the need for a general Post-Test Year capital attrition mechanism.

438. Sempra Utilities has not demonstrated the need for additional funds in the post-test years to account for anticipated growth in capital additions in excess of depreciation .

Sempra Utilities: Settlements

439. The Commission's policy of favoring settlements of disputes supports many worthwhile goals, including reducing litigation costs, conserving scarce resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.

440. The Commission will not approve a settlement unless it meets the "just and reasonableness" standard of the Public Utilities Code and satisfies Commission rules for submission and review, including that the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

441. An applicant has the initial burden of proof to show the reasonable possibility of the need to adjust its rates and the possible fairness of its proposed ratemaking mechanisms.

442. The parties to the October 24, 2023 settlement agreement on insurance issues had a sound and thorough understanding of the application, all the underlying assumptions and data, and a fully litigated record upon which to base a settlement, including knowledge of the relative strengths, weaknesses, and nuances of each other's litigation positions.

443. The October 24, 2023 settlement agreement on insurance issues (Insurance Settlement) commands support among participants who presented evidence on insurance issues except for one party, who does not oppose the Insurance Settlement.

444. The October 24, 2023 settlement agreement on insurance issues and the October 24, 2023 settlement agreement regarding Southern California Gas

Company's and San Diego Gas & Electric Company's Customer Services-Information requests avoid the costs of further litigation in this proceeding.

Motions

445. EDF's October 19, 2023 motion to remove Clean Energy Innovations and hydrogen projects from the GRC does not raise new facts on the projects other than updates on federal funding available to Alliance for Renewable Clean Hydrogen Energy Systems in California. The hydrogen projects in the GRC still need review and are comparable to infrastructure and Research, Development, and Demonstration requests in a GRC or formal rate recovery application.

446. Cal Advocates' May 17, 2024 Motion requests official notice of the Commission's Utility Audits Branch's Performance Audit of Southern California Gas Company's Energy Efficiency Codes & Standards Program, which is under review in Rulemaking 13-11-005.

447. San Diego Gas & Electric Company's (SDG&E) and Southern California Gas Company's (SoCalGas's) October 28, 2024, Motion requests to maintain confidentiality regarding information related to the Officer Compensation Memorandum Account.

Conclusions of Law

1. Any outstanding motions, requests, or requests not addressed in this decision or elsewhere are denied.

2. All of the oral and written rulings the assigned Administrative Law Judges have issued in this proceeding are affirmed.

3. It is reasonable to require Southern California Gas Company and San Diego Gas & Electric Company to report at the program level their deferred work or

reprioritized funds and projects related to safety and reliability in their next general rate case.

4. It is reasonable to balance costs recorded in Southern California Gas Company's and San Diego Gas & Electric Company's General Rate Case Memorandum Accounts from January 1, 2024 until the date the new tariffs authorized in this decision are implemented, by amortizing them in rates over 18 months from the date the new tariffs are implemented.

Sempra Utilities: Affordability Metrics and Affordability Analysis

5. Sempra Utilities filed Affordability Metric calculations pursuant to Decision (D.) 22-08-023 and D.20-07-032.

6. It is reasonable to evaluate the potential impacts of the revenue requirement requests on customer affordability and take appropriate actions to ensure that rate increases are just and reasonable.

Sempra Utilities: Gas Distribution

7. San Diego Gas & Electric Company's 2021 Mobile Home Park To-the-Meter capital expenditures should be adopted in the amount of $25.32 million.

8. The Commission's Utility Audits Branch (UAB) should conduct an audit to verify Southern California Gas Company's (SoCalGas's) and San Diego Gas & Electric Company's (SDG&E's) labor and other Mobile Home Park (MHP)-related costs, to document how SoCalGas and SDG&E determined their MHP labor rates and costs, to document the degree to which they may differ from prevailing wages, and to report audit finding recommendations.

9. Pending audit results and recommendations, capital cost recovery of $83.44 million for San Diego Gas & Electric Company, and $90.2 million for Southern California Gas Company, should be authorized for the Mobile Home

Park Program; and, after the audit, each utility should be allowed to file an application to seek recovery of other capital costs.

10. Mobile Home Park Program operations and maintenance cost recovery of $3.5 million for San Diego Gas & Electric Company and $4.6 million for Southern California Gas Company should be authorized.

11. Southern California Gas Company's Non-Shared Operations and Maintenance (O&M):

a. Field Support: Recovery for 2024 Field Support of $16.957 million is reasonable and should be adopted.

b. Locate and Mark Expenses: A forecast for 2024 of $20.300 million is reasonable and should be adopted.

c. Leak Survey: A forecast for 2024 for this work of $7.548 million is reasonable and should be adopted.

d. Leak Surveying and Repair Workgroup: To increase transparency between Business as Usual (BAU) and Senate Bill (SB) 1371 work, Southern California Gas Company and San Diego Gas & Electric Company should be required in future general rate cases to (i) define the full impact of activities under SB 1371 on cost forecasting (with the definition including the identification of specific thresholds of work that otherwise would not have been performed under BAU activities) and (ii) demonstrate the prudency of work placed into the SB 1371 Emissions Strategy Program (ESP) to show that all activities in the ESP are in excess of BAU work and are reasonable to perform.

e. Main Maintenance: A forecast of $5.871 million for 2024 is reasonable and should be adopted.

f. Tools, Fittings, and Materials: A forecast of $19.330 million for 2024 is reasonable and should be adopted.

g. Measurement and Regulation: A forecast of $11.147 million for 2024 is reasonable and should be adopted.

h. Cathodic Protection: A forecast of $17.193 million for 2024 is reasonable and should be adopted.

12. Other Southern California Gas Company Non-Shared operations and maintenance: A forecast of $13.119 million for 2024 for asset management is reasonable and should be adopted.

13. Remaining Uncontested Southern California Gas Company Non-Shared operations and maintenance expenses: The following amounts are reasonable for 2024 and should be adopted: Service Maintenance in the amount of $5.004 million; Leakage in the amount of $17.214 million; Measurement & Regulation in the amount of $11.147 million; the Operations and Management program in the amount of $11.613 million; and the Regional Public Affairs program in the amount of $3.968 million.

14. Shared O&M: The amount of $410,000 in 2024 is reasonable and should be adopted.

15. Southern California Gas Company (SoCalGas) Capital:

  a. New business construction: Reasonable capital amounts are $40.414 million in 2022, $40.300 million in 2023, and $39.917 million in 2024, and should be adopted.

  b. For the 2024 Test Year, it is reasonable to adopt $15.54 million as non-collectible New Business capital expenditures based on elimination of gas line extension subsidies in D.22-09-026.

  c. It is reasonable to authorize a one-way balancing account to track actual expenditures on gas new business construction costs over the four-year GRC period, with any overcollection returned to ratepayers.

  d. SoCalGas Pressure Betterments: A reasonable forecast is zero cost for pressure betterments, and this should be adopted.

  e. SoCalGas Pressure Betterments: In the next general rate case, any forecast for pressure betterment work should be based on planned work to properly reflect reduced gas consumption and show that cost recovery for the same work is not requested in this and other cost categories.

f. Mains and Services Abandonments: The reasonable amount for this category is $11.898 million for 2022, 2023, and 2024 and should be adopted.

g. Mains and Services Abandonments: In its next general rate case, SoCalGas's forecast must provide more information, including the proposed rate of regulator station replacement, the data supporting the rate, their unit cost, and the other information required by the rate case plan in order to attempt to meet its burden of proof.

h. Regulator Stations: The reasonable amount for this category is $8.292 million for each year in 2022, 2023, and 2024, and should be adopted.

i. Regulator Stations: In seeking to meet its burden of proof in its next general rate case, SoCalGas's forecast should provide more information, including the proposed rate of regulator station replacement, the data supporting the rate, their unit cost, and the other information required by the rate case plan.

j. Control Center Modernization: The reasonable total project costs are $21.931 million in 2022, $24.588 million in 2023, and $19.879 million in 2024 and should be adopted.

k. Cathodic Protection: Reasonable costs are $6.993 million for 2022, $6.527 million for 2023, and $6.527 million for 2024, and should be adopted.

l. Pipeline Relocations – Franchise: The reasonable amount is $17.727 million for each of 2022, 2023, and 2024 and should be adopted.

m. Meter Protection: The reasonable amount is $3.143 million each year for 2022, 2023, and 2024 and should be adopted.

n. Meter Protection: In seeking to meet its burden of proof in its next general rate case, SoCalGas's forecast should provide more information regarding its forecast, including the number of new installations, replacements, the condition of meter protection sites needing replacement, their age or useful life, and their unit cost along with the other information required by the rate case plan.

o. Measurement and Regulation Devices – Meters: Costs are reasonable in the amounts of $24.933 million in 2022, $22.572 million in 2023, and $23.783 million in 2024 and should be adopted.

p. Measurement and Regulation Devices – Regulators: Costs are reasonable in the amounts of $5.152 million in 2022, $4.888 million in 2023, and $5.834 million in 2024 and should be adopted.

q. Measurement and Regulation Devices – Electronic Pressure Monitors: Costs are reasonable in the amounts of $0.272 million for each of the years 2022, 2023, and 2024 and should be adopted.

r. Measurement and Regulation Devices – Gas Energy Management Systems: Costs are reasonable in the amounts of $0.724 million for each of the years 2022, 2023, and 2024 and should be adopted.

s. Measurement and Regulation Devices – Gas Energy Management Systems: To seek to meet its burden of proof in its next general rate case, SoCalGas should provide more information to support this request, including the basis of its new customer growth, the age of these components, and past and projected replacement rates.

t. Field Capital Support: Costs are reasonable in the amounts of $75.272 million in 2022, $77.929 million in 2023, and $70.689 million in 2024 and should be adopted.

16. Remaining Southern California Gas Company (SoCalGas) Capital Requests: Undisputed SoCalGas reduced capital forecasts are reasonable and should be adopted for 2022, 2023, and 2024 in the amounts shown in Section 3.2.6 of the text in these six categories: Main Replacements, Service Replacements, Pipeline Relocations – Freeway, Other Distribution Capital Projects, Capital Tools, and Remote Meter Reading.

17. San Diego Gas and Electric Company Non-Shared Operations and Maintenance Expense

a. Other Services: The reasonable amount is zero for this workgroup and zero should be adopted.
b. Other Services: The Commission should eliminate this category from future consideration.
c. Locate and Mark: The reasonable amount is $3.648 million for 2024 and should be adopted.
d. Main Maintenance: The reasonable amount is $4.693 million for 2024 and should be adopted.
e. Service Maintenance: The reasonable amount is $2.772 million in 2024 and should be adopted.
f. Measurement and Regulation: The reasonable amount is $5.153 million in 2024 and should be adopted.
g. Asset Management: The reasonable amount is $1.375 million for 2024 and should be adopted.
h. Asset Management: San Diego Gas & Electric Company should describe in its next General Rate Case how staff positions in this cost category are not duplicated in other cost categories.
i. Operations Management, Supervision and Training: The reasonable amount is $9.128 million for 2024 and should be adopted.
j. Operations Management, Supervision and Training: San Diego Gas & Electric Company should describe in its next General Rate Case how staff positions in this cost category are not duplicated in other cost categories.

18. Uncontested Non-Shared Operations and Maintenance Expenses: Uncontested San Diego Gas & Electric Company reduced operations and maintenance expense forecasts for 2024 are reasonable in the following amounts and should be adopted: Leak Survey in the amount of $2.068 million, Tools in the

amount of $1.667 million, Electric Support in the amount of $0.495 million, and Cathodic Protection in the amount of $1.834 million.

19. San Diego Gas & Electric Company (SDG&E) Gas Distribution Capital:
    a. The Utility Consumers' Action Network's recommendation that SDG&E's 2024 gas distribution total capital forecast be reduced by 30 percent based on declining gas demand should be denied.
    b. The Coalition of California Utility Employees' recommendation for higher funding to increase the rate of replacement of three vintages of steel gas pipe should be denied.
    c. SDG&E's funding requests for the three Risk Assessment and Mitigation Phase pipe replacement programs are reasonable and should be adopted.
    d. New Business: San Diego Gas & Electric Company's New Business forecast should be adjusted in light of Decision 22-09-026 and reduced to remove $569,000 in line purging costs .
    e. New Business: The reasonable amount is $8.613 million in each year in 2022, 2023, and 2024 and should be adopted.
    f. For the 2024 Test Year it is reasonable to adopt $2.497 million in non-collectible New Business capital expenditures to be collected in rate base.
    g. It is reasonable to authorize a one-way balancing account to track actual expenditures on gas new business construction costs over the four-year GRC period, with any overcollection returned to ratepayers.
    h. Gas Meters and Regulators: The reasonable amount is $8.374 million for each of the years 2022, 2023, and 2024 and should be adopted.
    i. SDG&E Tools and Equipment: The reasonable amount of $3.659 million for each of the years 2022, 2023, and 2024 should be adopted.

j. Leak Repair Request: The reasonable amount of $10.082 million for each of the years 2022, 2023, and 2024 should be adopted.

k. Leak Repair Request: SDG&E should distinguish costs attendant to the Natural Gas Leak Abatement program from the historical pipeline repair program governed by longstanding federal and state regulations in its next general rate case.

l. Cathodic Protection Program: It is reasonable to adopt $4.409 million for each of the years 2022, 2023, and 2024.

m. Cathodic Protection System Enhancements: The reasonable amount of zero for each of the years 2022, 2023, and 2024 should be adopted.

n. Cathodic Protection Program and Cathodic Protection System Enhancements: SDG&E and Southern California Gas Company (SoCalGas) should, in each of their next general rate cases (GRCs), provide a holistic forecast for each of their cathodic protection programs, quantify their level of cathodic protection activity, and explain the difference in spending between SDG&E and SoCalGas given the vast difference in amounts spent by each company, low general rate case and Risk Assessment and Mitigation Phase Risk Spending Efficiency scores, and insufficient demonstration of increased activity in this proceeding.

