BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application No. 22-05-015 (Filed May 16, 2022)
And Related Matter.	Application No. 22-05-016 (Filed May 16, 2022)

OPENING BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) IN THE TEST YEAR 2024 GENERAL RATE CASE

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- SoCalGas and SDG&E respectfully request that the Commission adopt their proposed, updated revenue requirements of $4.434 billion and $3.007billion, respectively for test year (TY) 2024 in this General Rate Case (GRC). The Companies believe these funds are needed to run the businesses safely; maintain and enhance system reliability and resiliency; enable diverse customer service capabilities and efficiencies; focus on reasonable rates and continuous improvement; invest in our workforce; and lead in short and long-term clean energy solutions to support advancement of California's carbon neutrality goals, while being balanced with affordability.
- In this risk-informed GRC, the Commission should find that SoCalGas and SDG&E have presented their funding requests informed by their key top safety risks and risk mitigation activities in accordance with Commission adopted requirements.
- The Commission should approve the incremental investments SoCalGas and SDG&E have proposed to mitigate these key top safety-related Risk Assessment Mitigation Phase (RAMP) risks.
- Presented in this GRC are important investments in sustainability, including those for clean energy for SoCalGas and SDG&E. The Commission should approve of these investments which will help meet Commission and State goals.

Risk Informed GRC Overview

- The Companies' RAMP-related information in the TY 2024 GRC was presented in accordance with Commission-adopted requirements.
- The Commission should examine the Companies' risk-informed GRC showing in light of its risk-informed GRC framework, and disregard intervenor proposals that are inconsistent with risk-informed funding decisions.
- RAMP-related information should be used to inform funding decisions in this proceeding, as required by the Commission.

Safety Management (SMS), Safety, Risk and Asset Management

- SoCalGas requests that the Commission adopt its Safety and Risk Management Systems TY 2024 forecast of $23.635 million for its O&M costs. The O&M forecast is composed of $21.521 million for non-shared service activities and $2.385 million for shared service activities and is justified and reasonable.
- SDG&E requests that the Commission adopt its Safety Management System: Safety, Risk, & Asset Management TY 2024 forecast of $16.348 million for O&M costs. The O&M forecast is comprised of $15.762 million for non-shared

service activities and $2.349 million for shared service activities and is justified and reasonable.

- SDG&E requests that the Commission adopt its Safety Management System: Safety, Risk, & Asset Management 2022, 2023, and 2024 forecast for capital expenditures of $2.200 million, $2.373 million, and $2.372 million respectively.
- Safety is deeply embedded in the culture at SoCalGas and SDG&E. SoCalGas and SDG&E are committed to doing the right thing and doing it safely.
- The Utilities have taken multiple, forward-thinking steps to address safety culture and associated safety policies and practices and routinely take a proactive and leading role in the Commission's efforts to address a myriad of safety initiatives and risks.

Gas Distribution

- SoCalGas requests that the Commission adopt its Gas Distribution TY 2024 forecast of $168.096 million for its O&M expenses. The O&M forecast is composed of $167.686 million for non-shared service activities and $410,000 for shared service activities.
- SoCalGas further recommends that the Commission adopt its forecast of $388.717 million, $413.286 million, and $391.456 million for capital expenditures in 2022, 2023, and 2024, respectively.
- SDG&E requests that the Commission adopt its Gas Distribution TY 2024 forecast of $41.843 million for O&M expenses. SDG&E further requests the Commission adopt its forecast for capital expenditures in 2022, 2023, and 2024 of $132.585 million, $135.392 million, and $122.799 million, respectively.
- The Utilities' O&M and capital forecasts reflect a detailed and thorough examination of the Gas Distribution area and represent a reasonable level of funding for the activities and capital projects planned during this forecast period. SoCalGas's forecasts best reflect the anticipated costs in this area.

