

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3610

July 24, 2025

R E S O L U T I O N

Resolution G-3610. Southern California Gas Company's request for recovery of the Distribution Integrity Management Program Balancing Account balance for January 1, 2019, to January 31, 2023.

PROPOSED OUTCOME:

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

SAFETY CONSIDERATIONS:

- Southern California Gas Company's Distribution Integrity Management Program Balancing Account records costs associated with federal regulatory requirements in 49 CFR 192, Subpart P.

ESTIMATED COST:

- Approximately 107,841,960 in revenue requirement.

By Advice Letter 6224-G, Filed on November 17, 2023.

SUMMARY

Decision (D.)19-09-051 authorized Southern California Gas Company (SoCalGas) to spend \$683 million in its Distribution Integrity Management Program (DIMP)¹ and to establish a two-way balancing account to recover actual operations and maintenance (O&M) and capital related costs.² The decision also authorized SoCalGas to submit a Tier 3 advice letter to seek recovery of any DIMP under-collections of revenue

¹ Advice Letter 6224-G.

² D.19-09-051

requirement when actual expenditures are overspent by up to 35% of the total authorized O&M and capital expenditures for the entire cycle and stated that any amount above 35 percent is subject to a separate application.³ SoCalGas filed AL 6224-G requesting recovery of \$81.4 million in undercollected revenue requirement for actual operations and maintenance and capital expenditures recorded in the DIMP Balancing Account (DIMPBA) through January 31, 2023.

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

The DIMPBA amount will be amortized via the allocation methodology described in the decision from the most recent Triennial Cost Allocation Proceeding (TCAP).

BACKGROUND

The SoCalGas DIMP was established as a result of the Pipeline Integrity, Protection, Enforcement and Safety Act of 2006 and the enactment of 49 CFR Part 192 Subpart P (Subpart P).

Pursuant to Subpart P, operators of gas distribution pipelines are required to identify system threats and analyze the risk posed by those threats, collect information about their system, identify and plan for ongoing acquisition of needed information, develop and evaluate risk mitigations and establish a reporting paradigm with state and federal regulators.

The Pipeline and Hazardous Materials Safety Administration (PHMSA) based its integrity management requirements for distribution pipelines on the successes gained from requirements for gas transmission pipelines to address mandates found in the PIPES Act (2006). However, in contrast to transmission rules, PHMSA crafted DIMP rules to address issues specific to distribution systems. For instance, operators are required to install excess flow valves (EFV) on all new and replaced residential service lines serving single residences, as required by the PIPES Act.⁴

³ Ibid.

⁴ See: <https://www.federalregister.gov/documents/2009/12/04/E9-28467/pipeline-safety-integrity-management-program-for-gas-distribution-pipelines>

The Commission authorized a recovery process for DIMP costs which has evolved over time. In D.13-05-010, the commission established that “Any costs in excess of the O&M costs authorized for these DIMP costs and capital expenditures shall be subject to recovery through a Tier 3 AL process.”⁵

The Commission authorized SoCalGas to establish a two-way balancing account (BA) to recover actual DIMP compliance O&M expenses and capital expenditures for the GRC cycle ending December 31, 2015.⁶

The Commission subsequently reauthorized the DIMPBA for both the test year (TY) 2016 and TY 2019 cycles which end December 31, 2018⁷ and December 31, 2023⁸ respectively. In D.16-06-054, the Commission approved a settlement agreement requiring the utility to maintain separate two-way balancing accounts for their DIMP and Transmission Integrity Management Program (TIMP) expenditures. The decision limited the Tier 3 AL process for recovery of any TIMP or DIMP undercollections up to 35 percent of the 2016 GRC cycle total revenue requirement for that program. Any amounts above 35 percent are subject to a separate application procedure.

Lastly, in D.19-09-051, the Commission modified this process to address a compounding effect because capital costs are balanced over the life of the asset and not on a year-to-year basis. This decision adopted SoCalGas’ proposal to change the method by which the percentage is calculated by applying it against the total authorized O&M and capital expenditures. Pursuant to D.19-09-051, SoCalGas is authorized to submit a Tier 3 AL to seek recovery of undercollected revenue requirement when actual expenditures in O&M and capital are overspent by up to 35 percent of the total authorized O&M and capital expenditures for the entire GRC cycle.⁹

DIMP year-end balances in the balancing account may be carried forward into the following year to ensure that SoCalGas has sufficient funds to carry out DIMP related work and ensure the safety and reliability of its gas transmission system. The decision allowed SoCalGas to recover DIMP revenue undercollections related to up to 35 percent of the DIMP balance in excess of the authorized O&M and capital expenditures via AL; and undercollections above 35 percent could be recovered through a separate

⁵ D.13-05-010 at 421-422

⁶ D.13-05-010

⁷ D.16-06-054 O.P. 8

⁸ D.19-09-051 O.P. 7

⁹ D.19-09-051 at 694-695.

proceeding. The DIMPBA recovery request is effective for the GRC period January 1, 2019, through December 31, 2023.