o. System Reliability and Safety: The reasonable amount of $0.645 million in each of the years 2022, 2023, and 2024 should be adopted.

p. System Reliability and Safety: SDG&E should, in its next general rate case, provide sufficient detail regarding System Reliability and Safety work to enable the Commission to evaluate its reasonableness.

q. Early Vintage Component Program to Remove Dresser Mechanical Couplings: The reasonable amount of $0.5 million for each of the years 2022, 2023, and 2024 should be adopted.

r. Early Vintage Component Program to Remove Dresser Mechanical Couplings: If more Dresser Couplings need replacement, then SDG&E should, in seeking to meet its burden of proof in its next general rate case, provide supporting data, including the information missing in this request.

s. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones: The reasonable amount of $0.893 million for each of the years 2022, 2023, and 2024 should be adopted.

t. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones: If more closed valves need replacement, then SDG&E should, in seeking to meet its burden of proof in its next general rate case, provide supporting data, including the information missing in this request.

u. Control Center Modernization (CCM) Project: The reasonable amounts in years 2022, 2023, and 2024 are $0.424 million, $3.010 million and $3.778 million, respectively, and should be adopted.

v. CCM Project: SDG&E should, if it requests an increase in its capital CCM costs adopted herein, file a Tier 2 Advice Letter requesting the increase, subject to a third-party audit initiated and scoped by the Commission (which should be paid for by Sempra Utilities (Sempra), with Sempra permitted to seek recovery of the audit cost in the advice letter).

w. CCM Project: Any request by Tier 2 Advice Letter to recover an increase in capital CCM costs beyond what is authorized herein should incorporate the findings of the audit, and the audit should (i) document any differences in capital CCM yearly costs that fund similar SDG&E and SoCalGas costs categories and how they were determined (including, but not limited to, a comparison of SDG&E's and SoCalGas's yearly labor (per full time equivalent) and non-labor costs, total number of regulator station enhancements, meters and Electronic Pressure Monitors and (ii) explain cost differentials in categories and sub-categories not explicitly mentioned in Sempra's 2024 General Rate Case workpapers.

x. CCM Project: In Sempra's next general rate case, Sempra should, in seeking to meet its burden of proof, compare SDG&E's Non-Shared CCM gas expenditures to those of SoCalGas in similar categories, and document how different costs for similar categories are determined by SDG&E and SoCalGas.

y. Curb Valve Replacement: The reasonable amount is $1.0 million each year for 2022, 2023, and 2024 and should be adopted.

z. Compressed Natural Gas Stations Upgrades: The reasonable amount is zero dollars for 2022-2024 and should be adopted.

aa. Local Engineering Pool: The reasonable amounts are $22.990 million in 2022, $23.764 million in 2023, and $23.764 million in 2024 and should be adopted, subject to SDG&E filing a Tier 2 Advice Letter seeking adjustments based on the amount of total to direct capital expenditures adopted in other capital categories that use the Local Engineering Pool and other supporting information, but excluding engineering support for projects on hydrogen blending in natural gas pipeline systems.

bb. Gas System Reinforcement or Pressure Betterment: A capital forecast for SDG&E pressure betterment work is not reasonable and a forecast of zero for this cost category should be adopted.

cc. Remaining Uncontested SDG&E Capital Requests: The reasonable 2024 amounts are in the SDG&E Opening Brief (Section 10.4.2, Table titled "Gas Distribution" at 115-116) and should be adopted for each of the following cost categories: System Minor Additions, Relocations, and Retirement; ; Street and Highway Relocation; Code Compliance; each of the three Underperforming Steel Replacement Programs; Early Vintage Program – Oil Drip

Piping Removal; Pipeline in Vaults Replacement Program; Gas Distribution Overhead Pool; and Gas Distribution Contract Administration Pool.

Sempra Utilities: Gas System Staff and Technology

20. Southern California Gas Company's undisputed forecasts for 2024 for the following cost categories are reasonable and should be adopted: (1) $6,479,000 for Gas Operations Training & Development; (2) $4,909,000 for Enterprise Asset Management; (3) $675,000 for Damage Prevention; (4) $1,088,000 for High Pressure Project Record Closeout; and (5) $607,000 for Geographic Information System Data Asset Integrity.

21. Southern California Gas Company's undisputed forecasts for 2024 for the following cost categories are reasonable and should be adopted: (1) $4,305,000 for Damage Prevention; (2) $2,342,000 for Pipeline Policy; (3) $3,011,000 for Operator Qualification; and (4) $168,000 for Gas System Staff.

22. An increase for San Diego Gas & Electric Company's Non-Shared operations and maintenance from the 2021 base year amount of $95,000 to the actual amount of $423,000 in 2022 (an increase of $328,000) is reasonable for 2024 and should be adopted.

23. The requests of Southern California Gas Company and San Diego Gas & Electric Company for recovery of costs incurred in the amounts of $4.168 million and $0.698 million, respectively, for program administration activities from July 17, 2017, through December 31, 2021, that have been posted to the Natural Gas Leak Abatement Program Memorandum Account are unreasonable and should not be adopted.

Sempra Utilities: Gas Transmission Operations

24. The Southern California Gas Company 2024 Test Year forecast for Pipeline Instrumentation and Operations of $17.771 million is reasonable and should be adopted.

25. The Southern California Gas Company 2024 Test Year forecast for Compressor Operations of $11.981 million is reasonable and should be adopted.

26. It is reasonable to require in its next general rate case that Southern California Gas Company provide a time study documenting the time needed to perform employee tasks to support a reasonable level of staffing for Compressor Operations and this requirement should be adopted.

27. The Southern California Gas Company uncontested 2024 Test Year forecasts in the following categories are reasonable and should be adopted: $1.338 million for Cathodic Protection; $5.362 million for Technical Services; $0.164 million for the Storage Products Manager; and $1.149 million for Control Center Modernization Operations.

28. The Southern California Gas Company 2024 Test Year forecast of $0.230 million for Director of Gas Transmission Operations is reasonable and should be adopted.

29. The Southern California Gas Company 2024 Test Year forecast of $0.682 million for Governance and Compliance is reasonable and should be adopted.

30. The Southern California Gas Company 2024 Test Year forecast of $3.489 million for Gas Control Room Monitoring and Operation is reasonable and should be adopted.

31. The Southern California Gas Company unopposed 2024 Test Year forecasts are reasonable and should be adopted in the amounts of $0.376 million for Field

Operations Manager East Transmission; $0.566 million for FOM Compressor Station Operations; $0.906 million for Transmission & Storage Strategy Manager; $0.686 million for Capacity Products Support; $0.796 million for Gas Scheduling; $0.861 million for Gas Transmission Planning; and $1.291 million for Supervisory Control and Data Acquisition Operations.

32. The uncontested 2024 Test Year forecast of $5.501 million for San Diego Gas & Electric Company gas transmission Non-Shared operations and maintenance is reasonable and should be adopted.

33. The forecast of $10.398 million for 2022 and for $14.168 million for 2023, and $173,000 for 2024 for Southern California Gas Company's New Pipeline Construction Capital is reasonable and should be adopted.

34. A forecast for 2022, 2023, and 2024 of $39.917 million, $39.917 million, and $34.917 million, respectively, for Southern California Gas Company's Gas Pipeline Replacements is reasonable and should be adopted.

35. The forecasts of $1.701 million for 2022, and $0.201 million for 2023 and 2024 for Southern California Gas Company's Gas Pipeline Relocation-Freeway are reasonable and should be adopted.

36. A forecast of $7.022 million for 2022, 2023, and 2024 for Southern California Gas Company's Pipeline Relocation-Franchise or Private is reasonable and should be adopted.

37. A forecast of $2.038 million for 2022, 2023, and 2024 for Southern California Gas Company's capital expenditures on the Control Center Modernization project is reasonable and should be adopted.

38. The uncontested amounts for Southern California Gas Company capital gas transmission expenditures are reasonable and should be adopted:

For 2022: $13.0 million for Compressor Stations; $8.0 million for Cathodic

Protection; $347.631 million for Measurement and Regulation Stations; $4.0 million for Security & Auxiliary Equipment; $1.0 million for Buildings & Improvements; $0.892 million for Capital Tools; and $39.004 million for the Blythe Compressor Station Modernization;

For 2023: $13.0 million for Compressor Stations; $8.0 million for Cathodic Protection; $52.774 million for Measurement and Regulation Stations; $3.0 million for Security & Auxiliary Equipment; $1.0 million for Buildings & Improvements; $0.892 million for Capital Tools; and $0.370 million for the Blythe Compressor Station Modernization;

For Test Year 2024, $10.0 million for Compressor Stations; $7.0 million for Cathodic Protection; $35.632 million for Measurement and Regulation Stations; $3.0 million for Security & Auxiliary Equipment; $1.0 million for Buildings & Improvements; $0.892 million for Capital Tools; and $0 for the Blythe Compressor Station Modernization.

39. The cost of $6.914 million for Southern California Gas Company’s implementation of the Core Balancing Project is reasonable and should be adopted.

40. San Diego Gas & Electric Company’s Moreno Compressor Modernization project costs without the Advanced Renewable Energy component are reasonable and should be adopted in the following amounts: $10.086 million in 2022, $73.667 million in 2023, $163.446 million in 2024, $140.378 million in 2025, $18.921 million in 2026, and $3.237 million in 2027, which is $409.735 million total (in 2021 base year constant dollars) for the compressor installation only when the component goes into service in 2026.

41. It is reasonable to use the following cost controls on San Diego Gas & Electric Company's Moreno Compressor Modernization project and they should be adopted:

   a. The amount authorized for this forecast is capped at $409.735 million.

   b. The amount of the authorized cap includes the respective project costs already incurred during plant construction, called construction work in progress recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant is moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in other sections of this decision may be put into rates until these projects are in-service to avoid duplication.

   c. Sempra Utilities may seek recovery of the cost of this project, only up to the amount of the cap, once it is completed and placed in service via a Tier 2 Advice letter.

42. The forecast of $0.230 million for 2022, $0.317 million for 2023, and $0.404 million for 2024 for San Diego Gas & Electric Company's Security and Auxiliary Equipment is reasonable and should be adopted.

43. San Diego Gas & Electric Company's gas transmission capital costs forecast in the following categories are reasonable and should be adopted:

For 2022: $19.288 million for Pipeline Replacements; $6.564 million for Compressor Stations; $0.959 million for Cathodic Protection; $1.636 million for Measurement and Regulator Stations; and $0.148 million for Capital Tools.

For 2023: $1.994 million for Pipeline Replacements; $6.564 million for Compressor Stations; $0.959 million for Cathodic Protection; $1.637 million for Measurement and Regulator Stations; and $0.148 million for Capital Tools.

For Test Year 2024: $1.994 million for Pipeline Replacements; $6.564 million for

Compressor Stations; $0.959 million for Cathodic Protection; $1.637 million for Measurement and Regulator Stations; and $0.148 million for Capital Tools.

Sempra Utilities: Gas Engineering

44. $1.8 million in gas engineering for hydrogen-related projects should be removed from Southern California Gas Company's Gas Engineering operations and maintenance costs as follows: the Analysis, Testing, and Materials request should be decreased by $0.063 million to $2.599 million, and the Director of Gas Engineering, VP of Gas Engineering and System Integrity and Hydrogen cost centers should be decreased by $1.737 million to $1.907 million.

45. Southern California Gas Company should recover $101.2 million in addition to plant-in-service recorded in the Morongo Rights-of-Way Memorandum Account.

46. The Commission should adopt the following forecasts for Southern California Gas Company's Non-Shared operations and maintenance expenses: Analysis, Testing, and Materials: $6.949 million in 2024; Measurement and Regulations: $4.711 million in 2024; Land and Right-of-Way: $3.931 million in 2024; and Research, Plastic Material and Aviation: $0.721 million in 2024.

47. The Commission should adopt the following forecasts for Southern California Gas Company's Shared operations and maintenance expenses: Analysis, Testing, and Materials: $2.599 million in 2024; Measurement and Regulations: $3.997 million in 2024; Research, Plastics and Aviation: $0.078 million in 2024; and Engineering Design and Management: $6.218 million in 2024.

48. The Commission should adopt Southern California Gas Company's forecast of $1.693 million annually for the years 2022-2024 for the capital cost of Engineering Tools and Equipment.

49. The Commission should adopt Southern California Gas Company's forecast for 2022, 2023, and 2024 Aviation Services of $0, $0.08 million, and $0.5 million, respectively.

50. The Commission should adopt $361,000 for each year in 2022, 2023, and 2024 for Southern California Gas Company's Land Rights.

51. In its next general rate case, Southern California Gas Company (SoCalGas) should support its Land Rights forecast with historical and forecasted metrics for the work, such as the cost per mile of access, and indicate the status of SoCalGas's access to lands through which its pipelines traverse.

52. The Commission should adopt a capital cost forecast for Southern California Gas Company's Supervision and Engineering Overhead Pool for 2022, 2023, and 2024, of $15.9 million annually for 2022 to 2024.

53. The Commission should adopt a capital cost forecast for Southern California Gas Company's Engineering Tools and Equipment of $1.693 million in 2022, $1.773 million in 2023, and $2.193 million in 2024.

54. The Commission should adopt a capital cost forecast for San Diego Gas & Electric Company's capital Gas Engineering of $295,000 annually for 2022-2024.

Sempra Utilities: Pipeline Safety Enhancement Plan Programs

55. A reduced Southern California Gas Company forecast for 2024 Pipeline Safety Enhancement Plan (PSEP) operations and maintenance (not including miscellaneous costs) of $43.526 million and $108.969 million, $91.613 million, and $64.716 million, respectively, for the 2022-2024 capital components of hydrotests, pipeline replacement projects, and PSEP valves is reasonable and should be adopted.

