Docket	:	A.25-09-014
Exhibit Number	:	CA-05
Commissioner	:	C. Harada
Admin Law Judge	:	C. Sisto
Witness	:	M.Sierra

PUBLIC ADVOCATES OFFICE
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the Results of Operations for Southern California Gas Company Cost Allocation Proceeding

Long Run Marginal Cost Study, Embedded Costs, and Rate Design

San Francisco, California
May 15, 2025

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I. COST ALLOCATION AND LONG RUN MARGINAL COST STUDY, EMBEDDED COSTS, AND RATE DESIGN

This exhibit presents the analyses and recommendations of the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) regarding Southern California Gas Company (SCG) and San Diego Gas and Electric (SDG&E) Cost Allocation Proceeding (CAP). SCG and SDG&E seek authority to revise rates for gas services and implement gas storage-related proposals effective January 1, 2027, through December 31, 2029.[1] SCG and SDG&E presented this application pursuant to a directive in the previous proceeding's Main Settlement (attached to Decision (D.)24-07-009), which required the next CAP to be presented no later than September 30, 2025, for rates effective January 1, 2027.

The CAP determines how the SCG and SDG&E propose allocating the costs of providing natural gas service among customer classes (broadly categorized as core and noncore). This exhibit evaluates the two cost allocation methods and changes to natural gas Rate Design presented by SCG and SDG&E. The studies are filed in compliance with CPUC Decision D.24-07-009, Ordering Paragraph 2 and Attachment A, Section II(A)(6).[2]

SCG and SDG&E filing makes three choices that together shift cost allocation onto residential customers: (1) it asks the Commission to discard the LRMC benchmark and adopt fully embedded costing as the universal method; (2) it reallocates $116.4 million of Backbone Transmission (BBT) costs to Local Transmission (LT)using a summer peak-day electric generation metric, then recovers those costs from residential customers using a winter-peak demand allocator; and (3) it applies a $150 million Transition Adjustment[3] that the SCG and SDG&E concede was not derived using the affordability metrics adopted in D.20-07-032. On the rate design side, SCG requests the Commission to quadruple the residential non-CARE fixed charge to $20 and increase

[1] SCG and SDG&E Application, page (p.) 1.

[2] D.24-07-009 at 35 (Ordering Paragraph (OP) 2).

[3] Exhibit (Ex.) SCG-Chapter 8, p. FS-MSP-36, lines 21-22.

the CARE[4] fixed charge to $10, even though its own analysis shows that 18 to 20 percent of the lowest-usage CARE customers will see total bill increases. SDG&E, in the same filing, proposes no change at all.

The Commission should retain the existing rate structure, keep LRMC as a binding benchmark, and require SCG and SDG&E to perform the affordability and sensitivity analyses they declined to do before the Commission determines whether any structural change to residential gas rates is reasonable. The detailed recommendations below follow from that position.

II. SUMMARY OF RECOMMENDATIONS

The following summarizes Cal Advocates' recommendations regarding SCG's and SDG&E Embedded Cost, LRMC Cost, and Rate Design for the 2027 CAP.

Regarding LRMC and Embedded Costs, the Commission should:

- Retain the LRMC as a binding benchmark for the Customer-related and Distribution functions, consistent with D.24-07-009, Attachment A. Reject SCG and SDG&E proposal to adopt embedded cost as the universal methodology for future CAPs.
- Reject the $116.4 million Backbone-to-Local Transmission reallocation, or condition it on (a) excluding the residential class from any incremental Local Transmission uplift and (b) re-deriving the percentage on a cold-year peak-month basis consistent with how Local Transmission costs are recovered.
- Require an affordability-metrics-based recalibration of the $150 million Transition Adjustment under D.20-07-032, including the residential essential-bill metric and geographic disaggregation. The Commission should not approve the $150 million Transition Adjustment on a rate-volatility-only rationale.
- Direct SCG and SDG&E to file sensitivity analyses on demand forecast and cost-driver variances across the 2027–2029 CAP cycle.
- Ring-fence PSEP and TIMP costs within Backbone Transmission with separate line item disclosure, and examine the reclassification of $198 million of SCG and $15 million for SDG&E PSEP costs into

[4] The California Alternate Rates for Energy (CARE) program is an income-qualified, residential-only assistance program that provides a 20% discount on the volumetric portion of gas and electric bills for eligible low-income households. See Pub. Util. Code § 739.1.

Base Margin as a structural change requiring its own evidentiary basis.

- Require annual reporting of residential essential-bill impact and a true-up mechanism within the CAP cycle.
- The Commission should order an audit regarding the SCG and SDG&E FERC 908 Exclusion. SCG uses a hardcoded $300.1 million exclusion with no formula, cross-reference, or balancing-account reconciliation. SDG&E allocates $17.2 million to the Customer Contact Center allocator. Both warrant independent verification.

