

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**Agenda ID# 23629
RESOLUTION G-3606
August 14, 2025**

R E S O L U T I O N

Resolution G-3606. Denies San Diego Gas & Electric's ratemaking forecasts for its 2024 Natural Gas Leak Abatement Compliance Plan and approves previously under-recovered capital costs.

PROPOSED OUTCOME:

- Denies ratemaking forecasts and cost caps submitted by San Diego Gas & Electric (SDG&E) for its 2024 Natural Gas Leak Abatement (NGLA) program in Advice Letter 3285-G-A and approves request for rate recovery of previously approved under-recovered capital costs.

SAFETY CONSIDERATIONS:

- Repairing or replacing pipes and modifying operations and associated infrastructure to reduce methane emissions also results in modest improvements to natural gas pipeline safety.

ESTIMATED COST:

- A Total Revenue Requirement of \$222,000 is approved for recovery in 2025 and 2026 of SDG&E's previously approved but unrecovered Natural Gas Leak Abatement Program capital costs.

By Advice Letter 3285-G filed March 15, 2024 and Advice Letter 3285-G-A filed November 5, 2024.

SUMMARY

This Resolution denies SDG&E's 2024 Natural Gas Leak Abatement ratemaking forecasts as presented in Advice Letter (AL) 3285-G-A for costs for its 2024 Compliance Plan. The purpose of the 2024 Compliance Plan is to propose how the utility will reduce

emissions and implement the 26 Best Practices for natural gas leak abatement adopted in Decision (D.) 17-06-015 and to detail their costs and cost effectiveness. SDG&E's proposed 2024 Compliance Plan includes 14 chapters, with each chapter describing how a subset of the Best Practices would be addressed. AL 3285-A requests rate recovery of the costs for the 2024 Compliance Plan.

SDG&E forecasts a Total Revenue Requirement¹ of \$24.859 million in Advice Letter 3285-G-A: \$22.919 million for Best Practices; \$1.29 million for Research, Development, and Demonstration (RD&D) projects; \$0.428 million for Program Administration; and \$0.222 million for under-recovered ongoing capital revenue requirement. Best Practice proposals are described in Attachment A, Safety Policy Division's (SPD) Review of SDG&E's 2024 NGLA Compliance Plan.

This Resolution approves no funding for Best Practices because none of the practices are cost-effective. Costs for RD&D are also denied. SDG&E is authorized to record up to \$0.428 million for NGLA Program Administration, if applicable, in the Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA) for potential recovery in a future general rate case or other proceeding, where it will be subject to reasonableness review. We approve \$222,000 for unrecovered ongoing capital costs from previously approved Compliance Plans.

BACKGROUND

On September 21, 2014, Senate Bill (SB) 1371 (Leno) was signed into law.² SB 1371 directs the California Public Utilities Commission to adopt rules and procedures to provide for the "maximum technologically feasible and cost-effective" reduction of methane emissions from CPUC-regulated gas facilities.

On September 19, 2016, SB 1383 (Lara) was signed into law. SB 1383 requires the California Air Resources Board (CARB) in coordination with other state and local

¹ The Total Revenue Requirement is the total cost of a program. The Average Annual Revenue Requirement (AARR) is the average yearly cost during the 2025-2026 Compliance Plan Period. The AARR is made up of both capital and operations and maintenance (O&M) costs. Capital costs are collected evenly over the expected length of the life of the asset, and one year of such costs is included in the AARR. For O&M, the AARR includes the total costs during the Compliance Plan Period divided by the number of years of the program, in this case, two years. SoCalGas identifies each of the chapters' capital and O&M costs separately in its Compliance Plan.

² SB 1371 is codified in Public Utilities Code Section 975-978.

agencies and districts, to approve and begin implementing a comprehensive strategy by January 1, 2018 to reduce methane emissions by 40 percent by 2030.

On June 15, 2017, the CPUC issued D.17-06-015 as part of Rulemaking (R.) 15-01-008, which directed SDG&E to submit a Tier 3 Advice Letter (AL) to establish 2018 and 2019 revenue requirement forecasts and caps for the Natural Gas Leak Abatement program. The AL was to include the incremental costs for each of 26 Best Practices as well as costs for pilot projects and RD&D broken down by type of expenditure, justifications for pilot and RD&D projects, and the proposed allocation methodology. Ordering Paragraph (OP) 12 of D.17-06-015 states that the ratemaking forecasts and caps that the CPUC approves in response to the Tier 3 ALs shall apply until the NGLA is incorporated into each utility's next General Rate Case (GRC) or other gas ratemaking proceeding.