56. A forecast for Southern California Gas Company's 2024 Miscellaneous Pipeline Safety Enhancement Plan operations and maintenance cost of $2.677 million is reasonable and should be adopted.

57. Southern California Gas Company's Pipeline Safety Enhancement Plan (PSEP) capital costs shown in Table 12.10 – Summary of 2022-2024 PSEP Capital Costs are reasonable and should be adopted.

58. Southern California Gas Company's (SoCalGas's) request for recovery of Pipeline Safety Enhancement Plan costs for the December 2015–December 2020 period will be decided in a later phase of this proceeding.

59. Southern California Gas Company's (SoCalGas's) request for recovery of Dairy Pilot Program costs for the December 2015 – December 2020 period is not reasonable and should not be authorized for recovery. SoCalGas should not be entitled to collect interest on any amounts that may be owed on unrecovered costs.

60. San Diego Gas & Electric Company's request for recovery of Pipeline Safety Enhancement Plan costs for the December 2015–December 2020 period will be decided in a later phase of this proceeding.

Southern California Gas Company: Gas Pipeline Integrity

61. The Utility Reform Network-Southern California Generation Coalition's recommendation for 2024 Non-Shared Southern California Gas Company Transmission Integrity Management Program operations and maintenance of $96 million is reasonable and should be adopted.

62. Southern California Gas Company's uncontested 2024 Shared Transmission Integrity Management Program operations and maintenance forecast of $1.591 million is reasonable and should be adopted.

63. Southern California Gas Company's forecast for Transmission Integrity Management Program capital in the amount of $134.132 million, $134.982 million, and $167.841 million for 2022, 2023, and 2024, respectively, is reasonable and should be adopted.

64. The Utility Reform Network's 2024 Non-Shared Distribution Integrity Management Program operations and maintenance forecast of $47.005 million is reasonable and should be adopted.

65. Southern California Gas Company's uncontested 2024 Shared Distribution Integrity Management Program operations and maintenance forecast of $0.794 million is reasonable and should be adopted.

66. The following The Utility Reform Network recommended forecasts are reasonable and should be adopted:

(a) A forecast for Vintage Integrity Plastic Plan of $60.653 million, $61.259 million, and $14.259 million for the years 2022, 2023, and 2024 respectively.

(b) A forecast for Bare Steel Replacement Plan of $86.578 million, $63.005 million, and $79.737 million for the years 2022, 2023, and 2024, respectively.

(c) Total Distribution Integrity Management Program capital in the amounts of $166.532 million, $143.601 million, and $113.266 million for 2022, 2023, and 2024 respectively. This includes Southern California Gas Company's uncontested forecasts for the GIPP and Data Management – Information Technology.

67. Authorizing Southern California Gas Company to record Distribution Integrity Management Program (DIMP) capital costs in the DIMP memorandum

account in the post-test years of 2025-2027 to remove Aldyl A plastic pipe installed in SoCalGas's system under conditions that could lead to leakage or failure. is reasonable and should be adopted.

68. Southern California Gas Company's 2024 Storage Integrity Management Program Balancing Account operations and maintenance forecast of $16.66 million is reasonable and should be adopted.

69. Southern California Gas Company's forecasts for Facilities Integrity Management Program (FIMP) for the 2024 Test Year operations and maintenance and capital and the FIMP Balancing Account should be disallowed.

70. Southern California Gas Company's uncontested 2024 Shared and Non-Shared Gas Safety Enhancement Programs operations and maintenance forecast of $1.670 million is reasonable and should be adopted.

71. The Utility Reform Network-Southern California Generation Coalition's recommended forecast for Gas Safety Enhancement Programs capital for 2022, 2023, and 2024 of $4.936 million, $34.340 million, and $82.588 million, respectively, is reasonable and should be adopted.

72. Southern California Gas Company's request for capital PTY exceptions in revenue requirement of $16.3 million, $39.1 million, and $66.1 million for 2025, 2026, and 2027, respectively, should be disallowed.

San Diego Gas & Electric Company: Gas Pipeline Integrity

73. San Diego Gas & Electric Company's (SDG&E's) forecast for SDG&E's 2024 Shared Transmission Integrity Management Program operations and maintenance of $9.514 million is reasonable and should be adopted.

74. San Diego Gas & Electric Company's Transmission Integrity Management Program Capital forecast of $21.477 million, $19.173 million, and $9.290 million for 2022, 2023, and 2024, respectively, is reasonable and should be adopted.

75. San Diego Gas & Electric Company's Transmission Integrity Management Program capital forecast for additions in the Post-Test Years of $1.6 million, $2.7 million, and $3.9 million in revenue requirement for 2025, 2026, and 2027, respectively, should be disallowed.

76. Authorizing San Diego Gas & Electric Company's 2024 Vintage Plastic Pipe program in the capital Distribution Integrity Management Program to replace Aldyl A capital in the amount of $16.079 million annually for the 2022-2024 period is reasonable and should be adopted.

77. Authorizing San Diego Gas & Electric Company to record Distribution Integrity Management Program (DIMP) capital costs in the DIMP memorandum account in the post-test years of 2025-2027 to remove Aldyl A plastic pipe installed in SDG&E's system under conditions that could lead to leakage or failure. is reasonable and should be adopted.

78. Disallowing San Diego Gas & Electric Company's forecasts for Facilities Integrity Management Program (FIMP) Non-Shared operations and maintenance expenditures, capital, for the Post-Test Years is reasonable and should be adopted, and a FIMP balancing account is reasonable and should be adopted.

79. San Diego Gas & Electric Company's uncontested 2024 forecast for Non-Shared Gas Safety Enhancement Programs operations and maintenance of $0.130 million is reasonable and should be adopted.

80. San Diego Gas & Electric Company's uncontested forecasts for Gas Safety Enhancement Programs capital in the amounts of $3.221 million in 2023 and $27.156 million in 2024 are reasonable and should be adopted.

81. Disallowing San Diego Gas & Electric Company Gas Safety Enhancement Programs capital forecasts of $4.7 million, $9.1 million, and $12.8 million for 2025, 2026, and 2027, respectively, is reasonable and should be adopted.

Southern California Gas Company: Gas Storage

82. The Commission should adopt a forecast of $4.888 million for underground storage and a forecast for aboveground storage of $36.421 million for Southern California Gas Company's 2024 Gas Storage Operations and Construction Non-Shared and Shared operations and maintenance expenses.

83. The Commission should adopt a forecast of $339,000 for Southern California Gas Company's 2024 Gas Storage Shared services operations and maintenance expenses.

84. The Commission should adopt the following forecast for Southern California Gas Company's 2024 Honor Rancho Compressor Station Modernization project:

   a. The amount authorized for this forecast should be capped at $525.2 million. This authorization should include construction of a microgrid as part of the Principal component for reliability and environmental benefits.

   b. The amount of the authorized cap should include the respective project costs already incurred during plant construction, called construction work in progress, recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant should be moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in other sections of this decision should be put into rates until these projects are in-service.

   c. Sempra Utilities may seek recovery of the cost of this project once it is completed and placed in service via a Tier 2 Advice letter.

85. The Commission should adopt a forecast of $17.6 million for Southern California Gas Company's 2024 Aliso Canyon Turbine Replacement Project expenses:

a. For compressors in 2022, 2023, and 2024, $16.439 million, $16.122 million, and $15.342 million, respectively;
b. For wells in 2022, 2023, and 2024, $83.188 million, $58.000 million, and $57.000 million, respectively;
c. For pipelines in 2022, 2023, and 2024, $30.126 million, $25.532 million, and $28.946 million, respectively;
d. For purification in 2022, 2023, and 2024, $11.670 million, $7.991 million, and $11.304 million, respectively;
e. For auxiliary equipment in 2022, 2023, and 2024, $64.772 million, $55.634 million, and $33.958 million, respectively.

San Diego Gas & Electric Company: Gas Storage

86. The following cost controls should be adopted for San Diego Gas & Electric Company's Moreno Compressor Modernization Project:

a. The authorized amount should be capped at $409.735 million.
b. The authorized amount should include the respective project costs already incurred during plant construction, called construction work in progress, recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant should be moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in other sections of this decision should be put into rates until these projects are in-service.

Sempra Utilities: Procurement

87. Southern California Gas Company's uncontested 2024 forecast for gas acquisition activity of $5.247 million is reasonable and should be adopted.

88. Southern California Gas Company's proposed refund to ratepayers of the balance of the Injection Enhancement Cost Memorandum Account of $167,000 as of March 31, 2022 by amortizing it as of December 31, 2023 in customers' gas transportation rates, transferring any residual balances to the Core Fixed Cost Account and Non-Core Fixed Cost Account at the end of the amortization period, and closing the account should be adopted.

89. San Diego Gas & Electric Company's 2024 forecast of $1.203 million for its Energy Procurement Resource Planning section should be adopted.

90. San Diego Gas & Electric Company's forecast of $2.479 million for its Origination and Portfolio Design group in 2024 should be adopted.

91. San Diego Gas & Electric Company's (SDG&E's) requests for $3.535 million to recover labor and Non-Shared costs for its Energy Procurement-Back Office operations, and SDG&E's Energy Procurement-Energy Supply & Dispatch operations and maintenance costs of $2.159 million should be adopted.

Southern California Gas Company: Clean Energy Innovations

92. For the Sustainability and Clean Fuels Infrastructure Development cost request, Southern California Gas Company has failed to meet its burden of showing that the requested incremental costs are just and reasonable expenditures for safe and reliable service pursuant to Public Utilities Code Section 451. Therefore, it is reasonable to deny the incremental cost increases.

93. Southern California Gas Company should be denied $388,000 incremental labor cost for Sustainability in its rates because it has failed to demonstrate the cost's reasonableness through evidence linking it to specific tasks and ASPIRE 2045-related projects that benefit ratepayers.

94. Pursuant to Federal Energy Regulatory Commission Account 426.4, it is reasonable to disallow non-operational expenses for consultant work to influence

public officials and trade association dues to promote advocacy for non-gas-related business activities because these costs are non-operational costs that do not serve and provide direct benefits to the ratepayers and should be booked below the line. Therefore, $2.923 million in consultant payments, and $561,789 in dues for the Hydrogen Council should be denied and excluded from the 2024 Test Year forecast for Business Development costs.

95. Pursuant to Resolution E-5254, Southern California Gas Company should record Carbon Capture, Utilization and Sequestration Front End Engineering Design (CCUS FEED) Study Program costs (including labor and non-labor operations and maintenance costs) in the authorized Infrastructure Investment and Jobs Act Memorandum Account and seek recovery in the next general rate case (GRC) cycle or via an application. Therefore, the $6.655 million cost recovery for the CCUS FEED Study in this GRC should be denied.

96. Southern California Gas Company is not authorized to use discretionary funds for outreach and education on hydrogen vehicles through its low-emission vehicle program, consistent with Decision 05-05-010. Therefore, we should deny $357,000 in incremental funds for the Clean Fuels Transportation Program.

97. In light of Decision 05-05-010 and the matured clean and alternative fuel vehicles market, phasing out ratepayer funds for discretionary spending in the low-emissions vehicles program under the Clean Fuels Transportation Program during a general rate case cycle is reasonable. Public education regarding these vehicles is no longer the sole responsibility of ratepayers.

98. Denying the $1.295 million incremental increase for Clean Energy Innovations Project Management Office (PMO) operations and maintenance is reasonable because the overall project authorization has been reduced, necessitating a corresponding reduction in PMO overhead costs.

99. Adopting a Research, Development, and Demonstration budget of $15.915 million using the average costs authorized by the Commission over the past seven years is just and reasonable. This approach reflects historically approved budgets that considered project details, funding levels, and their benefits to ratepayers. In contrast, basing the budget on speculative costs for sub-programs with unknown feasibility and funding needs is not reasonable.

San Diego Gas & Electric Company: Clean Energy Innovations

100. San Diego Gas & Electric Company's (SDG&E's) request for $5 million in operations and maintenance costs for Research, Development, and Demonstration (RD&D) Innovation Technology Development should be denied because it does not comply with the Commission's guidance in Decision 12-05-037, which requires SDG&E to make every effort to detail its planned RD&D investments in each triennial Electric Program Investment Charge investment plan.

101. San Diego Gas & Electric Company's $393,000 incremental operations and maintenance cost increase for the Hydrogen Strategy and Implementation Department should be denied because the incremental cost request lacks strong evidentiary support and is not reasonable pursuant to Public Utilities Code Section 451.

102. We should deny cost recovery for the Sustainable Community Program and require San Diego Gas & Electric Company (SDG&E) to stop extending and negotiating new lease agreements because the program has ended enrollment. By offering new lease agreements, SDG&E is out of compliance with Decision 04-12-015 by failing to meet its burden of proof to adequately show project details and benefits to ratepayers.

103. We should authorize San Diego Gas & Electric Company $1.056 million instead of $2.316 million in Distributed Energy Resource Engineering Department

operations and maintenance costs because the lower costs are reasonable and align with the six-year historical average spending.

104. We should require San Diego Gas & Electric Company (SDG&E) to complete the Advanced Energy Storage (AES) capital project as planned and approved under Decision 19-09-015. However, SDG&E should not be authorized to recover costs for the hydrogen energy storage system as part of the AES because it is not an authorized project, and it is not reasonable under Public Utilities Code Section 451 for cost recovery.

105. San Diego Gas & Electric Company should file a cost-benefit analysis for the Advanced Energy Storage project as set forth in D.19-09-015 within 60 days of the project completion date to promote transparency and ease of review.