In Evaluating Rate Design, the Commission should:

- Reject the proposed increase in SCG's non-CARE fixed charge increase from $5 to $12 in 2028 and $20 in 2029. Retain the current $5 per month charge through the 2027-2029 CAP cycle.
- Reject the proposed increase in SCG's CARE fixed charge from $4 to $6 in 2028 and $10 in 2029. Retain the current $4 per-month CARE charge.
- Require consistency between SCG and SDG&E. SCG and SDG&E cannot simultaneously argue that the intraclass subsidy is an urgent injustice requiring a quadrupled SCG fixed charge and that the same correction can wait at SDG&E for administrative convenience.
- Require a true income-tiered affordability analysis (not a binary CARE / non-CARE split), a cumulative cross-fuel fixed-charge impact analysis (gas + AB 205 electric), and a PUMA-level Areas of Affordability Concern (AAC) equity analysis before any future fixed-charge increase is considered.
- Preserve the residential submeter credit at a level consistent with D.04-04-043 so that master-metered mobile home park operators and their tenants are not harmed.
- Open an Advanced Gas Rate Design rulemaking to improve reliability, affordability, and equity. This proceeding should evaluate rate design improvements for residential and large Commercial and Industrial (C&I) customers, including data centers, and streamline marginal cost methodologies to reflect current system realities.

III. OVERVIEW OF CAL ADVOCATES' ANALYSES

Cal Advocates conducted a comprehensive review of the testimony and analyzed the complex Excel models related to the embedded cost and the LRMC study submitted by SCG and SDG&E. Additionally, Cal Advocates met with SCG and SDG&E and issued several data requests to deepen their understanding of the complex models filed by SCG and SDG&E regarding the embedded and LRMC costs and rate design.

IV. EMBEDDED COST

SCG and SDG&E Chapter 8 requests CPUC approval to allocate authorized base margin to customer classes for 2027-2029 using a fully embedded cost study. The chapter covers five functional categories: Customer-related, Medium-Pressure (MP) Distribution, High-Pressure (HP) Distribution, Transmission, and Storage.[5]

SCG and SDG&E filed three studies: a fully embedded cost study based on 2024 FERC Form 2 data; a benchmark LRMC study for the Customer-related and Distribution functions; and a Rate Design chapter that proposes a quadrupling of the SCG residential fixed charge while leaving SDG&E unchanged.[6]

Table 5-1 contrasts the two cost-allocation methodologies on the dimensions that most directly affect residential ratepayer protection.

[5] Ex. SCG-Chapter 12, p. MF-3, lines 4-5.

[6] Ex. SCG-Chapter 8, p. FS-MSP-4 to FS-MSP-5; Ex. SCG-Chapter 9, p. MSP-1 to MSP-49; Ex. SCG-Chapter 12, p. MF-2.

Table 5-1
Embedded Cost vs. LRMC – Key Comparison

Feature	Embedded Cost (Chapter 8 - Seres & Schmidt-Pines)	LRMC (Chapter 9 - Schmidt-Pines)
Cost Basis	Historical, recorded 2024 plant-in-service, O&M, A&G from FERC Form 2.	Forecast incremental cost of one additional unit of demand; uses RECC for capital, regression for distribution.
Residential Capital Treatment	Recognizes residential share of existing service lines, regulators, meters, and mains **placed in service before July 2023.**	$0 for residential customer-related capital because builders fund 100% of new line extensions under Rule 20.C2 / Rule 15.C3 (effective July 2023).
Scaling Factors	SCG 108%; SDG&E 100%. Modest reconciliation to the authorized base margin.	SCG 84%; SDG&E 160%. Large adjustments signal a weak link between marginal cost and actual revenue requirement.
Residential Allocation	Residential Allocation SCG 61.4% ($2.37 Billion) and SDG&E 70.8% ($387.5 Million)	Residential Allocation SCG 52.4% ($2.02 Billion) and SDG&E 62.4% ($341.2 Million)
Vulnerability for Residential Class	Allocates the largest share of legacy plant to residential customers, who cannot easily switch fuels and have limited bargaining power.	A mathematical artifact ($0 capital) makes the residential share appear smaller than the truly fair share once one accounts for declining throughput.