Gas System Staff and Technology

- SoCalGas requests that the Commission adopt its Gas System Staff and Technology TY 2024 forecast of $23.585 million for O&M expenditures. These expenses are composed of $13.758 million for non-shared service activities and $9.827 million for shared services activities and are justified and reasonable.
- SDG&E requests that the Commission adopt Gas System Staff and Technology TY 2024 forecast of $901,000 for Gas System Staff and Technology non-shared O&M expenditures are justified and reasonable.
- SoCalGas and SDG&E's O&M forecasts reflect a detailed and thorough examination of the Gas System Staff and Technology area and represent a reasonable level of funding for the activities and capital projects planned during

this forecast period. After reviewing TURN's request and related discovery, SoCalGas agreed to one recommended adjustment and reflected in its Update Testimony the removal of the costs associated with short-term vehicle rental costs.

Gas Transmission Operations and Construction Operations & Maintenance (O&M)

- SoCalGas requests that the Commission adopt its Gas Transmission Operations and Construction TY 2024 forecast of $51.954 million for its O&M costs. The O&M forecast is composed of $38.651 million for non-shared service activities and $13.303 million for shared services activities and are justified and reasonable.

- SDG&E requests that the Commission adopts its TY 2024 forecast of $5.501 million for its O&M expenses, which are entirely for non-shared services activities and are justified and reasonable.

- Key objectives of the SoCalGas and SDG&E Gas Transmission organizations are to operate safely, achieve compliance with applicable legal and regulatory requirements, and provide customers with reliable natural gas service at reasonable cost.

- SoCalGas and SDG&E's O&M forecast includes necessary increases in FTE costs associated with expanding Gas Control operations to monitor the additional 9,800 transmission and distribution field assets being installed and integrated as part of the Control Center Modernization (CCM) project.

- SoCalGas requests that the Commission adopts its 2022, 2023, and 2024 forecast for capital expenditures of $181.997 million, $150.659 million, and $106.568 million, respectively.

- SDG&E requests that the Commission adopt its 2022, 2023, and 2024 capital forecast of $28.826 million, $11.619 million, and $11.706 million, respectively.

- SoCalGas and SDG&E requests that the Commission adopt its forecasts for capital expenditures in 2022, 2023, and 2024 in furtherance of promoting the safety and reliability of delivering natural gas on its transmission system. Approval of the forecasts detailed in the Companies' respective testimonies will further the Companies' objectives of providing safe and reliable delivery of natural gas to customers at a reasonable cost.

- No party opposed SoCalGas's forecast for the capital cost categories of Pipeline Replacement, Pipeline Relocations, Compressor Stations, Cathodic Protection, Measurement & Regulation Stations, Security & Auxiliary Equipment, Buildings & Improvements, and Capital Tools. Therefore, SoCalGas requests that the Commission adopt these forecasts as reasonable.

Gas Engineering

- SoCalGas requests that the Commission adopt its Gas Engineering TY 2024 forecast of $32.910 million for its O&M costs. The O&M forecast is comprised of $16.312 million for non-shared service activities and $16.598 million for shared services activities and are justified and reasonable.
- SoCalGas requests that the Commission adopt its Gas Engineering 2022, 2023 and 2024 forecast for capital expenditures of $21.179 million, $18,953 million, and $18,033 million respectively and are justified and reasonable.
- SDG&E requests that the Commission adopt its Gas Engineering 2022, 2023 and 2024 forecast for capital expenditures of $0.295 million, $0.295 million and $0.295 million respectively and are justified and reasonable.
- SoCalGas's three-year historical average with a minor adjustment of $3 million in TY 2024 accurately and appropriately supports the need for incremental Supervision and Engineering Overhead Pool capital. The Commission should adopt SoCalGas's request for the Supervision and Engineering Overhead Pool as reasonable.
- SoCalGas excluded costs associated with removal of equipment within the Morongo reservation from the MROWMA in recognition of D.18-04-012 and its request to recover costs in the MROWMA is based on authorization in D.19-09-051. Accordingly, the Commission should adopt SoCalGas's request for the recovery of the MROWMA balance, as of December 31, 2023.
- SDG&E's Gas Engineering capital request was uncontested, and the Commission should adopt the forecasted capital expenditures as reasonable.