106. San Diego Gas & Electric Company's (SDG&E's) $33.314 million Advanced Energy Storage 2.0 capital project should be denied because, under Public Utilities Code Section 451, SDG&E bears the burden of demonstrating that the project will ensure safe and reliable service. However, SDG&E has failed to provide sufficient project details to meet this burden of proof.

107. San Diego Gas & Electric Company's $5.177 million capital project request to procure non-lithium-ion energy storage technologies should be denied because the expenditure is unnecessary and does not meet the standard of being just and reasonable under Public Utilities Code Section 451.

108. San Diego Gas & Electric Company's $5.398 million request for Borrego Microgrid 3.0 should be approved because the project is just and reasonable under Public Utilities Code Section 451.

109. San Diego Gas & Electric Company's request for $1.425 million for the Integrated Test Facility should be approved because it supports grid

modernization efforts to provide safe and reliable service to ratepayers pursuant to Public Utilities Code Section 451.

110. We should deny San Diego Gas & Electric Company's requested cost recovery for Sustainable Communities Removal activities because its removal cost estimates are generally far above historical data for similar activities and approve capital expenses of $0.702 million based on Cal Advocates' best-fit analyses, which is more reasonable for ratepayer funding.

111. San Diego Gas & Electric Company's (SDG&E's) $6.228 million request for the Mobile Battery Energy Storage Program should be approved because it will provide safe and reliable service to at-risk electric systems during public safety power shut-offs. Pursuant to Public Utilities Code Section 451, these costs are reasonable for providing safe and reliable service to SDG&E's ratepayers.

112. San Diego Gas & Electric Company's request for $1.925 million for Hydrogen Build-Ready Infrastructure should be denied. The request lacks substantial evidence to demonstrate that this project meets the cost causation principle. As the project primarily benefits future customers who choose to install hydrogen electrolyzers, imposing these costs on current ratepayers would be unjust and unreasonable.

113. San Diego Gas & Electric Company's (SDG&E's) request for $5.252 million for the Hydrogen Energy Storage System Expansion project should be denied because Public Utilities Code Section 451 requires that rates be just and reasonable and SDG&E's failure to demonstrate that hydrogen is the most cost-effective storage option for ratepayers raises concerns about cost reasonableness under Section 451. The Commission should not approve a project that may lead to unjust and unreasonable rates and impact rate affordability.

San Diego Gas & Electric Company: Electric Generation

114. For San Diego Gas & Electric Company's (SDG&E's) Electric Generation, capital expenditure and an operations and maintenance expenditure baseline that averages recorded costs over a six-year time period (2017-2022) rather than the five-year period proposed by SDG&E (2017-2021) and removes anomalous (non-recurring) projects occurring between 2017 and 2021 should be adopted because it reflects the recent cost trends and justifies the 2024 Test Year forecast to support a reasonable level of expenses to be recovered from ratepayers.

115. The total Electric Generation operations and maintenance 2024 forecast of $37.793 million ($10.254 million for labor and $27.539 million for non-labor) and the resulting revenue requirement is just and reasonable and should be adopted because it is based on a reasonable forecasting methodology and reasonable adjustments.

116. San Diego Gas & Electric Company should modify its Energy Resource Recovery Account Balancing Account and Electric Distribution Fixed Cost Account Balancing Account preliminary statements to appropriately functionalize the distribution costs related to distributed-level battery assets.

117. San Diego Gas & Electric Company's Electric Generation capital expenditure forecast of $16.301 million in 2022, $15.799 million in 2023, and $11.548 million in 2024 and the resulting revenue requirement are just and reasonable and should be adopted because they are based on a reasonable forecasting methodology and reasonable adjustments.

San Diego Gas & Electric Company: Electric Distribution Operational Maintenance and Capital Costs

118. San Diego Gas & Electric Company's forecast for Rule 20B Non-Collectible Franchise Projects for 2022, 2023, and 2024 of $0.405 million, $3.779 million, and $6.188 million, respectively, is reasonable and should be adopted.

119. San Diego Gas & Electric Company's forecast for remaining uncontested Franchise Projects totaling $43.707 million in 2022, $66.591 million in 2023, and $82.324 million in 2024 is reasonable and should be adopted.

120. San Diego Gas & Electric Company's updated Overhead Pools forecast of $124.52 million for 2022, $127.904 million for 2023, and $149.389 million for 2024 is reasonable and should be adopted.

121. San Diego Gas & Electric Company's North Harbor Underground Cable Replacement Project forecast for 2022, 2023, and 2024 of $0, $23.281 million, and $7.761 million, respectively, is reasonable and should be adopted.

122. San Diego Gas & Electric Company's forecast for the Planned Cable Replacements program for 2022, 2023, and 2024 of $4.260 million, $3.485 million, and $3.431 million, respectively, is reasonable and should be adopted.

123. San Diego Gas & Electric Company's forecast for Capacity and Expansion Planned Investment Projects of $3.536 million in each year in 2022, 2023, and 2024 is reasonable and should be adopted.

124. San Diego Gas & Electric Company's forecast for future capacity projects in the amounts of $6.396 million for 2023 and $7.699 million for 2024 is reasonable and should be adopted.

125. San Diego Gas & Electric Company's non-collectible forecast for distribution system capacity improvement of $1.962 million for each of the years 2022, 2023, and 2024 is reasonable and should be adopted.

126. San Diego Gas & Electric Company's forecasts for uncontested capacity and expansion projects of $16.753 million in 2022, $8.006 million in 2023, and $3.238 million in 2024 are reasonable and should be adopted.

127. San Diego Gas & Electric Company's transformer forecast of $24.025 million in 2022, $25.213 million in 2023, and $26.461 million in 2024 is reasonable and should be adopted.

128. San Diego Gas & Electric Company's forecasts for electric meters and regulators for 2022, 2023, and 2024 of $4.802 million, $5.042 million, and $5.294 million, respectively, are reasonable and should be adopted.

129. San Diego Gas & Electric Company's forecast for Overhead Residential New Business for 2022, 2023, and 2024 of $0.741 million, $0.748 million, and $0.754 million, respectively, is reasonable and should be adopted.

130. San Diego Gas & Electric Company's forecasts for the Overhead Non-Residential New Business program for 2022, 2023, and 2024 of $0.935 million, $0.943 million, and $0.951 million, respectively, are reasonable and should be adopted.

131. San Diego Gas & Electric Company's forecasts for the Underground Residential New Business program for 2022, 2023, and 2024 of $6.487 million, $6.542 million, and $6.599 million, respectively, and its forecasts for the Underground Non-Residential New Business program for 2022, 2023, and 2024 of $6.569 million, $6.625 million, and $6.681 million, respectively, are reasonable and should be adopted.

132. San Diego Gas & Electric Company's forecasts for the New Business Infrastructure program for 2022, 2023, and 2024 of $3.954 million, $3.988 million, and $4.022 million, respectively, are reasonable and should be adopted.

133. San Diego Gas & Electric Company's non-collectible forecasts for the Customer Requested Upgrades and Services program for 2022, 2023, and 2024 of $9.906 million, $9.988 million, and $10.071 million, respectively, are reasonable and should be adopted.

134. San Diego Gas & Electric Company's non-collectible forecasts for the Conversion from Overhead to Underground Rule 20C program for 2022, 2023, and 2024 of $1.502 million, $1.515 million, and $1.528 million, respectively, are reasonable and should be adopted.

135. Cal Advocates' forecasts for Rule 20B Overhead to Underground Conversions of $0.946 million for 2022, $0.955 million for 2023, and $0.963 million for 2024 are reasonable and should be adopted.

136. San Diego Gas & Electric Company's uncontested forecasts for New Business Programs for 2022, 2023, and 2024 of $17.725 million, $17.864 million, and $18.004 million, respectively, are reasonable and should be adopted.

137. San Diego Gas & Electric Company's uncontested forecasts for other capital programs, including Mandated Programs, Equipment and Tools, and Transmission-Related FERC Driven Projects, for 2022, 2023, and 2024 totaling $69.484 million, $80.977 million, and $80.513 million, respectively, are reasonable and should be adopted.

138. San Diego Gas & Electric Company's forecast for Reliability and Capacity operations and maintenance for 2024 of $2.461 million is reasonable and should be adopted.

139. A 2024 forecast for San Diego Gas & Electric Company's Electric Regional Operations of $36.579 million is reasonable and should be adopted.

140. It is reasonable to adopt a 2024 Test Year forecast for Skills and Compliance Training of $2.855 million.

141. Cal Advocates' recommended forecasts for the 2024 Test Year for San Diego Gas & Electric Company's Compliance Management operations and maintenance expenses of $4.815 million is reasonable and should be adopted.

142. San Diego Gas & Electric Company's uncontested 2024 Non-Shared Electrical Distribution operations and maintenance forecasts for the following amounts are reasonable and should be adopted:

a. Construction Management: $4.043 million;
b. Geographical Information Systems: $0.922 million;
c. Electric Transmission & Distribution: Operations Services: $2.179 million;
d. Electric Transmission & Distribution: Substation Construction & Operations: $5.809 million;
e. Distribution System Control & Protection: $3.708 million;
f. Distribution Design and Project Management: $1.305 million;
g. Service Order Team: $4.069 million;
h. Electric Engineering: $2.192 million;
i. Troubleshooting: $9.634 million;
j. Portfolio & Project Management: $0.512 million;
k. Officers and Administrative Assistants: $1.286 million; and
l. Regional Public Affairs: $1.388 million.

San Diego Gas & Electric Company: Electrical Distribution Wildfire Mitigation and Vegetation Management

143. A forecast for San Diego Gas & Electric Company's 2024 operations and maintenance cost for Wildfire Mitigation and Vegetation Management of $177.92 million is reasonable and should be adopted.

144. A forecast for San Diego Gas & Electric Company's 2024 capital cost for Wildfire Mitigation and Vegetation Management of $321.371 million is reasonable and should be adopted.

145. It is reasonable to authorize a budget-based Post-Test Year capital exception for wildfire mitigation in the amount of $166.5 million in capital for

2025, $167.4 million in capital for 2026, and $168.6 million in capital for 2027 to allow San Diego Gas & Electric Company to continue undergrounding its overhead lines and installing, covered conductor.

Southern California Gas Company: Customer Service – Customer Information System Replacement Program

146. Southern California Gas Company provided sufficient evidence to justify replacing the current legacy Customer Information System, which is over 30 years old.

147. It is reasonable to decline the regulatory account mechanism and adopt $10 million as the 2024 Test Year Customer Information System operations and maintenance forecast because it balances the ratepayer impact and provides a revenue stream for Southern California Gas Company.

148. It is reasonable to decline capitalization of capital expenditure and Post-Test Year exception before a project is used and useful and instead adopt a cost cap of $221.655 million for capital costs for Southern California Gas Company's Customer Information System Replacement.

149. It is reasonable to require Southern California Gas Company (SoCalGas) to file a Tier 2 Advice Letter to allow the incorporation of the Customer Information System capital revenue requirement (including depreciation, taxes, and return) based on actual capital additions not to exceed the capital cost forecast authorized in this decision into customers' rates as part of SoCalGas's next scheduled rate update following the project's completion and in-service date.

Southern California Gas Company: Customer Services Field and Advanced Meter Operations

150. Based on the evidence, Southern California Gas Company's 2024 Test Year forecast methodology for Customer Services Field (CSF) & Advanced Meter Operations is not just and reasonable. Its overreliance on 2021 data, lack of

evidence for increased Advanced Meter Infrastructure-related CSF-Operation costs, and insufficient justifications for increased work order volumes all contribute to a biased and higher cost forecast.

151. It is reasonable to adopt a more balanced forecast approach for Customer Services Field and Advanced Meter Operations incorporating a larger sample size of six-year historical data as it ensures a fair and equitable outcome for both the utility and ratepayers.

152. It is reasonable to adopt SoCalGas's 2024 Test Year forecast for the Meter Set Assembly Inspection program of $25.710 million.

153. It is reasonable to authorize $14.202 million in 2024 Test Year Advanced Meter Operations costs to fund Meter Transmission Unit warranty enhancements mitigating the risk of meter failure costs.

154. It is reasonable to authorize Southern California Gas Company $184.363 million in Customer Services Field and Advanced Meter Operations Non-Shared operations and maintenance 2024 Test Year costs.

155. It is reasonable to authorize $1.617 million in Shared Customer Services Field and Advanced Meter Operations Non-Shared 2024 Test Year operations and maintenance costs.

156. It is reasonable to authorize Southern California Gas Company to amortize the balance as of December 31, 2023, in its Advanced Metering Infrastructure Balancing Account (AMIBA) Escalated Jurisdictions Cost Subaccount in customer gas transportation rates and eliminate the entire AMIBA as all subaccounts will be fully amortized.

San Diego Gas & Electric Company: Customer Services: Field Operations

157. It is reasonable to decline the incremental cost increase for the Smart Meter 2.0 project, as those costs should be recorded in the appropriate memorandum account.

158. It is reasonable to authorize $31.835 million for San Diego Gas & Electric Company's 2024 Customer Services-Field Operations and maintenance costs.

Sempra Utilities: Customer Services Office Operations

159. Given the potential closure of Southern California Gas Company's branch offices, it is not reasonable to burden ratepayers with a cost increase to maintain them at normal staffing levels.

160. It is reasonable to adopt a 2024 Test Year cost estimate of $83.842 million for Southern California Gas Company's Customer Services Office Operations.

161. It is reasonable to remove San Diego Gas & Electric Company's Branch Office costs from the 2024 Test Year revenue requirement to reflect branch closures and the change in the cost of service.

162. It is reasonable to require San Diego Gas & Electric Company to apply a 49 percent reduction for 2024 costs collected in the General Rate Case Memorandum Accounts, reflecting the time the offices were open.

163. It is reasonable to adopt a 2024 Test Year cost estimate of $33.151 million for San Diego Gas & Electric Company's Customer Services Office Operations.