Because of the uncertainty and difficulty of forecasting costs for the new program, D.17-06-015 also established two balancing accounts and one memorandum account in which to record expenses for the NGLA program, as follows:³

- For the Best Practices/Chapters: a two-way balancing account that is a subaccount of the New Environmental Regulation Balancing Account (NERBA). The subaccount's name is NERBA-Natural Gas Leak Abatement Program (NERBA-NGLAP).
- For the program's RD&D: a one-way balancing account, the Natural Gas Leak Abatement Balancing Account (NGLAPBA);
- For Program Administration: a memo account, the NGLAPMA, to track the incremental expenses related to the program's reporting and administration, to be subject to reasonableness review in a future GRC for recovery.

On October 12, 2018, Resolution 3538 was adopted, approving with modifications the forecast requests for PG&E, SoCalGas, SDG&E, and Southwest Gas Corporations' Compliance Plans through 2020. SDG&E's forecast of \$12.3 million was approved for the two-year program. Ordering Paragraph 5 of Resolution 3538 orders the utilities to each:

Submit a Tier 1 Advice Letter with revised tariff sheets to recover forecasted costs in the Natural Gas Leak Abatement Program Balancing Account for 2018. The balance in the two-way balancing account shall be subject to refund or recovery from customers in the following year through the Annual Gas True-Up advice letter filing.

³ D.17-06-015 at 132-133.

For 2019, OP 6 adds:

Each utility will include the authorized cost forecast and cost limit in their gas transportation rates in connection with their consolidated rate update submittal for rates effective January 1, 2019, with balancing account balances subject to true up as in OP 5.

For 2020, OP 7 addresses potential funding gaps between the two-year Compliance Plan cycle with SoCalGas and SDG&E's consolidated rate update submittal for rates effective January 1, 2020, stating:

Each utility may include the authorized cost forecast and cost limit to bridge the funding gap of the two year Leak Abatement Compliance Plan with their consolidated rate update submittal for rates effective January 1, 2020.

OP 7 then repeats the same "subject to refund or recovery" language for balances in the two-way balancing account stated in OP 5 and 6, with balances in the two-way balancing account trued up in the following year through the Annual Gas True-Up advice letter filing. Resolution 3538 also notes that balances in all accounts authorized for recovery are subject to audit, verification, and adjustment.⁴

On August 15, 2019, the CPUC adopted a Second Phase Decision, D.19-08-020, establishing additional policies, including requiring use of the utility-proposed standard cost effectiveness methodology and two additional cost-benefit analyses, the Cap-and-Trade cost benefit test and the Social Cost of Methane.⁵ The Decision also imposed a restriction on rate recovery for Lost and Unaccounted For (LUAF) gas beginning in 2025 for SoCalGas and Pacific Gas & Electric (PG&E) if their methane emissions are not greater than 20 percent below the 2015 baseline levels.⁶ This performance objective reflects the CPUC's intent that SoCalGas and PG&E be at least

⁴ Resolution 3538 at 8.

⁵ D.19-08-020, FOF 8,9&10 and OP 2&3.

⁶ D.19-08-020, p.2 and OP 5.

halfway to achieving their share of the state's goal of a 40 percent reduction in methane emissions by 2030, consistent with SB 1383, while noting that the 40 percent is a soft target. SDG&E was not subject to the restriction on rate recovery for not achieving the 20 percent reduction in methane emissions by 2025 because their system is much newer and therefore has fewer emissions to reduce.

D.19-08-020 also confirmed the CPUC's Safety Enforcement Division's (SED) authority to approve NGLA compliance plans and to disapprove any measures it finds not to be in the ratepayers' interest.⁷ The authority was transferred to the Safety Policy Division upon creation of that new division. SPD staff evaluate each biennial compliance plan in consultation with CARB and Energy Division staff.

D.19-08-020 further ordered the convening of a workshop by the CPUC's Energy Division and SPD in cooperation with the Technical Working Group⁸ established in R.15-01-008 to refine the scope and detail of the compliance plans and Tier 3 Advice Letters pertaining to cost-effectiveness and cost-benefit analysis.⁹ It also stated that SPD and ED Staff have the authority to convene the Technical Working Group every two years to consider updates to the NGLA compliance plans.¹⁰

On October 21, 2019, the public workshop was held. The guidelines¹¹ developed allow more than one of the 26 Best Practices to be addressed by a combination of actions that may be grouped together in a chapter of the compliance plan.¹² Members of the Technical Working Group have since been invited to the annual NGLA workshops held by SPD, CARB, and the utilities.

⁷ D.19-08-020, p. 19: "SED has authority delegated by the CPUC to approve biennial compliance plans and disapprove any project it determines is not in the ratepayer's interest."