Pipeline Safety Enhancement Plan (PSEP)

- SoCalGas request that the Commission adopts its PSEP Test Year 2024 forecast of $54.214 million for its O&M costs as justified and reasonable.
- SoCalGas requests that the Commission adopts its forecast for PSEP capital expenditures in 2022, 2023, and 2024 of $141.509 million, $101.92 million, and $73.81 million, respectively, each on an aggregate basis, for pipeline and valve enhancement projects scheduled to be completed within the 2024-2027 GRC cycle.
- SoCalGas's forecast is based on an anticipated level of executable spending from a portfolio of 28 Phase 2A and five Phase 1B replacement projects presented in this Application and funding for eighteen remaining valve enhancement plan projects and other miscellaneous costs.
- SoCalGas requests that the Commission authorizes recovery of the $426.209 million in capital expenditures and $34.92 million in O&M expenditures incurred in executing Phase 1A projects; the reasonableness of $25.04 million in expenditures for the purchase of Line 306 from PG&E; and the reasonableness of

$12.610 million in expenditures for other costs incurred to execute PSEP. The associated revenue requirement for the projects presented for reasonableness review is approximately $109.0 million.

- SoCalGas's contingencies were project specific and consistent with industry standards for costs relating to pipeline projects.
- SoCalGas request that the Commission authorize recovery of $20.262 million for the planning and execution of the SB 1383 Dairy Pilot Program.
- SDG&E requests that the Commission authorizes recovery of $239.176 million in Capital and $1.213 million in O&M associated with after-the-fact SDG&E reasonableness review projects that represent approximately 15 miles of transmission pipeline and six bundle valve projects and associated miscellaneous costs. SDG&E estimates the ending balance, as of December 31, 2023, associated with the assets being reviewed in this TY 2024 GRC to be under-collected in the amount of $52.1 million. No parties opposed SDG&E's PSEP requests in testimony.

Gas Integrity Management Programs

- SoCalGas requests that the Commission adopt its TY 2024 forecast of $223.908 million for Gas Integrity Management Program O&M. The O&M forecast is comprised of $221.409 million for non-shared services activities and $2.499 million for shared services activities.
- SoCalGas requests that the Commission adopt its 2022, 2023, and 2024 capital forecasts of $426.537 million, $461.857 million, and $537.896 million respectively.
- SoCalGas requests continuance of two-way balancing for the TIMPBA, DIMPBA, and SIMPBA, and requests the addition of a FIMPBA and GSEPBA and SDG&E requests continuance of two-way balancing for the TIMPBA and DIMPBA and requests the addition of a FIMPBA and GSEPBA
- Parties did not take issue with SoCalGas's forecast for the SIMP non-shared O&M expenses.
- SDG&E requests that the Commission adopts its TY 2024 forecast of $12.768 million for Gas Integrity Management Programs O&M costs. The O&M forecast is comprised of non-shared services only and is justified and reasonable.
- SDG&E requests continuance of two-way balancing for the TIMPBA and DIMPBA and requests the addition of a FIMPBA and GSEPBA. Parties generally supported SDG&E's request for Gas Integrity Management Programs non-shared O&M.
- SDG&E requests approval of a 2022 capital forecast in the amount of $81.707 million, 2023 capital forecast in the amount of $86.876 million, and 2024 capital

forecast in the amount of $107.125 million. SDG&E's capital request is reasonable and justified and should be adopted by the Commission.

- SoCalGas's and SDG&E's Gas Integrity Management Programs advance the State's climate goals and align with SoCalGas's sustainability priorities.
- SoCalGas is no longer seeking review and approval of the longer-term remediation option of replacing Line 235 in this general rate case. Rather, SoCalGas will plan for the repair of Line 235 West to comply with relevant regulations.