SoCalGas did not request to recover any accumulated DIMPBA balance for TY 2019 cycle until they filed AL 6224-G.

As of January 31, 2023, the DIMPBA consists of actual expenses amounting to \$909.744 million, which are offset by the authorized costs for the 2019 GRC cycle of \$682.983 million.¹⁰ The difference of \$226.761 million is 33 percent over the authorized costs for the GRC period. The associated revenue requirement for the undercollected costs is equal to \$81.420 million.¹¹

SoCalGas proposes to amortize the DIMPBA amount in gas transportation rates based on the approved allocation methodology in SoCalGas's most recent Cost Allocation Proceeding Decision, D.24-07-009.

In SoCalGas' TY2024 GRC, D.24-12-074, the Commission converted the two-way DIMP balancing account to a one-way balancing account and requires any DIMP under-collections to be recorded to a memorandum account.¹²

NOTICE

SoCalGas states that they served a copy of AL 6224-G to SoCalGas's General Order (GO) 96-B service list and the Commission's service list in A.17-10-008, SoCalGas's TY 2019 GRC and A.22-05-015, SoCalGas' TY 2024 GRC in accordance with GO 96-B.

PROTESTS

SoCalGas AL 6224-G was not protested.

DISCUSSION

ED staff reviewed SoCalGas' costs for January 1, 2019, to January 31, 2023, recorded in the DIMPBA. Based on the information provided, staff found that the costs reviewed were appropriately recorded and incurred and should be approved.

¹⁰ AL 6224-G, Table 1.

¹¹ See AL 6224-G Table 7.

¹² D.24-12-074, Findings of Fact No. 74, p. 971.

SoCalGas provided explanatory responses to staff data requests regarding the AL covering costs, accounting, procedure and operations. Staff also made several follow-up data requests for which SoCalGas provided responses. SoCalGas demonstrated that the expenditures were appropriately incurred and necessary for vendor-related DIMP work.

Responses included monthly costs for operations, maintenance and capital infrastructure. They also covered distinct O&M costs for materials and program management. SoCalGas affirmed that costs were not being recovered elsewhere.

In sum, the main cost driver was additional capital expenditures (labor and non-labor) to support replacement activities in its two largest DIMP programs: the Vintage Integrity Plastic Plan (VIPP) and the Bare Steel Replacement Program (BSRP). In its 2019 GRC (filed in 2017), SoCalGas forecast its DIMP capital expenditures based on its system knowledge at the time.

Starting in 2020, SoCalGas began increasing replacement activity for these programs using an existing internal risk analysis tool called the Distribution Risk Evaluation and Monitoring System (DREAMS), which follows risk reduction and safety enhancement guidelines in Subpart P.

DREAMS prioritizes pipe segments via relative risk analytics and dynamic segmentation. SoCalGas validates the results using existing documentation and adjusts the total project scope footage before project planning is initiated.¹³ The objective is to identify threats from plastic and bare steel pipe (for example corrosion and construction defects) and proactively increase replacement activity to reduce risk and enhance safety in keeping with the guidelines found in Subpart P. DIMP also improved leak survey, reporting, testing and documentation for improved identification of threats from plastic and bare steel pipe, changes which SoCal Gas indicated changed the way the DIMP prioritized higher risk non-state-of-the-art pipes for replacement or remediation.¹⁴

This resulted in higher levels of replacement mileage than what was forecasted in the GRC, which in turn increases costs. SoCalGas completed more VIPP and BSRP mileage than originally forecasted in the TY 2019 GRC.¹⁵ While the company forecasted

¹³ Attachment C p 25 Advice Letter 6224-G

¹⁴ Advice Letter 6224-G p 8

¹⁵ See direct testimony in A.17-10-008, Ex. SCG-14 at MTM-25 to MTM-26 (Oct. 6, 2017).

replacing 107 miles of mains and services annually for these two programs, actual activity averaged about 121 miles annually, an approximate 14% average rise.¹⁶

Other DIMP programs such as the Sewer Lateral Inspection Project (SLIP) also experienced higher than forecasted activity. For example, the 2019 GRC forecasted 60,000 SLIP inspections in the TY 2019, but averaged 63,500 inspections from 2020 through 2022.

Another factor that drove higher costs were project scoping changes that arose during the planning and construction process. In response to staff inquiries, SoCalGas provided several examples where they incurred actual project costs that were higher than initially forecasted and provided explanations for these situations. Many of the examples amounted to unforeseen circumstances, where the company's work plan was held up by local permitting, unknown (undocumented) substructures beneath street surfaces, and highly traveled roadways requiring extensive traffic control. Last-minute restrictions imposed on a project by an inspector from an external agency, such as limiting the work hours or project scope, may result in redesigning or increased costs. The company also had to contend with restrictions related to the COVID-19 epidemic and the discovery of broken equipment, such as mains and valves, which had to be replaced.

Based on the information provided by SoCalGas, the Commission finds that the expenses and expenditures examined were appropriately recorded to the DIMPBA and reasonably incurred. Therefore, SoCalGas's request to recover the undercollection recorded in its DIMPBA for January 1, 2019, to January 31, 2023, is approved.