⁸ At the time of the initial decision, any party to the proceeding who was interested could join the Technical Working Group. Parties that joined initially included EDF and TURN along with the gas companies and CARB.

⁹ D.19-08-020, OPs 6 and 7.

¹⁰ D.19-08-020, COL 19.

¹¹ Email directive from SPD to utilities, "Compliance Plan Guidelines for Natural Gas Leak Abatement Program," November 25, 2019. The NGLA Compliance Plans filed in 2020 reflect those guidelines, primarily the concept that Plan chapters can incorporate more than one best practice. The previous guidelines required a separate chapter for each of the 26 best practices, which was found to be inefficient since SPD had found that a particular measure could address more than one best practice at the same time.

¹² In SDG&E's case, this resulted in 14 Chapters.

On January 16, 2020, the CPUC modified the GRC interval periods for each utility, adopting an extension of the GRC cycle for each utility from three years to four years and extending SDG&E's then-current cycle through 2023.¹³

On March 12, 2020, SDG&E submitted AL 2852-G to provide forecasted costs for its 2020 Compliance Plan, including its forecast of costs and emissions reductions for the years 2021 and 2022 and revenue requirements for the life of the capital projects. SDG&E made various corrections to its initial filing in ALs 2852-G-A, 2852-G-B, and 2852-G-C, which were filed on June 12, 2020; June 29, 2020; and October 2, 2020, respectively.

On March 12, 2020, SDG&E filed its 2020 Compliance Plan, which was subsequently amended on June 12 and September 4, 2020.¹⁴

On December 17, 2020, the CPUC issued Resolution G-3577 approving AL 2852-G-C and the SDG&E 2020 Compliance Plan for a Total Revenue Requirement of \$15.8 million over the life of the capital projects.¹⁵ This resulted in an overall rate increase of 0.7 percent for 2021 and 0.3 percent in 2022.¹⁶

On November 18, 2021, the CPUC's Executive Director granted SoCalGas and SDG&E an extension of time to comply with Ordering Paragraph 12 of D.17-06-015, delaying the incorporation of the leak abatement programs into its GRC until Test Year 2028, which is expected to be filed by May 15, 2026.

On March 15, 2022, SDG&E submitted its 2022 NGLA Compliance Plan for 2023 and 2024 and AL 3071-G, which provided forecasted costs for the two-year Plan. SDG&E made revisions and corrections in AL 3071-G-A and AL 3071-G-B, which were filed on February 21, 2023 and April 11, 2023, respectively. AL 3071-G-B requested a Total Revenue Requirement of \$24.3 million. The annual revenue requirement requested for 2023 and 2024 was \$7.2 million and \$7.7 million respectively, not including Franchise Fees and Uncollectibles.¹⁷ The resulting overall rate increase requested was 0.3 percent for 2023 and 0.4 percent for 2024.

¹³ D.20-01-002, issued on January 16, 2020.

¹⁴ SDG&E SB 1371 Amended 2020 Compliance Plan.pdf (sdge.com).

¹⁵ It has been understood throughout the process of reviewing the NGLA requests for funding that they include the ongoing costs for the life of the capital projects, just as they would in a General Rate Case, and that once they are approved, these are put into the utility's rates for the life of the capital projects and not just the two years of the NGLA Compliance Plan cycle.

¹⁶ Resolution G-3576 p. 3.

¹⁷ The sum of the 2023 and 2024 annual revenue requirement is less than the Total Revenue Requirement because there are significant capital costs in some of the leak abatement programs, which are recovered over a longer period.

On November 16, 2022, CARB issued its 2022 Scoping Plan, which increases its target for the reduction of fugitive methane emissions from natural gas infrastructure from 40 to 50 percent by 2030.¹⁸

On June 29, 2023, the CPUC issued Resolution G-3599, approving in part and denying in part SDG&E's 2022 Compliance Plan and AL 3071-G-B. Resolution G-3599 approved a total forecasted revenue requirement of \$19,265,211 over the life of the capital projects,¹⁹ an approximately 21 percent reduction from SDG&E's request. Funding for several chapters of SDG&E's 2022 Compliance Plan was not approved due to their very poor cost-effectiveness.

OP 2 of Resolution G-3599 required the Safety Policy Division and the Energy Division, in consultation with CARB, to convene a meeting of the NGLA's Technical Working Group by September 30, 2023, to receive input and find balance between the dual priorities of the program: maximum methane emissions reductions and cost effectiveness. This meeting was held virtually on September 28, 2023.