Source: Chapter 8 (Seres & Schmidt-Pines), FS-MSP-1 to FS-MSP-37; Chapter 9 (Schmidt-Pines), MSP-1 to MSP-49; CPUC D.24-07-009, Attachment A; CPUC D.92-12-058

V. LONG MARGINAL COST STUDY

LRMC calculates the incremental cost of serving one additional unit of demand in the long run. Each functional marginal unit cost combines a capital component (annualized using a Real Economic Carrying Charge, or RECC) and an O&M component (with loaders for indirect costs, pension and benefits, and general plant).[7]

Under SCG and SDG&E's proposal, the embedded-cost approach would carry forward sunk historical capital service lines, regulators, meters, and distribution mains even though the Commission's building decarbonization policy (D.22-09-026) eliminated residential line extension allowances effective July 1, 2023. The LRMC of the next residential connection is now $0, yet the embedded study continues to allocate a large share of historical customer-cost capital to the SCG residential class alone. The Commission's adopted methodology must avoid converting that policy-driven decline in marginal cost into a backdoor subsidy paid by existing residential customers.

[7] Ex. SCG-Chapter 9, p. MSP-2 and 4.

Table 5-2 compares SCG's current allocation of Base Margin, to the proposed Embedded, and LRMC allocations.

Table 5-2
SCG Allocation of Base Margin-Current vs. Embedded vs. LRMC ($000)

Customer Class (SCG)	Current ($000)	Embedded ($000)	LRMC ($000)
Residential	$2,400,710 (62.3%)	$2,371,762 (61.4%)	$2,023,043 (52.4%)
Core C/I	$606,180	$766,490	$890,440
Noncore C/I (incl. EG, Wholesale)	≈ $647,043	≈ $618,000	≈ $760,000
Total Base Margin	**$3,853,933**	**$3,853,933**	**$3,853,933**

Source: Chapter 8, Table FS-MSP-27 (Embedded Allocation, FS-MSP-34); Chapter 9, Table MSP-13 (LRMC Comparison, MSP-30). Embedded figures shown after the proposed $150M Transition Adjustment.

A. The LRMC Benchmark Must Be Retained

The Commission should reject SCG and SDG&E's proposal to abandon LRMC and adopt embedded cost as the universal methodology for all functional categories. Retain LRMC as the binding benchmark for the Customer-related and Distribution functions, and require that any departure of embedded-cost-based rates from LRMC results be explicitly justified on the record.

SCG and SDG&E concede that the LRMC residential customer capital cost is $0 because builders now pay 100% of new-construction service line, regulator, and meter costs under SCG Rule No. 20.C2, and SDG&E Rule No. 15.C3.[8] SCG and SDG&E argue that this $0 result reflects only the marginal new connection and does not extinguish the obligation to recover existing capital. That is correct as a recovery question, but it does not authorize the Commission to discard the LRMC benchmark entirely. The Commission mandated LRMC as a benchmark precisely so that the Commission could see when embedded-cost results diverge from cost-causation principles.

[8] Ex. SCG-Chapter 9, p. MSP-4, lines 6-7.

The divergence in this CAP is not subtle. Under SCG's embedded study, approximately $2.51 billion in scaled embedded-cost revenues is allocated to the residential class before the Transition Adjustment, compared with approximately $2.02 billion under the LRMC benchmark, a difference of roughly $490 million, driven primarily by the treatment of customer-related capital.[9] The combined SCG and SDG&E Customer Cost category alone totals approximately $2.01 billion, representing 49% of the $4.13 billion combined embedded cost.[10] Under the SDG&E LRMC study, the unscaled residential customer cost is $88.5 million and requires a 160% scalar to reconcile to the adjusted $470 million base margin because the residential customer marginal capital is $0.[11] Eliminating LRMC removes the only quantitative discipline against allowing the embedded study to lock in sunk costs against a shrinking customer base.

D.24-07-009, OP 2 adopts the all-party settlement that requires "a fully embedded cost study based on 2024 FERC Form 2, as well as a benchmark cost allocation utilizing Long Range Marginal Cost (LRMC) studies for the customer-related and distribution functions." SCG and SDG&E's recommendation that future CAPs present only the Embedded Cost study would unilaterally narrow the Commission's record and should be denied.

B. The $116.4 Million Backbone-to-Local Transmission Reallocation Misallocates Costs

The Commission should reject the proposed reallocation of $116.4 million (20%) of combined Backbone Transmission costs to the Local Transmission (LT) function in its current form.[12] At a minimum, the reallocation should be conditioned on (a) excluding the residential class from any incremental LT cost uplift caused by the reassignment,

[9] Ex. SCG-Chapter 8, p. FS-MSP-34, Table FS-MSP-27; Ex. SCG-Chapter 9, p. MSP-30 Table MSP-13.

[10] Ex. SCG-Chapter 8, Workpapers, Table 17.

[11] Ex. SCG-Chapter 9, p. MSP-46-47, Table MSP-26.