164. It is reasonable to adopt a 0.310 percent Uncollectible Rate for Southern California Gas Company.

165. It is reasonable to adopt a 0.205 percent Uncollectible Rate for San Diego Gas & Electric Company.

Sempra Utilities: Supply Management Logistics and Supplier Diversity

166. Southern California Gas Company's 2024 Test Year forecast for operations and maintenance cost of $35.489 million for its Supply Management group is reasonable and should be adopted.

167. San Diego Gas & Electric Company's 2024 Test Year forecast for operations and maintenance cost of $20.719 million for its Supply Management group is reasonable and should be adopted.

168. CommLegal's recommendations to impose reporting requirements and program changes for Supplier Diversity lack sufficient evidence and are out of the scope of this proceeding and should be denied.

San Diego Gas & Electric Company: Clean Transportation

169. San Diego Gas & Electric Company should be authorized $1.031 million in incremental Clean Transportation operations and maintenance costs instead of $1.531 million for lack of strong evidence to support labor and non-labor incremental costs.

170. Pursuant to Decision 21-04-014, the Commission should deny cost overruns of $3.5 million in the Vehicle Grid Integration Balancing Account.

171. It is reasonable to close the Vehicle Grid Integration Balancing Account, Clean Transportation Priority Balancing Account, Working Group Facilitator Memorandum Account, and the High Power Interim Rate Waiver Balancing Account as the pilot programs are completed, and accordingly the current balance in these accounts as of December 31, 2023, should carry over into the Electric Distribution Fixed Cost Account.

172. Pursuant to Electric Vehicle Infrastructure Rule established in Assembly Bill 841 and Public Utilities Code Section 740.19(c), it is reasonable to deny closure of the Electric Vehicle Infrastructure Memorandum Account (EVIMA), because

given San Diego Gas & Electric Company's history of cost overruns in pilot programs and the lack of a reasonableness review for EVIMA, it is appropriate to maintain the EVIMA account with a spending cap.

Southern California Gas Company: Fleet Services

173. It is reasonable to deny in part Southern California Gas Company's (SoCalGas's) request for Lease and License costs because SoCalGas does not provide clear evidence linking Fleet Services' testimony to the programs requesting additional vehicles.

174. Southern California Gas Company's vehicle replacement plan to lower the fleet's age below historical trends without demonstrating direct ratepayer benefits is unreasonable.

175. Southern California Gas Company should not be authorized funding without providing visibility into how it has utilized the California Air Resources Board catch-up funds authorized in the prior general rate case cycle and the impact on its forecast for this general rate case cycle.

176. It is reasonable to decline Southern California Gas Company's request for ratepayer funds to purchase its forecasted passenger hydrogen vehicles because the market is moving towards electric, including plug-in electric vehicle and hybrid electric vehicle, for light-duty vehicles. It is therefore also reasonable to deny the related training costs.

177. The average of the intervenors' recommended Lease and License costs, at $32.010 million, is reasonable to allow Southern California Gas Company to sustain its operations and fleet ownership without burdening ratepayers with excessive costs.

178. It is reasonable to authorize $26.851 million for Maintenance Operations for Southern California Gas Company.

179. It is reasonable to authorize Southern California Gas Company's Fleet Management costs of $4.967 million.

180. For costs requested for the Director position, authorizing $0.370 million based on a four-year historical average for forecasts in this general rate case is just and reasonable.

181. It is not just and reasonable for ratepayers to pay the cost of developing a Ford Motor Company F-500 Super Duty Hydrogen Fuel Cell Electric Vehicle truck for a demonstration project and a temporary Hydrogen refueling station at the Bakersfield Southern California Gas Company facility.

San Diego Gas & Electric Company: Fleet Services

182. It is reasonable to deny cost approval of San Diego Gas & Electric Company's forecast for vehicle replacement, which is overestimated by 25 percent compared to the historical trend.

183. TURN's recommendation to reduce the Lease and License expense forecast of $23.824 million by $4.304 million is reasonable based on the historical trend of how San Diego Gas & Electric Company acquires and replaces assets.

184. It is reasonable to authorize funding for San Diego Gas & Electric Company's forecast to lease six hydrogen vehicles, including three passenger Hydrogen Fuel Cell Electric Vehicles and three medium-duty aerial work trucks.

185. Adopting The Utility Reform Network's recommended $19.520 million forecast for Lease and License is reasonable as this will allow San Diego Gas & Electric Company to maintain its current lease obligations and plan for reasonable vehicle additions funded by ratepayers.

186. Adopting a $19.401 million forecast for Maintenance Operations is justified and reasonable.

187. Adopting $3.784 million for Fleet Management for Test Year 2024 is reasonable.

Southern California Gas Company: Real Estate & Facility

188. It is reasonable to deny Southern California Gas Company $2.645 million for Real Estate & Facility Non-Shared operations and maintenance costs and approve $24.726 million instead of $27.371 million.

189. It is reasonable to adopt $23.925 million for Real Estate & Facility Shared operations and maintenance costs.

190. It is reasonable to deny Southern California Gas Company's $8.562 million for Real Estate & Facility capital costs for infrastructure and improvements because it has not met its burden of proof to show that they are necessary and reasonable to provide its customers with a safe and reliable service.

191. It is reasonable to cap the authorized Control Center Modernization Building project at $77.214 million and require Southern California Gas Company to seek cost recovery in the next general rate case rate cycle if it exceeds capital costs for this project.

192. Based on six years of historical spending, it is reasonable to adopt $202.250 million for Real Estate & Facility capital costs for infrastructure and improvements for 2022-2024.

193. It is reasonable to adopt Southern California Gas Company's Real Estate & Facility safety and compliance capital cost forecast of $7.164 million for 2022-2024.

194. Pursuant to Public Utilities Code Section 451, the recovery of costs for the Hydrogen Home project from ratepayers is not just and reasonable and should be denied.

195. It is reasonable to use five years of historical cost data to establish Southern California Gas Company's capital costs for sustainability and energy conservation.

196. It is reasonable to authorize Southern California Gas Company's Fleet Project related capital costs of $3.921 million for 2022-2024.

197. It is reasonable to deny Southern California Gas Company's request to build new Renewable Natural Gas refueling stations because it has not demonstrated that these projects are necessary, beneficial to ratepayers, or compliant with relevant Commission decisions.

198. It is reasonable to deny Southern California Gas Company's request to build hydrogen refueling stations because it is not just and reasonable for ratepayers to expend money on a project that has not demonstrated the necessity, benefits, or affordability of these projects for ratepayers.

199. It is reasonable to adopt Southern California Gas Company's proposal to install 1200 Electric Vehicle charging stations at its employee designated facilities.

200. It is reasonable to adopt $202.25 million for infrastructure & improvements, $7.164 million for safety and compliance, $27.552 million for sustainability and conservation, $3.183 million for fleet projects, and $18.761 million in fleet alternative refueling infrastructure.

San Diego Gas & Electric Company: Real Estate, Land Services & Facility

201. It is reasonable to adopt San Diego Gas & Electric Company's Real Estate, Land Services & Facility operations and maintenance cost forecast of $32.208 million.

202. It is reasonable to deny Real Estate, Land Services & Facility Business Unit Expansion capital costs of $2.188 million, $19.434 million, and $30.249 million for 2022, 2023, and 2024, respectively, for inclusion within this general rate case cycle,

which includes Kearny Master Plan Phase I and II and a new Mission Skills Training Center.

203. It is reasonable to adopt Land Services & Facility uncontested capital costs of $61.932 million, $52.036 million, and $39.259 million for 2022, 2023, and 2024, respectively.

Sempra Utilities: Environmental Services

204. The Commission should authorize $25.809 million in costs for Southern California Gas Company's Environmental Services and $8.445 million for San Diego Gas & Electric Company's Environmental Services and San Onofre Nuclear Generating Station.

205. The Commission should deny San Diego Gas & Electric Company's $1.540 million request for San Onofre Nuclear Generating Station-related cost recovery of Marine Mitigation and Worker's Compensation.

206. San Diego Gas & Electric Company has not met its burden of proof for its proposal to change the current methodology for San Onofre Nuclear Generating Station-related cost recovery of Marine Mitigation and Worker's Compensation.

207. To ensure that the utilities may recover reasonable environmental regulatory costs, it is reasonable to convert the New Environmental Regulatory Balancing Account from a two-way balancing account to a one-way balancing account and authorize Southern California Gas Company and San Diego Gas & Electric Company to record any additional costs in the New Environmental Regulation Memorandum Account.

Southern California Gas Company: Information Technology

208. The Commission should approve $56.783 million in total Information Technology operations and maintenance costs for the 2024 Test Year because it is just and reasonable..

209. Due to Southern California Gas Company's failure to meet its burden of proof to show its Systems Applications Products Transformation forecast is just and reasonable by a preponderance of the evidence, it is reasonable to adopt the 2022 recorded costs of $2.128 million in 2022, instead of the forecasted cost estimates and authorize 75 percent of the proposed zero-based budget, equal to $32.162 million in 2023, and $16.922 million in 2024.

210. Southern California Gas Company's total Information Technology capital costs of $250.118 million, $218.325 million, and $169.187 million for 2022, 2023, and 2024, respectively, are reasonable and should be adopted.

San Diego Gas & Electric Company: Information Technology

211. San Diego Gas & Electric Company's uncontested Non-Shared operations and maintenance Information Technology costs for Infrastructure activities of $6.731 million are reasonable and should be adopted.

212. Since the Customer Information System replacement project is completed, closing the Customer Information System Balancing Account and Transition, Stabilization and Organizational Change Management Balancing Account and transferring the remaining balances to the Electric Distribution Fixed Cost Account, Core Fixed Cost Account, and Non-Core Fixed Cost Account are reasonable.

213. San Diego Gas & Electric Company's (SDG&E's) forecast for Non-Shared operations and maintenance Information Technology Applications, including Customer Information System operations, of $20.382 million is not justified because SDG&E presented insufficient evidence for substantial upward adjustments.

214. The Non-Shared operations and maintenance Information Technology Applications cost forecast of $12.501 million is reasonable because it is based on a

six-year average incorporating actual 2022 costs and normalized 2021 Base Year expenses.

215. The evidence does not support the immediate and widespread replacement proposed in the Smart Meter 2.0 project. Therefore, the Commission should deny a revenue requirement in this rate cycle.

216. It is reasonable to establish, as an interim regulatory account treatment to recover costs, a memorandum account for repairing and replacing failing meters and modules between January 1, 2024, and the date of filing a separate Smart Meter 2.0 application.

217. It is reasonable to deny corresponding operations and maintenance costs that support the Smart Meter 2.0 project in this general rate case cycle.

218. San Diego Gas & Electric Company has failed to provide sufficient evidence to justify the full cost estimates for the Field Service Delivery project.

219. Given the lack of evidence to support the Field Service Delivery project forecast, it is reasonable to reduce the cost estimates by 20 percent for 2023 and 2024 and adopt the actual 2022 cost incurred San Diego Gas & Electric Company's Smart Meter system upgrade 2024 Test Year forecast costs lack sufficient evidence to support the cost estimates.

220. San Diego Gas & Electric Company's capital cost Customer Information System enhancements are reasonable and should be approved.

221. It is reasonable for San Diego Gas & Electric Company to demonstrate and incorporate benefits delivered by the Customer Information System – regulatory and compliance initiatives, customer experience improvements, security enhancements, automation, and streamlining of business operations.

222. San Diego Gas & Electric Company's request for a contact center for future capital costs is reasonable and should be approved.

223. The Utility Consumers' Action Network's proposal to deny Information Technology (IT) projects for obsolescence should be denied because it lacks sufficient support based on the specific merits and details of any particular IT capital project proposed by San Diego Gas & Electric Company.

224. Given the denial of several Clean Energy Innovations projects in this decision, it is reasonable to deny related Information Technology capital costs for these projects.

225. It is just and reasonable to authorize $205.298 million, $164.975 million, and $147.307 million for 2022, 2023, and 2024, respectively, as San Diego Gas & Electric Company's Information Technology capital costs.

Sempra Utilities: Cybersecurity

226. Southern California Gas Company's 2024 Test Year forecast of $3.970 million for Cybersecurity Shared Services operations and maintenance is reasonable and should be adopted.

227. San Diego Gas & Electric Company's 2024 Test Year forecasts of $0.019 million for Cybersecurity Non-Shared Services and $16.358 million for Cybersecurity Shared Services operations and maintenance are reasonable and should be adopted.

228. Adopting Southern California Gas Company's actual 2022 Cybersecurity capital expenditure of $18.150 million is just and reasonable.

229. Averaging Southern California Gas Company's requested capital cost estimates for 2023 and 2024, which yields $39.850 million for each of those years, is a reasonable and balanced approach between the utility's future cost needs and ratepayer impacts and should be adopted.

230. San Diego Gas & Electric Company's requested Cybersecurity capital costs of $8.424 million, $9.660 million, and $9.660 million for 2022, 2023, and 2024, respectively, are reasonable and should be adopted.

Sempra Utilities: Corporate Center General Administration Utility Allocations

231. The Commission should adopt $10.427 million in the 2024 Test Year forecast cost for Pensions and Benefits.

232. Sempra Utilities' incremental cost recovery requests for Corporate Center Administrative and General should not be authorized because a generic explanation for cost increases, lack of transparency to disaggregate forecasting methodology, and cost allocation to cost categories fail to meet the standard of proof required to support increased revenue requirements.

233. Normalizing the 2024 Test Year forecast by removing one-time litigation costs arising from extraordinary circumstances is reasonable and justified.

234. Pursuant to Federal Energy Regulatory Commission Account 426.4, outside legal expenses used to influence California Energy Commission decision-makers should be booked as below-the-line expenses.