As a result of the Technical Working Group meeting, SPD issued directions to the utilities to continue to provide values for the three existing cost-effectiveness tests. SPD also allowed the utilities to include additional cost-effectiveness values that include safety benefits, where appropriate. SPD further directed the utilities to update the values for the social cost of methane as presented in D.19-08-020 for inflation by using the California Consumer Price Index. Additionally, SPD instructed utilities that RD&D programs should prioritize improving cost-effectiveness.

On March 15, 2024, SDG&E submitted its 2024 NGLA Compliance Plan and AL 3285-G, which provides 2025 and 2026 forecasted costs for the Plan's Chapters, RD&D, and Program Administration and under-recovered costs from prior approved compliance plans. SDG&E submitted an amended 2024 Compliance Plan on April 4, 2024. A revised AL 3285-G-A was submitted on November 5, 2024 to correct some inadvertent omissions in the previous AL's Table 4, which presents the revenue requirements to be entered into rates in 2025 and 2026. SDG&E's forecast for its 2025-2026 NGLA program does not meet the 40 percent greenhouse gas reduction goal, although its implementation of the mandatory Best Practices ordered in D.17-06-015 will achieve an

¹⁸ 2022 CARB Scoping Plan, p. 79, Table 2-1:<https://ww2.arb.ca.gov/sites/default/files/2022-12-/2022-sp.pdf#page=252&zoom=100,93,469>.

¹⁹ Resolution G-3599-G, OP 1.

estimated 8 percent reduction from the most recent adjusted baseline, according to SPD's evaluation of its 2024 Compliance Plan.²⁰

NOTICE

Notices of AL 3285-G and 3285-G-A were made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

ALs 3285-G and 3285-G-A were not protested. Consistent with General Order 96-B, General Rule 7.5.1 the original protest and comment period designated in AL 3285-G was not reopened.

DISCUSSION

The CPUC considered SDG&E AL 3285-G-A and SPD's Evaluation of SDG&E's 2024 NGLA Compliance Plan (the "SPD Evaluation Report," attached as Attachment A) in reaching a determination that balances the goals of cost-effectiveness and emissions reductions.

Cost-Effectiveness

The SPD Evaluation Report considers the cost-effectiveness methodologies established in D.19-08-020. Three types of cost-effectiveness methods are to be considered for comparison purposes. These include the standard cost-effective measurement, the avoided Cap-and-Trade cost, and the avoided Social Cost of Methane as comparison measures. D.19-08-020 does not establish a threshold cost-effectiveness value or limit for the NGLA program.

The standard cost-effectiveness measure is based on the Average Annual Revenue Requirement (AARR),²¹ from which the cost of the gas saved is deducted, divided by the annual emissions reduction for the program. This standard cost-effectiveness is then expressed in dollars per thousand standard cubic feet of natural gas emissions avoided

²⁰Safety Policy Division Evaluation of SDG&E's 2024 NGLA Compliance Plan, June 30, 2025 at 2 (Attachment A to this resolution).

²¹ As explained in fn 1, SDG&E identifies each of the chapters' capital and O&M costs separately in its Compliance Plan. The AARR is the basis for the standard cost-effectiveness calculations for each measure, as noted above.

or \$/MCF.²² Given this method, a lower numerical value denotes a better cost-effectiveness.

As required by D.19-08-020, the 2024 Compliance Plan continues the use of the avoided Cap and Trade compliance costs and the avoided Social Cost of Methane. The avoided Cap-and-Trade cost is based on the reduction in gas throughput caused by abating leaks and quantifies the greenhouse gas (GHG) impact by assuming that all gas throughput is combusted to carbon dioxide (CO₂) and emitted to the atmosphere.

For SDG&E, an annual Advice Letter forecasts the rate impact of Cap-and-Trade costs. If approved, these costs are added to rates. To estimate the value of reduced Cap and Trade compliance costs, SDG&E assumed a December 2025 vintage futures value based on the five-day average of the first trading days of the year, January 2-8, 2024, from the International Exchange: \$45.12 per metric ton of CO₂ equivalent (MTCO₂e). Compliance with the CPUC's instructions produced a Cap-and-Trade benefit value of \$2.46/MCF, which was used for the 2024 Compliance Plan.²³

The benefit of the avoided Social Cost of Methane is the reduction in the future cost to society from the environmental impact of leaked methane that has not been combusted, which has a higher global warming potential in the short term than CO₂. D.19-08-020 provides a Table of Estimates for the Social Cost of Methane for use in the utilities' compliance plans. Following the 2023 Technical Working Group meeting, SPD staff provided written guidance to update those values using the California Consumer Price Index (CPI). In the 2024 Compliance Plan, SDG&E updated the Phase II Decision estimate for 2020 by applying the California CPI, which resulted in a social cost of methane of \$24.42/MCF.