Gas Storage Operations and Construction (SoCalGas only)

- SoCalGas requests that the Commission adopt its Gas Storage Operations and Construction Test Year forecast of $47.782 million for its O&M costs. The O&M forecast is comprised of $47.443 million for non-shared service activities and $0.339 million for shared service activities.
- SoCalGas requests that Commission adopt its Gas Storage Operations and Construction capital forecast of $516.024 million. The forecast is composed of a 2022 forecast of $206.195 million, a 2023 forecast of $163.279 million, and a 2024 forecast of $146.550 million.
- SoCalGas requests that the Commission authorize recovery of the $21.6 million in costs incurred to complete ACTR given the compelling evidence of the reasonableness of incurred costs.
- Other than PCF, no parties took issue with SoCalGas's request for Gas Storage Operations and Construction capital expenditures.
- The HRCM Project, which includes a microgrid, ARE component, and hydrogen refueling station, satisfies operational needs and delivers ratepayer benefits.

Fuel Procurement:

Gas Procurement

- SoCalGas requests that the Commission adopts its forecast of $5.247 O&M annual cost for the Gas Acquisition function as justified and reasonable.
- No party opposed SoCalGas's Gas Acquisition forecast nor challenged the description of the costs and credits recorded in the Injection Enhancement Cost Memorandum Account (IECMA).

Electric and Fuel Procurement (SDG&E Only)

- SDG&E requests that the Commission adopts its forecasted O&M annual cost for the Energy Procurement function to be reasonable and approve its proposed $9.4 million O&M annual cost.
- SDG&E's proposed forecast methodology of BY 2021 plus incremental costs is reasonable for the Origination & Portfolio Design (O&PD) function within EP.

- Although the number of contracts O&PD will handle going forward is unknown, SDG&E's assumption that the number will increase rather than decrease is reasonable.

- The capital upgrades proposed by SDG&E are needed to allow SDG&E to monitor its portfolio and provide scheduling services within the California Independent System Operator (CAISO) market, and to ensure SDG&E's ability to comply with various regulatory requirements established by the Commission and other oversight bodies.

Clean Energy Innovations (SoCalGas)

- SoCalGas requests that the Commission adopt its Clean Energy Innovations (CEI) TY 2024 forecast of $47.223 million for O&M expenses. SoCalGas's O&M request is justified and reasonable and should be adopted by the Commission.

- The activities proposed for CEI funding will keep SoCalGas moving forward with the energy transition in alignment with State goals and mandates, reducing SoCalGas's and its customers' emissions. Approving the proposed costs allows SoCalGas to take the steps it needs to take in order to advance California state policy.

- SoCalGas is committed to the clean energy transition, benefits to ratepayers are described throughout testimony, the proposals are the next steps for the Company to reduce emissions related to methane transport, and there is no overlap with other proceedings.

- SoCalGas provides extensive, detailed information related to its RD&D program in a gap assessment. The gap assessment is just an initial analysis that stakeholders can weigh in on, and SoCalGas has explained the benefits of research areas in testimony.

- SoCalGas's request to transition the Tier 3 Advice Letter process for annual RD&D program approval to a Tier 2 Advice Letter process should be approved. SoCalGas has demonstrated that a Tier 2 Advice Letter would still provide the same level of transparency and stakeholder engagement and would help facilitate more timely approval.

Clean Energy Innovations (SDG&E)

- SDG&E requests that the Commission adopt its Clean Energy Innovations (CEI) TY 2024 forecast of $9.985 million for O&M expenses. SDG&E's O&M request is reasonable and justified and should be adopted by the Commission.

- SDG&E requests that the Commission adopt its forecast of $23.024 million, $24.974 million, and $26.333 million for Clean Energy Innovations capital expenditures in 2022, 2023, and 2024, respectively. SDG&E's capital request is reasonable and justified and should be adopted by the Commission.

- SDG&E requests that the reductions to its Clean Energy Innovations O&M and capital forecasts proposed by Cal Advocates, TURN, UCAN, EDF, FEA, PCF, CEJA and the JCCAs be rejected.