[12] Ex. SCG-Chapter 8, p. FS-MSP-26.

and (b) re-deriving the percentage using a year-round or cold-year peak-month basis instead of a single summer peak day.

SCG and SDG&E base the 20% reallocation factor on summer peak-day Electric Generation (EG) usage of the backbone system: 69% of power plants on Local Transmission on a peak summer day × 29.5% of total system throughput from power plants. The percentage is applied to the combined SCG ($500.4millon) + SDG&E ($68.9 million) = $569.3 million backbone base, resulting in $116.4 million to be moved into Local Transmission and $452.9M retained in Backbone.[13]

Local Transmission costs should be allocated to residential heating customers using the same operating regime under which residential customers actually drive those costs. The regime referred to is known as Cold-Year Peak Month throughput. This measure assesses how much gas each customer class consumes during the coldest month of winter in a year with extreme cold weather. This period coincides with the peak demand for residential heating, and it effectively determines the size of the Local Transmission system. Under this allocation method, approximately 35% of the Local Transmission cost pool is assigned to the residential class.[14] SCG and SDG&E skew the allocation by deriving the reallocation factor from summer EG peak-day conditions and then recovering the cost through a winter-peak demand allocator. This mismatch causes summer EG-driven costs to reflect on winter-peak residential bills.

Calibrating the reallocation factor to summer EG conditions and then recovering it through a winter-peak demand allocator routes summer EG-driven costs onto winter-peak residential bills. SCG and SDG&E's response that this is a "functional reallocation" within an existing pool does not answer the cost-causation challenge. The question is not whether the dollars are new, but whether the customer paying them caused the cost to be incurred.

Even if the Commission accepts the SCG and SDG&E's premise that some BBT assets serve a local function for EG, the reallocation factor should be derived using an allocator consistent with how LT costs are subsequently allocated. Otherwise, the

[13] Ex. SCG-Chapter 8, p. FS-MSP-26, (Table FS-MSP-22A-B)

[14] SCG response to data request PubAdv-SCG_SDGE-017-MS, Q.2-Q.3.

methodology mismatches: cost-causation is determined under one operating regime (summer EG peak), and recovery is determined under another (winter residential peak). Until that mismatch is corrected, the reallocation should not flow to residential.

C. The $150 Million Transition Adjustment Is Not Cost-Based

The Commission should require SCG and SDG&E to recalibrate the Transition Adjustment so that the residential class does not finance reductions for Core Commercial and Industrial customers absent a documented affordability finding. SCG and SDG&E propose a $150 million Transition Adjustment that mechanically shifts $150 million of scaled embedded-cost revenue out of the residential class and into the Core C/I class, smoothing the headline rate change for both classes but doing so without applying any affordability metric.[15] The utilities justify the $150 million figure as a "rate-volatility" adjustment intended to keep the percentage rate change for residential and Core C/I customers close to each other.

The Commission should direct SCG and SDG&E to recalculate, document, and disclose the $150 million Transition Adjustment using the affordability metrics adopted in D.20-07-032 specifically the residential essential-bill metric and its geographic disaggregation rather than the inter-class rate-percentage symmetry SCG and SDG&E used.

In response to Cal Advocates' discovery, SCG and SDG&E stated plainly: "The affordability metrics were not used in determining the $150 million Transition adjustment."[16] Instead, the figure was "calculated to ensure the rate increases in the Residential and Core Commercial and Industrial classes are close." SCG and SDG&E further conceded that this is a non-cost-based allocation reconciled only through their rate-volatility principle.[17]

The mechanical effect, as shown in Table FS-MSP-27, is that the Residential class's scaled embedded-cost revenue of $2.51 billion is reduced by $150 million to

[15] Ex. SCG-Chapter 8, p. FS-MSP-34, Table FS-MSP-27.

[16] SCG response to data request PubAdv-SCG_SDGE-007-MS, Q.5.

[17] SCG response to data request PubAdv-SCG_SDGE-007-MS, Q.10.

$2.37 billion, while the Core C/I class is increased by exactly $150 million from $473.0 million to $625.6 million.[18] That reciprocal movement smooths headline rate changes, but it does not establish that residential customers are protected on the metrics the Commission has adopted to measure affordability. D.20-07-032 explicitly directs the use of essential-bill metrics, which SCG and SDG&E did not apply.