235. Pursuant to Public Utilities Code Section 451, it is not just and reasonable for Southern California Gas Company, as a monopolistic natural gas provider, to shift its litigation cost burden to ratepayers when prioritizing and safeguarding shareholder interests.

236. Pursuant to Public Utilities Code Section 796(a) and the Public Utility Regulatory Policies Act, the Commission should disallow outside law firm costs to defend the Attorney General's inquiry into Southern California Gas Company's advertising, ensuring fair treatment for consumers.

237. The Commission should adopt $112.730 million for the 2024 Test Year forecast for Corporate Center Administrative and General.

238. Sempra Utilities (Sempra) should explain the process it has implemented to improve the company's ability to justify classifying outside legal expenses as above or below the line. As a result, the Commission should establish reporting requirements for Sempra to follow in the next general rate case application.

Sempra Utilities: Compensation and Benefits

239. Denying the Sempra Utilities funding for costs associated with financial incentive compensation metrics is a reasonable policy to continue in this general rate case.

240. A forecast for Southern California Gas Company's and San Diego Gas & Electric Company's Non-Executive and Executive Incentive Compensation Plan of $45.568 million and $33.287 million, respectively, is reasonable and should be adopted.

241. Requiring Sempra Utilities (Sempra) to conduct an independent study of its management efficiency and to file it in the next general rate case is a reasonable method of evaluating how Sempracan improve incentivizing cost-effectiveness.

242. The Commission should adopt Cal Advocates' forecasts for total Non-Executive and Executive Incentive Compensation Plan for Southern California Gas Company and San Diego Gas & Electric Company of $45.568 million and $33.287 million, respectively.

243. The remaining uncontested components of Southern California Gas Company's and San Diego Gas & Electric Company's Incentive Compensation Plan programs in the amounts of $2.649 million and $1.907 million, respectively, are reasonable and should be adopted.

244. San Diego Gas & Electric Company's total Incentive Compensation Plan of $30.779 million is reasonable and should be adopted.

245. The 2024 forecasts recommended by Cal Advocates for medical benefits of $101.522 million for Southern California Gas Company (SoCalGas) and $57.593 million for San Diego Gas & Electric Company (SDG&E); dental benefits forecast for SoCalGas and SDG&E of $4.387 million and $3.487 million, respectively; and vision benefits for SoCalGas and SDG&E of $0.490 million and $0.278 million, respectively, are reasonable and should be adopted.

246. The 2024 forecasts recommended by Cal Advocates for Southern California Gas Company's (SoCalGas's) and San Diego Gas & Electric Company's (SDG&E's) Nonqualified Retirement Savings Plan of $0.1363 million and $0.125 million, respectively, and for SoCalGas's and SDG&E's Supplemental Pension of $1.103 million and $0..973 million, respectively, are reasonable and should be adopted.

247. The remaining uncontested components of Southern California Gas Company's (SoCalGas's) and San Diego Gas & Electric Company's (SDG&E's) health, welfare, retirement, and other benefit programs totaling $45.294 million for SoCalGas and $27.800 million for SDG&E are reasonable and should be adopted.

Sempra Utilities: Pension and Post-Retirement Benefits Other than Pensions

248. The uncontested pension and post-retirement benefits other than pensions forecasts for Southern California Gas Company and San Diego Gas & Electric Company of $170.718 million and $35.275 million, respectively, are reasonable and should be adopted.

Sempra Utilities: People and Culture

249. Southern California Gas Company's revised 2024 Human Resources and Employee Services forecast of $12.171 million is reasonable and should be adopted.

250. Southern California Gas Company's forecast for 2024 Workers' Compensation and Long-Term Disability of $23.475 million is reasonable and should be adopted.

251. The Commission should exclude compensation for Southern California Gas Company's (SoCalGas's) Vice President of Human Resources, Chief Talent & Culture Officer in the amount of $462,000 from SoCalGas's total 2024 Executive Office forecast consistent with Resolution E-4963.

252. All dues for the American Gas Association membership for Southern California Gas Company and San Diego Gas & Electric Company in the amounts of $926,581 and $122,840, respectively, should be excluded from being paid by ratepayers.

253. The amount of $2.190 million for the 2024 Southern California Gas Company Executive Offices forecast is reasonable and should be adopted.

254. The following 2024 Southern California Gas Company Non-Shared Service People and Culture forecasts are reasonable and should be adopted: $3.383 million for Labor Relations and Wellness operations and maintenance (O&M) expenses; $3.142 million for Organizational Effectiveness O&M expenses; $1.547 million for Performance Management O&M expenses; and $876,000 for Diversity, Equity, and Inclusion O&M expenses.

255. San Diego Gas & Electric Company's 2022 Human Resources O&M expenses forecast based on 18.1 employees at a cost of $2.509 million is the most accurate and reasonable and should be adopted.

256. Cal Advocates at the California Public Utilities Commission's 2024 Long Term Disability reduction of $598,000 is reasonable and its forecast of $2.19 million should be adopted.

257. San Diego Gas & Electric Company's (SDG&E's) 2024 O&M Diversity Equity & Inclusion forecast based on SDG&E's 2022 costs of $555,000 is reasonable and should be adopted.

258. San Diego Gas & Electric Company's (SDG&E's) recorded 2022 forecast for Diversity and Workforce Management of $2.883 million is a reasonable estimate of SDG&E's 2024 cost for this work and should be adopted.

259. Cal Advocates at the California Public Utilities Commission's recommendation for San Diego Gas & Electric Company's Organization Effectiveness department of $1.819 million is reasonable and should be adopted.

260. A forecast of zero dollars for the People and Culture Vice President is reasonable and should be adopted.

261. San Diego Gas & Electric Company's forecast for Edison Electric Institute membership dues of $792,294 is not reasonable and should be denied recovery.

262. San Diego Gas & Electric Company's 2024 forecast for Executive Offices of $1.061 million is reasonable and should be adopted.

263. San Diego Gas & Electric Company's Non-Shared Services People and Culture forecasts of $287,000 for Total Disability, $3.828 million for Workers' Compensation, and $374,000 for Business Optimization are reasonable and should be adopted.

264. Southern California Gas Company's 2024 Shared Services forecast of $324,000 for Employer Contribution System Reporting expenses is reasonable and should be adopted.

265. San Diego Gas & Electric Company's 2024 Shared Services People and Culture forecasts of $1.382 million for Employee Care Services, $220,000 for Drug and Alcohol Testing Program, and $198,000 for Wellness Programs are reasonable and should be adopted.

266. San Diego Gas & Electric Company's request for People Research of $169,000 is unsupported and should be denied.

Sempra Utilities: Administrative and General

267. Southern California Gas Company's 2024 Test Year Business Strategy and Energy Policy forecast should be denied due to the absence of evidence on the direct contribution of additional employees to serving natural gas ratepayers. Instead, a revised cost estimate of $2.366 million should be adopted.

268. We should adopt $4.870 million in 2024 Test Year costs for Southern California Gas Company's Claims Payment and Recovery because it better represents future costs and is based on the normalized forecast that excludes outlier costs.

269. Southern California Gas Company's 2024 Test Year Administrative and General (A&G) cost forecast should be rejected because it is not fair and reasonable for ratepayers to bear overestimated costs. Instead, a revised cost estimate of Non-Shared A&G costs of $29.799 million should be adopted.

270. Southern California Gas Company's estimated cost of $45.392 million in Franchise Fees and San Diego Gas & Electric Company's estimated cost of $85.238 million in Franchise Fees are reasonable and should be adopted.

271. San Diego Gas & Electric Company's Non-Shared Administrative and General costs of $30.117 million are reasonable and should be adopted.

272. Southern California Gas Company's and San Diego Gas & Electric Company's forecasts for Shared Services costs totaling $5.947 million and $11.767 million, respectively, are reasonable and should be adopted.

Sempra Utilities: Shared Services and Shared Assets Billing, Segmentation & Capital Reassignments

273. The Shared Services billing process proposed by Southern California Gas Company and San Diego Gas & Electric Company is reasonable and should be adopted.

274. The Shared Assets billing process proposed by Southern California Gas Company and San Diego Gas & Electric Company is reasonable and should be adopted.

275. The Business Segmentation Allocation process proposed by San Diego Gas & Electric Company is reasonable and should be adopted.

276. The Capital Reassignment process proposed by Southern California Gas Company and San Diego Gas & Electric Company is reasonable and should be adopted.

277. The Electric Transmission allocation process proposed by San Diego Gas & Electric Company is reasonable and should be adopted.

Sempra Utilities: Depreciation

278. The retention of Southern California Gas Company's and San Diego Gas & Electric Company's existing service lives for the 2024 Test Year is reasonable and should be adopted.

279. San Diego Gas & Electric Company's proposal to hold depreciation levels for electric and common categories at current depreciation levels constant is reasonable and should be adopted.

Sempra Utilities: Taxes

280. Southern California Gas Company's and San Diego Gas & Electric Company's tax expense forecasts of $230.968 million and $265.667 million for the 2024 Test Year are reasonable and should be adopted.

281. It is reasonable to continue the Tax Memorandum Account tracking account to track differences arising from changes in tax law, tax accounting, tax policy, or procedural changes under the rules and scope set forth in Decision 19-09-051 and Advice Letters 5546 and 3462-E/2820-G.

282. It is reasonable to update the revenue requirements resulting from Southern California Gas Company's and San Diego Gas & Electric Company's election into the accounting change due to Internal Revenue Code Sections 263 or 162 because the 2023 and 2024 tax changes lower the 2024 Test Year and attrition year revenue requirements resulting in lower rates and ratepayer benefits.

Sempra Utilities: Working Cash

283. Southern California Gas Company's forecasted total revenue lag of 46.9 days is reasonable and should be adopted.

284. Southern California Gas Company's total 2024 working cash requirement of $51.730 million is reasonable and should be adopted.

285. San Diego Gas & Electric Company's forecasted total revenue lag of 48.6 days is reasonable and should be adopted.

286. San Diego Gas & Electric Company's (SDG&E's) estimated goods and services expense lag days for SDG&E of 34.95 days is reasonable and should be adopted.

287. San Diego Gas & Electric Company's proposed Federal Income Tax expense lag of 2.98 negative lag days is reasonable and should be adopted.

288. San Diego Gas & Electric Company's proposed California State Franchise Tax expense lag of 9.48 lead days is reasonable and should be adopted.

289. The remaining components of San Diego Gas & Electric Company's (SDG&E's) Working Cash, including SDG&E's operational cash needs, and total 2024 working cash requirement of $225.472million, are reasonable and should be adopted.

Sempra Utilities: Customer Forecast

290. The Utility Reform Network's residential gas customer forecast for Southern California Gas Company and San Diego Gas & Electric Company is reasonable and should be adopted.

291. Southern California Gas Company's and San Diego Gas & Electric Company's uncontested methodologies and the resulting non-residential gas customer forecasts are reasonable and should be adopted.

292. San Diego Gas & Electric Company's (SDG&E's) methodologies and the resulting electric residential customer forecasts are reasonable and should be adopted.

293. San Diego Gas & Electric Company's (SDG&E's) uncontested non-residential electric customer forecasts are reasonable and should be adopted.

294. Based on the methodologies and their application to the subcategories in SDG&E's testimony and workpapers, the remaining uncontested SDG&E electric customer forecasts are reasonable and should be adopted.

Sempra Utilities: Miscellaneous Revenues

295. Southern California Gas Company's uncontested 2024 forecast for miscellaneous revenues totaling $115.359 million is reasonable and should be adopted.

296. San Diego Gas & Electric Company's uncontested 2024 forecast for miscellaneous revenues totaling $37.082 million is reasonable and should be adopted.

Sempra Utilities: Regulatory Accounts

297. The dispositions regarding the various regulatory accounts in the Regulatory Accounts Section of the decision should be adopted.

Sempra Utilities: Compliance

298. Southern California Gas Company and San Diego Gas & Electric Company have not demonstrated Officer Compensation Memorandum Account compliance with D.19-09-051.

Sempra Utilities: Other Issues: Political Activities Booked to Ratepayer Accounts

299. Pursuant to Federal Energy Regulatory Commission Account 426.4, Southern California Gas Company should not charge ratepayers for non-operating activities unrelated to serving natural gas customers.

300. Pursuant to Public Utilities Code Section 796(a) and the Public Utility Regulatory Policies Act, Southern California Gas Company should not charge ratepayers for advertising encouraging increased energy consumption, ensuring fair treatment for consumers.

301. Southern California Gas Company should not collect $494,000 in SAP (System Applications) record vendor contract costs because there is no evidence of the reasonableness of collecting this cost from ratepayers.

302. The Commission should not adopt an additional $80 million in disallowances on top of any recommended by Cal Advocates due to the lack of evidence supporting the calculation of the disallowance amount.

303. A reporting mechanism will help the Commission assess the success of Southern California Gas Company's compliance and governance in identifying,

reporting, and classifying lobbying and advocacy costs as above or below the line in compliance with Federal Energy Regulatory Commission Account 426.4.

Sempra Utilities: Escalation and Post-Test Year Ratemaking

304. Pursuant to Decision 07-07-004, it is reasonable to authorize Southern California Gas Company and San Diego Gas & Electric Company to update their cost escalation as part of their Update Testimony to account for the effects of inflation on the utilities' expenses between 2021 and 2024.

305. It is reasonable to adopt Cal Advocates at the California Public Utilities Commission's recommendation with a modification to increase the Post-Test Year revenue requirement by 3 percent each year for 2025, 2026, and 2027 because it reflects the general price increases ratepayers endure and expect while allowing the utilities to take proactive steps to reduce unnecessary expenses and contribute to addressing the affordability crisis on California ratepayers.

306. Sempra Utilities' proposal to escalate medical costs above the IHS Markit Global Insight's indexes should be denied because its use in the post-test years does not result in just and reasonable rates.