These two additional cost-effectiveness tests are to be used for "information and comparison purposes."²⁴ Including the combined values for the Cap-and-Trade cost benefit and the Social Cost of Methane, a measure is said to achieve a "break-even" net cost-effectiveness of \$0/MCF when it has a standard cost-effectiveness of approximately

²² Different units for natural gas are used in different contexts. One MCF is roughly equal to 1.038 million British thermal units (MMBtu), the unit typically used when pricing natural gas, and 10.38 therms, the unit used on customer bills: <https://www.eia.gov/tools/faqs/faq.php?id=45&t=8>. Natural gas spot prices at the Henry Hub, the pricing point for natural gas prices on the New York Mercantile Exchange, averaged \$2.29 per MCF and \$2.21 per MMBtu in 2024. Source: [Spot Henry Hub natural gas prices hit a historic low in 2024 - U.S. Energy Information Administration \(EIA\)](#).

²³ Safety Policy Division Evaluation of SDG&E's 2024 NGLA Compliance Plan, June 30, 2025 at 5.

²⁴ D.19-08-020, p. 36

\$26.88/MCF.²⁵ This is \$4.88 higher than the break-even value of \$22/MCF in the 2022 Compliance Plan period of 2023-2024.

In addition to the cost-effectiveness of a measure, SPD considers other factors, as follows:

- Is it required for compliance with the Best Practices specified in D.19-08-020?
- Is it technically feasible?
- Is its cost-effectiveness improving over time?
- What is its contribution to achieving the program's emission reduction goals?
- Is it foundational for the functioning of the program (i.e., training, tracking and performing measurements of emissions)?
- Does it provide the "biggest bang for the buck" (FOF, D.19-08-020)?

As a result of this broader consideration of each measure in the utility's compliance plans, SPD's evaluation may approve measures that are not cost-effective. This is explicitly stated in D.19-08-020, which recognized that the cost of "maximum technologically feasible" measures might be expensive: "...we do not adopt a requirement that all measures, or the Compliance Plans in their entirety, must show a positive benefit to cost ratio under either methodology. The CPUC retains full discretion to evaluate measures proposed in the Compliance Plans considering cost-effectiveness along with other qualitative factors and policy goals."²⁶

SPD's review of the SDG&E 2024 Compliance Plan evaluates the impact of the updated baseline on the amount of emissions reduction required by 2030. SPD's review states that SDG&E's 2024 Compliance Plan forecasts an emissions reduction of 8 percent by 2025 (relative to the 2015 baseline). However, unlike SoCalGas, SDG&E is not mandated to reduce emissions by the target of 20 percent by 2025, established in D.19-08-020 for SoCalGas and Pacific Gas and Electric Company. SPD also reports that SDG&E's 2024 Compliance Plan forecast does not meet the statewide greenhouse gas (GHG) reduction goal of 40 percent by 2030.

Because of the other factors SPD includes in its evaluation as described above, SPD recommends approval of the entire SDG&E Compliance Plan except for the Increased Leak Survey measure, Chapter 1. This chapter is the least cost effective of all SDG&E's proposals, and the Best Practices it addresses can be satisfied by the more cost-effective Aerial Mapping and Monitoring (AMM) measure, which SPD notes the latest research results for SDG&E's AMM program found to be the most cost-effective of their programs. However, AMM is not cost-effective when considering only the

²⁵SPD Review of 2024 SDG&E Evaluation Report at 4.

²⁶ D.19-08-020 at 27.

emission reductions on the utility's side of the system, as specified in Public Utilities Code section 975.²⁷ The standard cost-effectiveness of AMM is \$339/MCF, which far exceeds the break-even value of \$26.88/MCF.

We acknowledge that the cost effectiveness increases substantially if leaks found on the customer side are counted. Based on the SDG&E study approximately 90 percent of the emissions found through AMM are on the customers' side, including in disadvantaged communities. If all emissions were permissibly counted in evaluating cost-effectiveness,²⁸ AMM would achieve a net cost-effectiveness of \$5/MCF (which is close to the \$0/MCF break-even point for net cost-effectiveness).²⁹

As shown and further described in Attachment A, SPD approves all chapters, except for Chapter 1 assuming that Chapter 14 is implemented. If Chapter 14 is not operational, SPD approves continuation of Chapter 1. SPD also recommends approval of SDG&E's six RD&D projects.