Without an affordability-metrics analysis, the Commission cannot determine whether the $150 million figure is too small or too large. The $150 million may be too small in the sense that, if the Commission applied the D.20-07-032 essential-bill metric disaggregated by Public Use Microdata Area (PUMA), the analysis could show that low-income residential customers in PUMAs with above-average gas bills require a larger transfer to keep the essential bill at an affordable level. Conversely, the figure may be too large in the sense that the offsetting $150 million increase falls on Core C/I customers, a class that includes small businesses for which a non-cost-based increase may itself be unaffordable. Because SCG and SDG&E derived the $150 million from inter-class rate-percentage symmetry rather than from any affordability test, the record cannot answer either question. SCG and SDG&E should re-derive the Transition Adjustment using the metrics that D.20-07-032 requires so that the Commission can make a record-based finding on the appropriate transfer size.

D. Sensitivity Analyses on Demand and Cost Drivers Should Be Required

The Commission should order SCG and SDG&E to file sensitivity analyses or scenario modeling on the embedded cost allocations for the 2027–2029 CAP cycle, including (i) low/mid/high core demand forecasts, (ii) accelerated electrification departure scenarios, and (iii) sensitivity to PSEP/TIMP cost variances.

In response to Cal Advocates' discovery, SCG and SDG&E confirmed: “SCG and SDG&E did not perform separate sensitivity analyses or alternative scenario modeling

[18] Ex. SCG-Chapter 8, p. FS-MSP-34, (Table-FS-MSP-27).

for the embedded cost allocations in this CAP."[19] At the same time, SCG and SDG&E acknowledge that the proposed allocation reflects "updated lower demand forecasts."[20]

The combination of declining residential gas throughput (from building decarbonization, electrification, and energy-efficiency programs) and historical capital recovery via embedded costs could create a structural risk that produces escalating residential gas rates. Without sensitivity analyses on file, the Commission cannot evaluate the residential bill trajectory under the SCG and SDG&E's proposed allocation. Sensitivity analyses are routine in long-lived utility infrastructure proceedings and should be required here before any three-year cost allocation is approved.

E. PSEP and TIMP Cost Should Be Ring-Fenced Within Backbone Transmission

The Commission should require explicit ring-fencing and separate disclosure of Pipeline Safety Enhancement Plan (PSEP) and Transmission Integrity Management Program (TIMP) costs within the Backbone Transmission and High-Pressure Distribution functions, and should preserve the existing functional allocation requirements of D.14-06-007 and D.16-12-063.

SCG and SDG&E propose to add $77.8 million in incremental PSEP/TIMP costs from 2024 balancing accounts to the finalized Backbone Transmission cost, resulting in an illustrative total backbone transmission cost of $560.6 million.[21] The $198 million difference between the proposed allocation and the current allocation for SCG (and $15 million for SDG&E) reflects the inclusion of PSEP costs in Base Margin.[22]

While this consolidation may simplify presentation, it dilutes transparency. PSEP and TIMP are safety programs justified by particular asset categories. Allowing them to flow through Base Margin without separate identification reduces the Commission's ability to monitor program execution, increases the risk that residential distribution rates absorb costs that should remain with backbone-served classes, and obscures the BTS

[19] SCG response to data request PubAdv-SCG_SDGE-007-MS, Q.18.

[20] Ex. SCG-Chapter 8, p. FS-MSP-39.

[21] Ex. SCG-Chapter 8, p. FS-MSP-26.

[22] Ex. SCG-Chapter 8, p. FS-MSP-36.

rate-class accountability framework. PSEP/TIMP should remain visible line items within the embedded cost study even when they are recovered through Base Margin.

F. Annual Residential Bill-Impact Reporting and Mid-Cycle True-up

The Commission should adopt an annual reporting requirement, beginning January 2027, requiring SCG and SDG&E to file the residential essential bill, percentage change from the prior year, and any drift from the cost-allocation forecast assumptions. The Commission should also reserve the authority to order a mid-cycle true-up if the residential affordability metric trends adversely.

Cal Advocates asked SCG and SDG&E to explain how the monitoring and reporting on the impacts of the Transition Adjustment on customer affordability and rate stability over time would be addressed.[23] SCG and SDG&E did not provide the requested information and only referred to a comparison between the current rates and the proposed rates.[24] This is a one-time assessment that reflects a specific moment in time. Three-year CAP cycles concentrate risk on residential customers when forecasts diverge from actuals; a periodic, structured reporting requirement is the corrective. Annual reporting is non-burdensome, the underlying data is already produced for affordability proceedings under D.20-07-032, and provides the Commission with an early-warning system before residential rates become unsustainable across the 2027–2029 cycle.

G. Why the Choice in Calculation Methods Matter

Table 5-3 below consolidates the proposed allocations to the Residential class under SCG and SDG&E's embedded cost study, the LRMC benchmark, and the current allocation. It shows why the method the Commission approves is consequential for residential ratepayers.

[23] SCG response to data request PubAdv-SCG_SDGE-007-MS, Q.19.

[24] SCG response to data request PubAdv-SCG_SDGE-007-MS, Q.19.