307. The 3 percent increase in Post-Test Year (PTY) revenue requirement and a capital exception for SDG&E's wildfire mitigation for Grid Design and System Hardening costs and various memorandum accounts for Gas Integrity Management Programs is reasonable because it allows Sempra Utilities to cover its operating expenses, capital costs, and a reasonable return on its rate base. All other PTY capital exceptions are unreasonable and should be denied.

308. Sempra Utilities should be authorized to continue to use its currently authorized Z-factor mechanism in its Post-Test Year advice letter filings, which is uncontested.

309. Sempra Utilities' uncontested Update Testimony is submitted in accordance with the previous rate case decision and is reasonable to use to update data and escalation rates prior to the Test Year in accordance with Decision 19-09-051.

310. Sempra Utilities (Sempra) should file a Post-Test Year Ratemaking adjustment advice letter for attrition years 2025, 2026, and 2027. The attrition year revenue requirement and percentage adjustments for each attrition year should be based on the authorized Test Year 2024 revenue requirement. Sempra should use 3 percent escalation rates to adjust its base margin revenue for the upcoming attrition years.

Settlements

311. Sempra Utilities met its initial burden of proof regarding the reasonable possibility of the need to adjust insurance rates and the possible fairness of its proposed ratemaking mechanisms.

312. The Commission does not make a just and reasonableness finding and does not accept or reject a proposed settlement based on whether or not a particular expense reduction is large or small, but does so based on the record and the tests for considering settlements.

313. The October 24, 2023 settlement agreement on insurance issues is reasonable in light of the whole record, consistent with law, and in the public interest.

314. The October 24, 2023 settlement agreement on insurance issues should be adopted without modification.

315. The joint motion for approval of the settlement agreement on insurance issues filed on October 24, 2023, should be granted.

316. The October 24, 2023 settlement agreement regarding Southern California Gas Company's and San Diego Gas & Electric Company's Customer Services - Information requests is reasonable in light of the whole record, consistent with law, and in the public interest.

317. The October 24, 2023 settlement agreement regarding Southern California Gas Company's and San Diego Gas & Electric Company's Customer Services - Information requests should be adopted without modification.

318. The joint motion for approval of the settlement agreement regarding Southern California Gas Company's and San Diego Gas & Electric Company's Customer Services Information requests filed on October 24, 2023, should be granted.

319. It is reasonable to deny approval of the October 24, 2023 settlement agreement regarding certain specified requests in Southern California Gas Company's and San Diego Gas & Electric Company's respective 2024 Test Year general rate case Applications previously identified in this Decision as the Other Issues Settlement as it is not reasonable in light of the whole record, is not consistent with law, and is not in the public interest.

Motions

320. It is reasonable to grant Cal Advocates's May 17, 2024 Motion to take official notice of the Commission's Utility Audits Branch's Performance Audit of Southern California Gas Company's Energy Efficiency Codes & Standards Program.

321. It is reasonable to deny the October 19, 2023 Environmental Defense Fund Motion to Sever Hydrogen Projects from the general rate case.

322. It is reasonable to grant San Diego Gas & Electric Company's (SDG&E) and Southern California Gas Company's (SoCalGas's) Motion to File Under Seal the

confidential information in Attachments 2 and 3 to SoCalGas's and SDG&E's Notice of Compliance regarding Officer Compensation Memorandum Account.

323. This consolidated proceeding should remain open.

O R D E R

IT IS ORDERED that:

1. Application 22-05-015 is granted to the extent set forth in this decision. Southern California Gas Company is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2024 Test Year base revenue requirement set forth in Appendix A, effective January 1, 2024.

2. Application 22-05-016 is granted to the extent set forth in this decision. San Diego Gas & Electric Company is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2024 Test Year base revenue requirement set forth in Appendix A, effective January 1, 2024.

3. Within 30 days from the effective date of this Order, Southern California Gas Company and San Diego Gas & Electric Company shall each file respective Tier 1 Advice Letters with revised tariff sheets to implement the revenue requirements authorized in Ordering Paragraphs 1 and 2.

4. The revised tariff sheets shall become effective on January 1, 2024, subject to a finding of compliance by the Commission's Energy Division and compliance with General Order 96-B.

5. The balances recorded in Southern California Gas Company's and San Diego Gas & Electric Company's respective General Rate Case Revenue Requirement Memorandum Accounts from January 1, 2024 until the effective date of the new tariffs required by this decision shall be amortized over eighteen (18) months in rates.

6. Southern California Gas Company and San Diego Gas & Electric Company are each authorized to continue use of their currently authorized Z-Factor mechanism.

7. Southern California Gas Company and San Diego Gas and Electric Company are each authorized to adjust the Post-Test Year base revenue requirement by three (3) percent in attrition years 2025, 2026, and 2027.

8. San Diego Gas & Electric Company (SDG&E) shall update its Post-Test Year revenue requirements in accordance with Resolution E-5217 by filing a Tier 2 Advice Letter by November 15 of the year prior to the January 1 rate change with the initial estimated revenue requirement amount and subsequently update the forecast with the actual amount that was authorized in a separate Tier 1 Advice Letter to be filed by December 31. To adjust the revenue requirement for 2025, SDG&E shall file a Tier 1 Advice Letter with the Commission's Energy Division within 30 days of the effective date of this decision with the update to the Test Year 2024 revenue requirement to be effective on January 1, 2025.

9. Southern California Gas Company (SoCalGas) shall update its Post-Test Year revenue requirements via the annual true-up Tier 2 Advice Letter by October 31 of the year prior to the January 1 rate change. To adjust the revenue requirement for 2025, SoCalGas shall file a Tier 1 Advice Letter with the Commission's Energy Division within 30 days of the effective date of this decision with the update to the Test Year 2024 revenue requirement to be effective on January 1, 2025.

10. Southern California Gas Company's (SoCalGas's) and San Diego Gas & Electric Company's (SDG&E's) regulatory account proposals, such as closing existing accounts, continuing to operate existing accounts, opening new accounts,

or modifying existing accounts are authorized pursuant to the provisions in Section 43 of this decision. Additionally, this decision orders the following:

(a) Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall each file a Tier 1 Advice Letter to modify the Liability Insurance Premium Balancing Account to include a new sub-account consistent with the October 24, 2023 settlement agreement on insurance issues to administer accruals if the utilities exercise the wildfire liability self-insurance option.

(b) Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall each file a Tier 1 Advice Letter to convert the New Environmental Regulation Balancing Account from a two-way balancing account to a one-way balancing account and establish a New Environmental Regulation Memorandum Account to record environmental services costs.

(c) Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall each file a Tier 1 Advice Letter to convert the Transmission Integrity Management Program and Distribution Integrity Management Program (DIMP) from two-way to one-way balancing accounts. Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application. To establish a memorandum account SoCalGas and SDG&E shall each file a Tier 1 Advice Letter. The DIMP memorandum accounts for SoCalGas and

SDG&E shall include the provisions in the DIMP capital sections above for seeking the recovery of costs during the 2022-2024 period and the post-test years of 2025-2027 for removing Aldyl A pipe installed under conditions that could lead to leakage or other failure.

(d) Within 60 days of the effective date of this decision, SoCalGas shall file a Tier 1 Advice Letter to convert the Storage Integrity Management Program Balancing Account from a two-way to a one-way balancing account. Excess costs and undercollections may be recorded in a memorandum account subject to reasonableness review in an application. To establish a memorandum account, SoCalGas shall file a Tier 1 Advice Letter.

(e) The amounts authorized to be recorded in memorandum accounts for the Transportation Integrity Management Program, Distribution Integrity Management Program, Storage Integrity Management Program, and Gas Safety Enhancement Program in the post-test years (2025-2027) are amounts prudently incurred to comply with regulatory standards.

(f) Within 60 days of the effective date of this decision, SDG&E shall file a Tier 1 Advice Letter to convert the Vegetation Management Balancing Account to a one-way balancing account subject to a limit on spending set at SDG&E's forecasted amount and establish a Vegetation Management Memorandum Account for SDG&E to record amounts spent in excess of the amount authorized in the balancing account, subject to reasonableness review in a later application.

(g) Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall each file a Tier 1 Advice Letter closing the regulatory accounts ordered for closure under Section 43 of this decision and transfer any remaining balances to the Electric Distribution Fixed Cost Account for electric and the Core Fixed Cost Account and Noncore Fixed Cost Account for gas.

(h) Within 60 days of the effective date of this decision, SoCalGas and SDG&E shall each file a Tier 1 Advice Letter to establish a one-way balancing account to track savings from the elimination of line extension subsidies in Decision 22-09-026 and refund those savings to ratepayers.

11. In their next general rate case applications, Southern California Gas Company and San Diego Gas & Electric Company shall show their deferred work and reprioritized funds and projects related to safety and reliability at the program level.

Sempra Utilities: Affordability Metric

12. Southern California Gas Company and San Diego Gas & Electric Company shall utilize the results of their Affordability Metric calculations to continue seeking ways to make their rates more affordable for the customers most impacted by their proposed rate increases. They shall also include information on the actions taken to make rates more affordable in their next general rate case.

Sempra Utilities: Gas Distribution

13. After an audit to be conducted by the Commission's Utility Audits Branch, Southern California Gas Company and San Diego Gas & Electric Company may submit an application to seek recovery of capital costs disallowed in this decision in the Mobile Home Park Utility Upgrade Program.

14. Southern California Gas Company and San Diego Gas & Electric Company shall, in future general rate cases regarding the Leak Surveying and Repair Workgroup, increase the transparency of accounting of Business as Usual (BAU) and Senate Bill (SB) 1371 activities in order to avoid overlap in activity levels and costs by (a) defining the full impact of activities under SB 1371 on cost forecasting (with the definition including the identification of specific thresholds of work that otherwise would not have been performed under BAU activities) and (b) demonstrating the prudency of work placed into the SB 1371 Emissions Strategy Program (ESP) to show that all activities in the ESP are in excess of BAU work and are reasonable to perform.

15. In addition to any other forecast Southern California Gas Company may present, at least one forecast for pressure betterment work in its next general rate case shall be based on planned work and show that cost recovery for the same work is not requested in this or other cost categories.

16. Southern California Gas Company shall, in its next general rate case, provide information regarding the expenses and capital costs for leaving mains and services in place, removing them, and the number of requests for removal, along with the other information required by the rate case plan.

17. Southern California Gas Company shall, in its next general rate case, provide information regarding mains and services abandonments including, but not limited to, the proposed rate of regulator station replacement, the data

supporting the rate, their unit cost, and the other information required by the rate case plan.

18. Southern California Gas Company shall, in its next general rate case, provide more information regarding regulator stations including, but not limited to, the proposed rate of regulator station replacement, the data supporting the rate, their unit cost, and the other information required by the rate case plan.

19. Southern California Gas Company shall, in its next general rate case, provide more information regarding measurement and regulation devices (gas energy management systems) including, but not limited to, the basis of its new customer growth, the age of these components, and past and projected replacement rates.

20. San Diego Gas & Electric Company shall eliminate the subcategory of Other Services from future consideration of Non-Shared Operation and Maintenance Expenses in its next and future general rate cases.

21. San Diego Gas & Electric Company shall, in its next general rate case, describe how staff positions in the following two areas within Non-Shared Operations and Maintenance Expenses are not duplicated in other cost categories: (a) Asset Management and (b) Supervision and Training.

22. San Diego Gas & Electric Company shall, in its next general rate case, distinguish costs attendant to the Natural Gas Leak Abatement program from the historical pipeline repair program governed by longstanding federal and state regulations.

23. San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) shall each, in its next general rate case, provide a holistic forecast for each of its cathodic protection and cathodic protection system

enhancement programs, quantify its level of cathodic protection activity, and explain the difference in spending between SDG&E and SoCalGas.

24. San Diego Gas & Electric Company shall, in its next general rate case, regarding System Reliability and Safety work within Gas Distribution Capital, provide detail to include, but not limited to, explanations for the specific amounts requested, comparisons with previous requests by percentage, its timeliness, cost-effectiveness, and cost drivers and methodologies specific to the amounts of the changes in the forecasts, along with all other requirements in the rate case plan.

25. San Diego Gas & Electric Company shall, if more Dresser Couplings and/or closed valves need replacement, present evidence in seeking to meet its burden of proof in its next general rate case to include, but not limited to, the annual removal target, unit cost, alignment of the rate of removal with this program's relatively low risk represented by a Risk Spending Efficiency value of 1 (one), failure rates and, for Dresser Mechanical Couplings, other important information such as the life of these couplings, their age, failure rates, and similar information that may support the alternative of encapsulating couplings.

26. In Sempra Utilities' (Sempra's) next general rate case, Sempra shall compare San Diego Gas & Electric Company's (SDG&E's) Non-Shared Control Center Modernization Project gas expenditures to those of Southern California Gas Company (SoCalGas), in similar categories, and document how different costs for similar categories are determined by SDG&E and SoCalGas.

Sempra Utilities: Gas Transmission Operations

27. In its next general rate case application, Southern California Gas Company shall provide a time study documenting the time needed to perform employee tasks to support a reasonable level of staffing for Compressor Operations.

28. The following cost controls are adopted for San Diego Gas & Electric Company's (SDG&E's) Moreno Compressor Modernization Project:

(a) The authorized amount is capped at $409.735 million.

(b) The authorized amount includes the respective project costs already incurred during plant construction, called construction work in progress, recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant is moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in this decision may be put into rates until these projects are in-service.

(c) SDG&E may seek recovery of the cost of this project, only up to the amount of the cap, once it is completed and placed in service via a Tier 2 Advice letter.

29. The following cost controls are adopted for Southern California Gas Company's (SoCalGas's) Honor Rancho Compressor Modernization Project:

(a) The authorized amount is capped at $525.2 million. This authorization includes construction of a microgrid as part of the Principal component for reliability and environmental benefits.