The DIMPBA amount will be amortized in gas transportation rates based on the approved allocation methodology in SoCalGas's most recent Cost Allocation Proceeding, consistent with D.24-07-009.

COMMENTS

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

¹⁶ See table 5 page 9 in AL 6224-G

provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

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

SoCalGas filed timely comments on July 7, 2025 and made nine suggested changes. Eight of the corrections concern the utility's continuation of balancing on-going capital-related revenue requirements. SoCal Gas stated that because capital costs are balanced over the life of the asset and not on a year to year basis¹⁷ they have continued to balance "...the on-going capital revenue requirement associated with the capital projects being reviewed..." in the DIMP BA, including interest.¹⁸¹⁹ This has resulted in additional under-collections of \$79.0 million and \$11.8 million, respectively. SoCalGas has also continued to collect authorized revenue for the DIMP during the remainder of the TY 2019 GRC cycle totaling \$64.4 million. Accordingly, this results in a net increase of the undercollection from \$81.4 Million to \$107.8 Million. The resolution makes changes to the Findings to reflect these updates, as well as corrections to the recovery period dates.

Other changes from SoCalGas' comment include revisions to reference D.24-07-009 which approved SoCalGas's Cost Allocation Proceeding Application and corrections to the period of recovery.

FINDINGS AND CONCLUSIONS

1. Commission Decision (D.) 13-05-010 authorized the Distribution Integrity Management Program Balancing Account.
2. D.13-05-010 directed SoCalGas to file a Tier 3 Advice Letter to recover authorized Distribution Integrity Management Program-related Operations & Maintenance and Capital Expenditures.

¹⁷ See D.19-09-051 p694 and Finding 104

¹⁸ 6224-G page 11-12

¹⁹ The utility explained that their stated balancing formula is the sum of capital revenue requirement and incremental interest (through June 30, 2025) minus collected revenue (since December 31, 2023). See SoCal Gas comment page 3

3. SoCalGas filed 6224-G November 17, 2023, to request recovery of the Distribution Integrity Management Program Balancing Account \$81,420,012 for the period of January 1, 2019, to January 31, 2023.
4. Distribution Integrity Management Program Balancing Account costs are incurred in response to mandated federal pipeline safety regulations including, but not limited to requirements associated with Subpart P, Gas Distribution Pipeline Integrity Management.
5. Ordering Paragraph 20 of D.13-05-010 authorized SoCal Gas to establish a two-way balancing account to recover Distribution Integrity Management Program-related Operations & Maintenance and capital costs.
6. Pursuant to D.19-09-051, SoCalGas is authorized to submit a Tier 3 advice letter to seek recovery of any DIMP under-collections of revenue requirement when actual expenditures are overspent by up to 35% of the total authorized O&M and capital expenditures for the entire cycle.
7. Commission staff reviewed Distribution Integrity Management Program operations & management and capital expenditures included in the Distribution Integrity Management Program Balancing Account requested in Advice Letter 6224-G and found that the examined expenses and expenditures were appropriately recorded and reasonably incurred.
8. SoCalGas's request to recover costs recorded in its Distribution Integrity Management Program Balancing Account for January 1, 2019, to January 31, 2023, is reasonable and should be approved.
9. SoCalGas should use methods consistent with the latest Cost Allocation Decision, to allocate the Distribution Integrity Management Program Balancing Account.
10. SoCalGas continued to balance on-going capital revenue requirement associated with the O&M and capital projects included in AL 6224-G for the remainder of the TY 2019 GRC cycle from February 1, 2023 through December 31, 2023 as well as incremental interest associated with the approved O&M and capital projects, currently through June 2025, resulting in additional under-collections of \$79.0 million and \$11.8 million, respectively.
11. SoCalGas continued to collect authorized revenue for the DIMP from February 1, 2023 through December 31, 2023, resulting in \$64.4 million in offsets to SoCalGas's under-collection in the DIMPBA.
12. A true up to account for these additional under-collections and offsets results in an updated total under-collection of \$107.8 million ongoing revenue requirement through December 31, 2023.

THEREFORE, IT IS ORDERED THAT:

1. The request of Southern California Gas in AL 6224-G to recover its Distribution Integrity Management Program Balancing Account balance for January 1, 2019, to January 31, 2023, is approved.
2. Southern California Gas is authorized to recover from ratepayers \$107,841,960 plus on-going interest, and shall implement the resulting revenue requirement over the twelve-month period beginning with the next available gas transportation revenue requirement rate change.
3. At the conclusion of the twelve-month recovery period, Southern California Gas shall file a Tier 1 Advice Letter to remove the authorized Distribution Integrity Management Program Balancing Account balance.
4. SoCalGas should use methods consistent with the latest Cost Allocation Decision, to allocate the Distribution Integrity Management Program Balancing Account.

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 July 24, 2025; the following Commissioners voting favorably thereon:

ALICE REYNOLDS
President

DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
MATTHEW BAKER
Commissioners

Dated July 24, 2025, at San Francisco, California