Table 5-3
Residential Class Exposure Under Embedded W/ LRMC Benchmark
($000)

Class / Metric	SCG Proposed (Embedded)	SCG Current	SDG&E Proposed (Embedded)	SDG&E LRMC Benchmark
Residential Allocated Base Margin	$2,371,762	$2,280,942	$387,580	$341,264
Residential % of Total	61.40%	62.30%	70.80%	62.40%
Core C/I Allocated Base Margin	$625,612	$538,916	$88,019	$118,046
Total Core Allocated Base Margin	$3,043,647	$2,872,577	$479,946	$466,131
Total Utility Base Margin	$3,859,731	$3,661,421	$547,299	$547,299

Sources: Table FS-MSP-30 (SoCalGas), Table FS-MSP-31 (SDG&E), Table MSP-28 (SDG&E LRMC).

Customer Cost is the dominant functional category in the combined embedded study at $2.01 billion, 49% of the $4.13 billion total. The residential class is the dominant cost driver within Customer Cost. Whether costs are allocated using LRMC (which reflects $0 marginal residential capital under D.22-09-026) or using full embedded cost (which carries forward 100% of historical residential capital) is the single largest driver of residential bill outcomes over the 2027-2029 cycle. Recommendations 1, 2, and 3 above directly address this exposure; Recommendations 4, 5, and 6 protect against forecast and reporting risk.

Customer Cost is the dominant functional category in the combined embedded study at $2.01 billion (49% of the $4.13 billion total). The Residential class is the dominant cost driver within Customer Cost. Whether costs are allocated using LRMC (which reflects $0 marginal residential capital under D.22-09-026 and the line-extension

allowance elimination) or using full embedded cost (which carries forward 100% of historical residential capital) is the single largest driver of the residential bill outcome. Recommendations 1, 2, and 3 directly address this exposure; Recommendations 4, 5, and 6 protect against forecast and reporting risk over the 2027–2029 CAP cycle.

VI. CONCLUSION

The SCG and SDG&E 2027 CAP application proposes three structural choices that collectively shift cost-allocation risk onto residential ratepayers: (i) abandoning the CPUC-mandated LRMC benchmark, (ii) reallocating $116.4 million of backbone costs to local transmission using a summer-peak EG metric while recovering through a winter-peak residential allocator, and (iii) implementing a $150 million Transition Adjustment that was not derived using the affordability metrics adopted in D.20-07-032. Cal Advocates' recommendations above and its support are the minimum protections required to ensure that the Commission's adoption of any embedded-cost approach does not unwind the residential affordability and decarbonization policy framework that the Commission has already put in place.

VII. RATE DESIGN

SCG proposes increase to its residential fixed customer charge through a three year phase-in. For non-CARE customers, SCG proposes maintaining the current $5/month charge in 2027 before increasing it to $12 in 2028 and $20 in 2029.[25] For CARE customers, SCG proposes a two-tier income-graduated approach, maintaining the effective charge at $4 in 2027 before increasing it to $6 in 2028 and $10 in 2029 (representing a 50% discount from the non-CARE rate in 2028 and 2029) as shown in Table 5-4.[26]

In stark contrast, SDG&E proposes no changes, opting to retain its current $4 per month residential non-CARE minimum bill through 2029. SDG&E is delaying any gas fixed charge proposal until it finalizes the implementation of a new fixed customer charge for its electric customers.

[25] Ex. SCG-Chapter 12, p. MF-2,3 and 16, (Table MF-5).

[26] Ex. SCG-Chapter 12, p. MF-2,3 and 16, (Table MF-5).

SCG and SDG&E characterize the SCG increase as a correction to an alleged "intraclass subsidy" in which higher-usage residential customers cover fixed costs not recovered from lower-usage customers, and as a "no-regrets" decarbonization measure that protects revenue stability under load- and meter-decline scenarios.

Table 5-4
SCG and SDG&E Propose Fix Charges

SCG Fixed Charge	Current	2027	2028	2029
Non-CARE	$5.00	$5.00	$12.00	$20.00
CARE	$4.00	$4.00	$6.00	$10.00
SDG&E (residential minimum bill - unchanged)	$4.00	$4.00	$4.00	$4.00

Source: Ex. Chapter 12 Direct Testimony (Foster), Table MF-5, p. 3; Cal Advocates DR responses 9 and 16.

The Commission should deny SCG's proposed fixed charge phase-in entirely. The proposal lacks detailed analysis on the potential harms to the lowest-usage vulnerable ratepayers, directly contradicts previous Commission rulings on affordability, and attempts to circumvent the designated long-term Gas Planning Rulemaking. SCG's residential rates should remain at the current $5 fixed charge structure, and SDG&E should maintain its $4 minimum bill, pending holistic, industry-wide reform.