(b) The authorized amount includes the respective project costs already incurred during plant construction, called construction work in progress, recorded from the inception through 2021. When the plant is completed and placed in service, the total cost of the plant is moved to a specific plant-in-service account. To avoid duplication, no related costs (Allowance for Funds Used During Construction, financing, direct, indirect, or overhead) adopted in this decision may be put into rates until these projects are in-service.

(c) SoCalGas may seek recovery of the cost of this project, only up to the amount of the cap, once it is completed and placed in service via a Tier 2 Advice letter.

Southern California Gas Company: Gas Engineering

30. In its next general rate case, Southern California Gas Company (SoCalGas) shall support its Land Rights forecast with historical and forecasted metrics for the work, such as the cost per mile of access, and indicate the status of SoCalGas's access to lands through which its pipelines traverse.

Sempra Utilities: Pipeline Safety Enhancement Plan Programs

31. In its next general rate case, Southern California Gas Company shall describe how its Pipeline Safety Enhancement Plan hydrotest implementation plan complies with Public Utilities Code Section 958 and pertinent federal regulations and report the dates when each of the hydrotest and capital pipeline replacement projects in this forecast was completed along with the projects remaining to be completed.

32. Southern California Gas Company shall refile applications for the Senate Bill 1383 Dairy Pilot programs with applications for the three CalBioGas dairy pilots, CalBioGas Buttonwillow LLC, CalBioGas North Visalia LLC, CalBioGas South Tulare LLC, combined into one application.

33. Accrual of interest on the amounts recovered in San Diego Gas & Electric Company's Safety Enhancement Capital Cost Balancing Accounts, Safety Enhancement Expense Balancing Accounts, and the Line 1600 Records Audit Memorandum Account (L1600RAMA) are suspended as of the effective date of this decision.

Sempra Utilities: Gas Pipeline Integrity

34. Southern California Gas Company (SoCalGas) shall perform an independent study of the efficiency of SoCalGas's Transmission Integrity Management Program and Distribution Integrity Management Program programs and related activities, including their management, to determine how best to improve their effectiveness, efficiency, and cost-effectiveness. A report of the study's findings shall be filed with SoCalGas's application in the next general rate case.

35. Southern California Gas Company and San Diego Gas & Electric Company shall make corresponding reductions to operations and maintenance costs related to the reduction of Fall Inducing Movable Platform funding, including but not limited to compensation and benefits.

Southern California Gas Company: Clean Energy Innovations

36. Southern California Gas Company shall discontinue ratepayer funding for discretionary spending in the low-emissions vehicles program under the Clean Fuels Transportation Program and not collect revenue requirements in its rates.

37. Southern California Gas Company shall continue the Research, Development, and Demonstration program under the rules adopted in Decision 19-09-051 and Resolutions G-3573, G-3586, and G-3601. The funds are subject to a one-way balancing account treatment and any unspent funds shall be returned to ratepayers at the end of the 2024-2027 general rate case cycle.

San Diego Gas & Electric Company: Electric Distribution Operational Maintenance and Capital

38. San Diego Gas & Electric Company (SDG&E) shall provide a more comprehensive and accurate Overhead Pools model consistent with this decision and file it with its application in SDG&E's next general rate case.

39. San Diego Gas & Electric Company shall report as part of its testimony on electric distribution operations and maintenance and capital cost the number of Planned Investment Projects started and completed annually since 2023 along with their unit costs at the time of filing the next general rate case application.

40. San Diego Gas & Electric Company shall report in the next general rate case application the number of future capacity projects started and completed annually since 2023 along with their unit costs.

41. San Diego Gas & Electric Company (SDG&E) shall provide information in its next general rate case regarding the age of transformers in service, the number of new installations and replacements per year, and other reliability data that may impact transformer maintenance, including data required by Decision 16-01-008.

42. San Diego Gas & Electric Company shall provide the Electric Regional Operations labor and non-labor and unit costs provided in its supplemental workpapers in this general rate case (GRC) in its original testimony in the next GRC.

San Diego Gas & Electric Company: Electric Distribution Wildfire Mitigation and Vegetation Management

43. In its next general rate case or other application seeking funding for undergrounding, San Diego Gas & Electric Company shall provide the cost per mile (based on both (a) miles of underground line installed and on (b) miles of overhead line replaced) and risk reduction for each undergrounding project

installed over the previous four years, organized by year and by high-fire threat district.

44. In its next general rate case, or other application seeking funding for covered conductor, San Diego Gas & Electric shall provide the cost per mile and risk reduction for each covered conductor project installed over the previous four years, organized by year and by high-fire threat district.

45. San Diego Gas & Electric Company shall coordinate its risk analysis for its Wildfire Mitigation Plans with its Risk Assessment and Mitigation Phase, to the extent possible.

Southern California Gas Company: Customer Service: Customer Information System Replacement Program

46. Within 30 days of the new Customer Services - Customer Information System (CIS) Replacement Program project going into service, Southern California Gas Company (SoCalGas) shall file a Tier 2 Advice Letter to incorporate the capital revenue requirement (including, without limitation, depreciation, taxes, and return) based on actual capital additions not to exceed the capital cost forecast of $221.655 million authorized in this decision, into customers' rates as part of SoCalGas's next scheduled rate update following the project's completion and in-service date.

Southern California Gas Company: Customer Services Field and Advanced Meter Operations

47. Southern California Gas Company shall amortize the balance as of December 31, 2023, in its Advanced Metering Infrastructure Balancing Account (AMIBA) Escalated Jurisdictions Cost Subaccount in customer gas transportation rates in the 2024 Test Year general rate case cycle and eliminate the entire AMIBA.

San Diego Gas & Electric Company: Customer Services Office Operations

48. San Diego Gas & Electric Company shall adjust its rates to account for branch office closures effective July 8, 2024, and apply a 49 percent reduction for 2024 revenue requirement in its General Rate Case Memorandum Account (GRCMA) to prorate the costs collected through July 8, 2024, and settle the remaining costs in the GRCMA to reduce overcollection.

San Diego Gas & Electric Company: Environmental Services

49. San Diego Gas & Electric Company shall recover San Onofre Nuclear Generating Station costs for Marine Mitigation and Worker's Compensation by intervening in Southern California Edison Company's general rate case proceeding.

San Diego Gas & Electric Company: Information Technology

50. The Customer Information System Balancing Account and the Transition, Stabilization, and Organizational Change Management Balancing Account shall be closed effective December 31, 2023, and any remaining balance shall be transferred to the Electric Distribution Fixed Cost Account for electric and the Core Fixed Cost Account and Noncore Fixed Cost Account for gas.

51. San Diego Gas & Electric Company (SDG&E) shall file an application for cost recovery of its Smart Meter 2.0 replacement project and Smart Meter system upgrade. SDG&E is authorized to maintain a Memorandum (Memo) Account as an interim means to record costs to deploy meter and module replacement or to service existing equipment from January 1, 2024, to the date of its Smart Meter 2.0 replacement project application. Costs in this Memo Account shall be reviewed for reasonableness in SDG&E's application for cost recovery. SDG&E shall file a Tier 2 Advice Letter to establish the Memo Account.

52. San Diego Gas & Electric Company shall demonstrate and incorporate benefits and dollar savings achieved by the Customer Information System – regulatory and compliance initiatives, customer experience improvements, security enhancements, automation and streamlining of business operations in its next general rate case proceeding.

Sempra Utilities: Corporate Center General Administration Utility Allocations

53. Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) shall each provide the following information for their Sempra Corporate Center Outside Legal expenses used to forecast test year costs as part of its testimony on Corporate Center Administrative and General costs at the time of filing their next general rate case application:

(a) A description of the process used to audit outside legal firm expenses to ensure they are properly recorded above the line, including improvements made from the process used to develop the 2024 Test Year forecast.

(b) Recorded costs booked into each Federal Energy Regulatory Commission (FERC) account (including FERC Account 426.4, if used to forecast test year costs) must include a description of the costs. If costs are booked to a capital account, explain the reason for capitalizing outside legal expenses.

(c) An explanation of how the recorded costs benefit ratepayers and why such legal expenses are necessary to provide natural gas and electric service, for the purpose of verifying if costs are just and reasonable. The matter descriptions should sufficiently justify cost inclusion in the forecast, including identifying specific matters for which outside legal costs are incurred.

(d) An explanation of how the recorded costs benefit ratepayers and why such legal expenses are necessary to provide natural gas and electric service, for the purpose of verifying if costs are just and reasonable. The matter descriptions should sufficiently justify cost inclusion in the forecast, including identifying specific matters for which outside legal costs are incurred.

(e) An explanation of how the recorded costs benefit ratepayers and why such legal expenses are necessary to provide natural gas and electric service, for the purpose of verifying if costs are just and reasonable. The matter descriptions should sufficiently justify cost inclusion in the forecast, including identifying specific matters for which outside legal costs are incurred.

(f) A year-by-year summary of billing statements/invoices for the recorded costs of outside attorneys and law firms that provide service. Each invoice should be associated with a docket, a proceeding before a state agency, or identification of other matters not associated with a filing. The summary of billing statements should be subdivided by matter.

Sempra Utilities: Compensation and Benefits

54. Sempra Utilities shall have an independent study of each utility's management efficiency, cost-effectiveness, and incentive compensation conducted

and file it in the next general rate case of Southern California Gas Company and San Diego Gas & Electric Company.

Sempra Utilities: Taxes

55. Southern California Gas Company and San Diego Gas & Electric Company shall continue using the Tax Memorandum Account, established in Decision (D.) 16-06-054 and D.19-09-051, and scope set forth in D.19-09-051 and Advice Letters 5546 and 3462-E/2820-G, to track differences arising from changes in tax law, tax accounting, tax policy, or procedural changes.

San Diego Gas & Electric Company Other Issues: Political Activities Booked to Ratepayer Accounts

56. Southern California Gas Company (SoCalGas) shall submit an annual verified report pursuant to Commission Rule of Practice and Procedure 1.1, by sworn affidavit or declaration under penalty of perjury, to the Commission's Executive Director, the service list of Application (A.) 22-05-015 and A.22-05-016, and the service lists of all subsequent SoCalGas general rate case (GRC) proceedings, that explains its progress in implementing the ten recommendations from the PricewaterhouseCoopers LLP Report on education, lobbying, and advocacy activities. If any recommendation is not adopted, SoCalGas shall explain its reasoning. The first report shall be submitted by March 1, 2025 and thereafter shall be submitted each year by March 1. SoCalGas shall submit the report until such time that the Commission determines in a future GRC proceeding that the report is not necessary.

57. Southern California Gas Company (SoCalGas) shall provide the following information in a verified report per Rule of Practice and Procedure 1.1, by sworn affidavit or declaration under penalty of perjury in its next general rate case (GRC) proceeding:

(a) SoCalGas has established and maintains a formal policy and guidance for recording above-the-line costs. This policy should clearly define what is considered above the line versus below the line for advocacy and lobbying activities.

(b) SoCalGas's employees are trained to record time and expenses differentiating above-the-line and below-the-line activities accurately. SoCalGas shall provide information on business units receiving training, the number of employees per business unit receiving training, the type of training, the frequency of training, and the hours of training. SoCalGas shall provide copies of any written training materials, including presentation materials used therein, as attachments to the report.

(c) SoCalGas shall identify business units and employees involved in political and lobbying activities. If booked above-the-line or used to forecast test year costs, detailed time records and documentation resulting from such an assessment shall be provided.

(d) SoCalGas shall demonstrate that it has established procedures to monitor and verify that employees have properly identified and booked above-the-line costs. SoCalGas shall explain its procedures and process improvements adopted, if any.

(e) To the extent SoCalGas retains outside consultants or law firms to perform political activities and these consultants or law firms conduct any work where costs are included in any general rate case forecast as benefiting ratepayers, SoCalGas shall provide the Federal Energy Regulatory Commission accounts where the costs are booked as above the line, and a summary documenting the time, work performed, total cost incurred, and how such work benefits ratepayers and is not deemed political activities, to verify the costs are just and reasonable.

(f) SoCalGas shall submit the report until the Commission determines in a future GRC proceeding that the report is not necessary.

Settlements

58. The Joint Motion of Southern California Gas Company, San Diego Gas & Electric Company, the Public Advocates Office at the California Public Utilities Commission, The Utility Reform Network, the Utility Consumers' Action Network, and Community Legal Services for Adoption of a Settlement Agreement Resolving All Insurance Issues attached as Appendix B to this decision is granted.

59. The Joint Motion of Southern California Gas Company, San Diego Gas & Electric Company, The Utility Reform Network, the Public Advocates Office at the California Public Utilities Commission, and the Small Business Utility Advocates for Adoption of Settlement Agreement attached as Appendix C to this Decision is granted.

60. The Public Advocates Office at the California Public Utilities Commission's May 17, 2024 motion to take official notice of the April 2, 2024 Energy Efficiency Codes & Standards Program Performance Audit prepared by the California Public Utilities Commission's Utility Audits Branch, covering the period January 1, 2014 through December 31, 2022, is granted.

61. San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company's (SocalGas's) Motion to File Under Seal regarding confidential information in Attachments 2 and 3 to SDG&E and SoCalGas's Notice of Compliance with the proposed decision's compliance request regarding Officer Compensation pursuant to Decision 19-09-051 is granted.

62. This consolidated proceeding remains open.

This order is effective today.

Dated December 19, 2024, at San Francisco, California.

ALICE REYNOLDS
President
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners

Commissioner Matthew Baker recused himself from this agenda item and was not part of the quorum in its consideration.

APPENDIX A

Results of Operations Model

APPENDIX B
Settlement on Insurance

APPENDIX C

Settlement on Customer Services Information

APPENDIX D
PricewaterhouseCoopers LLP Audit Report