Ratepayer Impacts

SPD's review of the SDG&E's 2024 Compliance Plan indicates that none of SDG&E's Best Practices are cost-effective. SB 1371 states that the Commission should prioritize affordability considerations and instructs the Commission to approve cost-effective emissions reduction measures.³⁰ As noted in D.19-08-020 and the enabling statute, "Affordability must also be at the forefront and a priority as required by SB 1371."³¹ Indeed, the Commission must scrutinize every program we authorize for cost-effectiveness.

Therefore, we do not approve any of the ratemaking forecasts for SDG&E's 2025 and 2026 NGLA Compliance Plan found in Advice Letter 3285-G-A.

SDG&E may present proposals for measures it wishes to continue in its 2026 GRC filing for Test Year 2028.

²⁷ Pub. Util. Code section 975(e)(1) provides that the Commission shall "[p]rovide for the maximum technologically feasible and cost-effective avoidance, reduction, and repair of leaks and leaking components *in those commission-regulated gas pipeline facilities that are intrastate transmission and distribution lines* within a reasonable time after discovery. . ." (emphasis added).

²⁸ Net cost-effectiveness includes the additional cost-effectiveness tests of Cap and Trade and Social Cost of Methane, in addition to the standard cost-effectiveness test.

²⁹ Safety Policy Division Evaluation of SDG&E's 2024 NGLA Compliance Plan at 9.

³⁰ See Pub. Util Code sections 975(b), 975(e)(1), and 977(d).

³¹ D.19-08-020 at 27.

Review of NGLA RD&D Projects

Due to concerns about ratepayer impacts and the fact that other gas RD&D programs already exist, we do not approve continuation of the RD&D projects requested in AL 3285-G-A, which are forecasted to cost \$1.290 million. SDG&E may move the leak abatement RD&D projects it wishes to continue into its broader RD&D program pursuant to PUC 740.1, starting with its filing of the Test Year 2028 GRC.

Review of SDG&E's Program Administration Forecast for 2025-2026

Program Administration costs for the NGLA program include costs for reporting the various emission factors and their updates for each of the Best Practices and RD&D projects. The total Program Administration forecast for SDG&E's 2024 Compliance Plan is \$428,000. Consistent with D.17-06-015, SDG&E is authorized to book administrative expenses in a memorandum account to be reviewed in a future General Rate Case or other proceeding. These costs are thus not approved for recovery from ratepayers in this Resolution.

Requested Increase to Capital Revenue Requirement from Prior Compliance Periods

SDG&E also requests recovery in rates of unrecovered ongoing capital revenue requirement from their prior compliance plans dating back to its initial advice letter filed in 2017. SDG&E explains that this lack of recovery is the result of undercollection of and/or shortfalls to continuing capital revenue requirements associated with completed capital projects approved through prior NGLA compliance plans that were not fully accounted for in rates.³² These costs are in addition to the revenue requirement requested for 2025 and 2026 in the 2024 Compliance Plan.

SDG&E states that its Advice Letters 2852-G-C and 3071-G-B, which sought funding associated with its 2020 and 2022 NGLA Compliance plans, included rate impacts only for the two-year compliance periods of their associated compliance plans, not the ongoing capital requirements associated with previously approved projects. SDG&E proposes to include a total of \$222,000 for capital undercollections and shortfalls in its 2025 and 2026 rate recovery.

These under-recoveries occurred in part because SDG&E used its original NGLA Advice Letter, which was approved via Resolution G-3538 (October 11, 2018), as the

³² AL 3285-G-A at 6.

model for subsequent Advice Letters. The original NGLA advice letter included only the two years included in the forecast of capital costs for the Compliance Plan period. That advice letter did not have any previously approved ongoing capital requirements to include, however, since it was the first one to be submitted for approval. Using this initial submittal as a model, the subsequent 2020 and 2022 two-year biennial Compliance Plans and Advice Letters repeated this approach.

We recognize that these costs are tied to projects and work that has been previously approved in prior NGLA resolutions and that they have not been recovered in rates. We treat the capital costs for this program the same as the revenue requirement associated with any other capital assets approved to be put into rates. This program was developed in compliance with SB 1371 and SB 1383 and has been implemented by decisions D.17-06-015 and D.19-08-020. Therefore, we approve SDG&E's revenue recovery of on-going capital requirements in the amount of \$222,000 to align with what has been approved and under-recovered in Resolutions G-3538 (October 11, 2018), G-3576, (December 17, 2020), and Resolution G-3595 (July 3, 2023). However, as noted in Resolution G-3538, balances in all accounts authorized for recovery are subject to audit verification and adjustment.

Summary of Costs Approved

The following table shows the Total Approved and Average Annual Revenue Requirement for the SDG&E 2024 Compliance Plan.