Cal Advocates highlights several key points in opposition to SCG's proposals regarding fixed charges:

A. The Proposal Raises Bills on the Lowest-Usage CARE Customers

SCG's own analysis shows that approximately 18 to 20 percent of CARE customers - those in the lowest usage deciles - will experience total bill increases under the $10 CARE fixed charge. SCG dismisses this concern by arguing that these customers "have the most affordable bills," measured in hours at minimum wage. That

reframing is not a substitute for the underlying fact: the proposal raises bills on the lowest-usage low-income population of an income-restricted assistance program.

This outcome is fundamentally inconsistent with the public-interest purpose of CARE. The program exists to lower bills for low-income households, not to redistribute costs among them. A rate design that increases bills for nearly one in five CARE customers undermines the program's function regardless of how those bills compare to the population mean.

B. The Proposal Contradicts D.20-02-045

In the 2020 CAP, the Commission rejected a $10 residential fixed charge proposal, finding it did not meet the objectives of affordability D.20-02-045.[27] During discovery, SCG's response claims that the current proposal enhances all CPUC-mandated and utility-defined supplemental affordability metrics."[28] The Commission's prior finding, however, was not based on the absence of metric improvement; it was based on the impact on low-income, low-usage customers. Nothing in the present record demonstrates a change in the underlying economic circumstances that would justify departing from D.20-02-045. Recent inflation and energy-cost trends have made affordability more, not less, of a concern.

C. The SCG and SDG&E Asymmetry Is Internally Inconsistent

SCG describes the current intraclass subsidy as urgent, unjust, and unreasonable. Yet SDG&E, whose residential customers are subject to the same regulatory framework and similar cost structures, proposes no change to its $4 minimum bill until after electric fixed charges are adopted. SCG's justification is administrative and communicative convenience: phasing in "one fixed charge at a time."[29]

This explanation is not consistent with the equity rationale. Either the intraclass subsidy is an urgent injustice requiring immediate correction, in which case SDG&E

[27] D.20-02-045 at 71.

[28] SCG response to data request PubAdv-SCG_SDGE-016-MS, Q.4.

[29] SCG response to data request PubAdv-SCG_SDGE-016-MS, Q.4.

customers are being denied that correction without basis, or the subsidy can be phased in over time, in which case the same gradualism should apply to SCG. SCG and SDG&E cannot simultaneously argue both.

The asymmetry also exposes a substantive analytical gap: SDG&E has not even quantified the size of the "subsidy" it claims exists in its territory. During discovery, SCG confirms that no minimum fixed cost of service was determined for SDG&E.[30] Without that analysis, the Commission has no basis to evaluate whether the relief SCG seeks is actually warranted by cost of service economics, and no way to test whether the same conditions exist (or do not exist) at SDG&E.

D. The Binary CARE/Non-CARE Analysis Is Inadequate

SCG concedes that it did not perform an affordability analysis across income tiers beyond the binary CARE / non-CARE split.[31] The proposal assumes that CARE is a sufficient proxy for "low income" and non-CARE is a sufficient proxy for "non-low income." This assumption is incorrect:

- Many low- and moderate-income households are non-CARE due to enrollment barriers, immigration concerns, or income just above the CARE threshold.
- CARE penetration varies by climate zone, language, and demographic group, meaning a binary analysis can mask significant equity impacts.
- The Commission's own affordability framework in D.22-08-023 utilizes more granular metrics, including AR20 and AR50 by climate zone and PUMA-level analysis. SCG's binary cut does not align with that framework.

Without a true income-tiered analysis, the Commission cannot verify that the proposal is equitable across the income distribution it claims to address.

E. Eliminating the Submeter Credit Harms Master-Metered Customers

Under the proposal, SCG's residential submeter credit falls to zero in 2028 and 2029. The Commission established the submeter credit under D.04-04-043 to

[30] SCG response to data request PubAdv-SCG_SDGE-009-MS, Q.2.

[31] SCG response to data request PubAdv-SCG_SDGE-016-MS, Q. 1, 2, and 3.

compensate master-metered mobile home park (MHP) operators for service costs they incur on the utility's behalf. SCG argues that the higher fixed charge already makes MHP operators whole, but this argument assumes that operators can pass the full fixed charge through to tenants without friction or loss. The record does not support this assumption.

The result is that low-income MHP residents, who are disproportionately represented in this housing type, may bear additional costs the original Commission decision was designed to prevent. The submeter credit should be preserved at a level consistent with D.04-04-043.