Approved Cost Recovery

	Total Revenue Requirement Approved	Revenue Requirement for 2025	Revenue Requirement for 2026
Best Practices	\$0.0	\$0.0	\$0.0
RD&D	\$0.0	\$0.0	\$0.0
Under-recoveries	\$222,000	\$113,000	\$109,000
Total	\$222,000	\$113,000	\$109,000

Future Costs for the NGLA Program

As noted above, the Commission requires funding for the NGLA program to be transitioned into the regular GRC process for each utility participating in the program.

D.17-06-015 originally anticipated that each utility complying with the NGLA program would incorporate NGLA program expenses in its next general rate case,³³ but the CPUC's Executive Director granted SoCalGas and SDG&E an extension until their GRC Test Year 2028 to incorporate NGLA program expenses, which is expected to be filed by May 15, 2026. SDG&E acknowledges this in AL 3285-G-A.³⁴

SDG&E is therefore directed to incorporate the NGLA program's costs in its next GRC proceeding and to incorporate NGLA expenses into its GRC applications or other application proceeding going forward. SDG&E shall submit its approved biennial NGLA compliance plans and SPD's evaluation thereof into the record of any GRC or other application proceeding in which recovery for costs associated with that compliance plan is sought.

COMMENTS

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

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

FINDINGS AND CONCLUSIONS

1. On September 1, 2014, Senate Bill (SB) 1371 (Leno), codified in Pub. Util Code section 975 et seq, was signed into law, authorizing the California Public

³³ See D.17-06-015, OP 12.

³⁴ See AL 6277-G-B at 8 ("As directed in D.17-06-015 and D.19-08-020, and subsequently as granted by the Commission, future costs for the NGLA Program for SoCalGas will ultimately be incorporated into the TY 2028 GRC, anticipated to be filed May 15, 2026.")

- Utilities Commission (CPUC) to adopt rules and procedures to reduce emissions of natural gas from CPUC-regulated gas facilities to the maximum extent feasible while giving due consideration to costs.
2. SB 1371 requires that affordability be a priority of the emissions reduction program.
 3. Public Utilities Code section 975(e)(1) requires approval of emissions reduction measures that are both cost-effective and technologically feasible.
 4. On September 19, 2016, SB 1383 (Lara) was signed into law, requiring the California Air Resources Board, in coordination with other state and local agencies, to approve and begin implementing a comprehensive strategy by January 1, 2018, to reduce methane emissions by 40 percent by 2030.
 5. Decisions (D.) 17-06-015 and D.19-08-020 ordered ratemaking forecasts for the Natural Gas Leak Abatement Program (NGLA) to be submitted in Tier 3 Advice Letters, which require approval via CPUC resolutions.
 6. D.17-06-015 required SDG&E to establish a two-way balancing account for incremental NGLA program expenditures related to Best Practices in the form of a subaccount to its New Environmental Regulatory Balancing Account (NERBA), and to create a one-way balancing account for the costs of the NGLA program's Research, Development and Demonstration (RD&D) activities.
 7. D.17-06-015 required SDG&E to create a Memorandum Account for incremental administrative costs associated with the Natural Gas Leak Abatement Program expenditures.
 8. Ordering Paragraph 12 of D.17-06-015 provides that the ratemaking forecasts and caps that the CPUC approves in response to the Tier 3 ALs shall apply until the NGLA is incorporated into each utility's next General Rate Case or other gas ratemaking proceeding.
 9. On November 18, 2021, the CPUC's Executive Director granted SoCalGas and SDG&E an extension of time to comply with OP 12 of D.17-06-015, delaying the incorporation of SDG&E' leak abatement programs into their GRC until their next General Rate Case, which is expected to be filed by May 15, 2026.
 10. D.19-08-020 required the use of a standard cost effectiveness methodology and two additional cost-benefit analyses that calculate the benefit of avoided

Cap and Trade compliance costs and the benefit of the avoided Social Cost of Methane.