F. Rate Volatility and Seasonal Bill Smoothing

The 2024 CAP decision acknowledged that fundamental changes to the structure of residential gas rates should be addressed holistically in the long-term Gas Planning Rulemaking (R.24-09-012). SCG's response to discovery effectively concedes the Commission's framing but argues for proceeding in the CAP anyway, on grounds of urgency and uncertainty about R.24-09-012's timeline.

Urgency does not justify circumventing the Commission's chosen venue. The structural questions raised by a quadrupled fixed-charge interaction with electric AB 205 charges, cross-fuel cumulative bill impacts, conservation signal design, equity across climate zones and AAC areas, and consistency with decarbonization policy are exactly the questions that R.24-09-012 was opened to resolve. Approving a major fixed-charge change in this CAP would prejudge those questions and is appropriately deferred.

VIII. ADDITIONAL RECOMMENDATIONS

A. The Commission Should open an Advanced Gas Rate Design Rulemaking

Cal Advocates recommends the Commission open an Advanced Gas Rate Design rulemaking to address fixed-charge structure, marginal-cost methodology, large-customer (including data center) rate design, and cross-fuel bill-impact analysis. Several questions in this CAP, most prominently the residential fixed-charge structure and the universal-embedded-cost question, would be better addressed in a holistic proceeding rather than as piecemeal changes through CAP cycles.

1. Update Illustrative Rates in 2027

The Commission should require SCG and SDG&E to update illustrative rates promptly once 2027 base margins and the end-of-2026 regulatory account balances are known, and to identify which class-level rate changes are sensitive to those updates.

2. FERC 908 Exclusion Audit

The Commission should order an audit of the SCG and SDG&E's FERC 908 exclusions. SoCalGas uses a hardcoded $300.1 million exclusion with no formula, cross-reference, or balancing-account reconciliation. SDG&E allocates $17.2 million to the Customer Contact Center allocator. Both warrant independent verification before being embedded in 2027-2029 rates.

IX. CONCLUSION

The Commission should reject SCG's proposal to raise the residential non-CARE fixed customer charge to $20 and the CARE fixed charge to $10 by. The proposal raises bills on the lowest-usage CARE customers, precisely the population the program exists to protect, in conflict the Commission's prior holding in D.20-02-045 that a lower $10 charge failed the affordability test.

On the cost allocation side: the LRMC benchmark should be retained, the $116.4 million backbone reallocation should be rejected or constrained, the $150 million Transition Adjustment should be re-derived using the affordability metrics adopted in D.20-07-032, sensitivity analyses should be filed, PSEP and TIMP costs should be ring-fenced, and annual residential bill-impact reporting should be required.

On the rate design side: the SoCalGas fixed-charge increases should be rejected in their entirety. The current $5 non-CARE and $4 CARE charges should remain in place through 2029, and SDG&E should retain its current $4 minimum bill. Before any future fixed-charge increase is considered, SCG and SDG&E should be required to perform a true income-tiered affordability analysis, a cumulative cross-fuel fixed-charge impact analysis, and a PUMA-level AAC equity analysis. The submeter credit should be preserved consistent with D.04-04-043.

Finally, the Commission should open an Advanced Gas Rate Design rulemaking to address rate-design and marginal-cost methodology questions holistically, rather than through piecemeal CAP changes.

X. WITNESS QUALIFICATIONS – MARICELA SIERRA

My name is Maricela Sierra, and I am affiliated with the Public Advocates Office at the California Public Utilities Commission, where I serve as a Public Utilities Regulatory Analyst within the Energy Cost of Service and Natural Gas Branch. My professional office is situated at 505 Van Ness Avenue, San Francisco, California.

I attained a Bachelor of Arts in Economics from California State University, Sacramento, in 2000. Throughout my tenure at the Commission, I have prepared expert testimony and served as an expert witness on various subject matters and proceedings, including General Rate Cases (GRC), the Biennial Cost Allocation Proceeding (BCAP), the Triennial Cost Allocation Proceeding (TCAP), the Cost Allocation Proceeding (CAP), the Energy Cost Adjustment Clause (ECAC), as well as Greenhouse Gas (GHG) emissions, Gas Transmission and Storage (GT&S), and the Track 3 Recovery of Costs associated with Wildfire Mitigation. My responsibilities include conducting comprehensive cost-benefit analyses, analyzing cost allocation and rate design complex models, plant additions, results of operations (RO), revenue requirements, capital expenditures, plant additions, income tax, rate base, and other operating revenues.

As an expert witness, I have performed econometric and non-econometric forecasts of sales, customers, and meters. My experience includes both linear and non-linear regression analyses, along with various statistical assessments. This work has been integral to numerous proceedings involving electric, natural gas, and water utilities.

This statement concludes my prepared testimony.