11. The avoided Cap and Trade costs and the avoided Social Cost of Methane tests are to be used for information and comparison purposes.
12. D.07-06-015 and D.19-08-020 authorize SPD to approve biennial compliance plans and disapprove any project it deems not in ratepayers' interest.
13. On July 31, 2018, SDG&E filed AL 2621-G-B, which was approved with modifications in Resolution G-3538 on October 11, 2018.
14. On December 17, 2020, the CPUC issued Resolution (R.) G-3577 approving AL 2852-G cost forecasts for the SDG&E 2020 Compliance Plan for a Total Revenue Requirement of \$15.8 million over the life of the capital projects. This resulted in an overall rate increase of 0.7 percent for 2021 and 0.3 percent in 2022.
15. On November 18, 2021, the CPUC's Executive Director granted SDG&E an extension of time to comply with OP 12 of D.17-06-015, delaying the inclusion of SDG&E's leak abatement programs in the GRC until Test Year 2028, which is expected to be filed by May 15, 2026.
16. On March 15, 2022, SDG&E submitted its 2023 NGLA Compliance Plan and AL 3071-G, requesting approval for the forecasted costs of the plan, which were subsequently revised and corrected in AL 3071-G-A and AL 3071-G-B.
17. On June 29, 2023, the CPUC issued Resolution G-3599, partially approving AL 3071-G-B, authorizing funding of \$19,265,211, representing a reduction of approximately 21 percent from SDG&E's funding request.
18. On March 15, 2024, SDG&E submitted its 2024 NGLA Compliance Plan along with AL 3285-G requesting recovery of its forecasted costs for the Plan.
19. On October 22, 2024, Safety Policy Division issued a letter to SDG&E: "Approval of Adjusted 2015 Baseline Emissions for San Diego Gas & Electric Company," which adjusted the 2015 emissions baseline from 284,762 MCF to 285,355 MCF.
20. With the adoption of the adjusted baseline, SPD observes that SDG&E has reported an estimated 8 percent reduction in emissions by the end of 2023.
21. On November 5, 2024, SDG&E submitted AL 3285-G-A to correct inadvertent errors and a typo.
22. In accordance with D.19-08-020, SPD approval of utility Compliance Plans is based on consideration of mandatory Best Practices, forecasted emission reductions, and cost-effectiveness. D.19-08-020 does not establish

- cost-effectiveness as the sole consideration, nor does it establish a cost-effectiveness threshold.
23. Safety Policy Division has evaluated SDG&E's 2024 Compliance Plan's Best Practices and Research, Development & Demonstration projects and approves all chapters but one and RD&D as being in compliance with D.17-06-015 and D.19-08-020.
 24. This Resolution does not approve the cost forecast for any of SDG&E's Best Practices as described in its Compliance Plan and AL 3285-G-A because none of them are cost-effective.
 25. This Resolution does not approve funding for NGLA Research, Development, and Demonstration projects described in SDG&E's 2024 Compliance Plan.
 26. SDG&E is required to incorporate the NGLA into its GRC for Test Year 2028 by Ordering Paragraph 12 of D.17-06-015, and the letter from the CPUC's executive director dated November 18, 2021.
 27. SDG&E may move its NGLA Research, Development and Demonstration projects as appropriate to its broader Research and Development program in its next GRC pursuant to Public Utilities Section 740.1 or other process as may be specified by the Commission.
 28. In accordance with D.17-06-015, the program administration costs recorded in the Natural Gas Leak Abatement Program Memo Account are subject to reasonableness review in SDG&E's next GRC or other application. They are thus not approved for recovery in this Resolution.
 29. SDG&E requests modifications to on-going capital revenue requirements for years 2025 and 2026 that are in addition to its requested recovery for its 2024 Compliance Plan. These include a shortfall in the 2024 Natural Gas Leak Abatement Program (NGLAP) revenue requirement of \$222,000.
 30. It is reasonable for SDG&E to recover the ongoing capital costs associated with measures approved in prior compliance plans.
 31. It is reasonable for SDG&E to modify its rates to collect the revenue requirement approved in this resolution.

THEREFORE IT IS ORDERED THAT:

1. Forecasted costs for Best Practices as filed in Advice Letter 3285-G-A for San Diego Gas & Electric Company's (SDG&E) 2024 Natural Gas Leak Abatement Program (NGLA) for 2025 and 2026 are denied.
2. Recovery of \$222,000 in on-going capital requirements from previously approved Advice Letters is approved.

3. Cost forecasts for NGLA Research, Development, and Demonstration projects in Advice Letter 3285-G-A are denied.
4. SDG&E is authorized to record up to \$0.428 million for NGLA Program Administration in the Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA) for potential recovery in a future general rate case or other proceeding, where it will be subject to reasonableness review.
5. Going forward, SDG&E shall incorporate its NGLA program expenses and biennial NGLA compliance plans into the record of any GRC or other application proceeding in which recovery for costs associated with that compliance plan is sought.
6. SDG&E shall update its rates for the approved revenue requirement in Resolution G-3606 within 30 days upon issuance of this resolution via a Tier 1 Advice Letter.

This Resolution is effective today.

The foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 14, 2025; the following Commissioners voting favorably thereon:

Commissioner Signature blocks to be added
upon adoption of the resolution

Dated August 14, 2025, at Sacramento, California (EDTU will fill out the date and location)