Electric Generation (SDG&E Only)

- SDG&E requests that the Commission adopt its Electric Generation TY 2024 forecast of $40.809 million for non-shared O&M expenses. SDG&E's O&M request is reasonable and justified and should be adopted by the Commission.

- SDG&E requests that the Commission adopt its forecast of $37.375 million, $45.406 million, and $43.854 million for Electric Generation capital expenditures in 2022, 2023, and 2024, respectively. SDG&E's capital request is reasonable and justified and should be adopted by the Commission.

- SDG&E's proposals are consistent with Commission direction and decisions regarding the vintaging of UOG resources and related capital investments.

Electric Distribution (SDG&E Only):

Capital Projects (General)

- SDG&E requests that the Commission adopt its forecast of $482.928 million, $590,426 million, and $497.537 million for Electric Distribution capital expenditures in 2022, 2023, and 2024, respectively. SDG&E's capital request is necessary and reasonable to foster continued safe, reliable, and resilient service to SDG&E's customers, and to comply with laws and regulations to promote system integrity.

- SDG&E's forecasting methods are reasonable and supported by the testimony, workpapers, and data requests. The forecasted costs reflect the realities of SDG&E's proposed projects, inflationary and other pressures, and the nature of SDG&E's past capital spend as addressed in SDG&E's RSAR.

- The Commission should approve SDG&E's overhead pools forecast and decline to continue one-way balancing treatment for overhead pools costs. SDG&E has demonstrated over the past GRC cycle that it reasonably manages its overhead pools, and continued one-way balancing disincentivizes and caps resources that may be necessary to address new risk and reliability areas as they arise.

- The Commission should approve SDG&E's North Harbor Underground Cable Replacement Program as necessary to support a vital community economic resource.

Operations and Maintenance (O&M)

- SDG&E requests that the Commission adopt its Electric Distribution TY 2024 forecast of $130.956 million for non-shared O&M expenses. SDG&E's O&M request is reasonable and justified and should be adopted by the Commission.

- SDG&E's O&M request reflects the costs necessary to operate and maintain SDG&E's electric distribution system in a safe and reliable manner, to comply with applicable laws and regulations, and to provide system integrity and reliability.

- SDG&E has provided a substantial amount of detail supporting its Electric Distribution O&M forecasts in testimony, workpapers, and data requests, including information regarding projects and programs that are proposed to address SDG&E's key safety risks, as presented in its RAMP.

- SDG&E's Grid Modernization Plan provides prudent infrastructure investment to "innovate and optimize a grid… that accelerates decarbonization – all while delivering value and choice for all customers."

Wildfire Mitigation and Vegetation Management

- SDG&E requests that the Commission adopt its Wildfire Mitigation and Vegetation Management TY 2024 Forecast of $184.111 million for its O&M expenses. SDG&E further requests that the Commission adopt its forecast for capital expenditures in 2024 of $518.507 million.

- SDG&E additionally requests that the Commission adopt its post-test year capital exception for Wildfire Mitigation to allow for Strategic Undergrounding, Covered Conductor, and Generator Grant program activities to proceed through 2027 at the levels described in testimony.

- SDG&E's request for a two-way balancing account for Wildfire Mitigation costs is reasonable and should be adopted, given the ongoing evolution of the wildfire regulatory environment, risk modeling, and the impacts of climate change on wildfire risk. Cal Advocates supports the adoption of two-way balancing treatment for wildfire mitigation costs. Two-way balancing treatment of wildfire mitigation costs is consistent with existing Commission precedent and SDG&E's proposed thresholds for levels of review are reasonable.

- SDG&E's wildfire mitigation O&M and capital forecasts reflect a risk-informed and data-driven Wildfire Mitigation and Vegetation Management strategy that is the result of years of experience, innovation, and risk assessment, and represents a reasonable level of funding for the activities planned during the GRC period.

- SDG&E's grid hardening proposals, including its combined approach of strategic undergrounding and covered conductor, are supported by vetted risk models and reflect the optimal approach to wildfire and PSPS risk reduction based on the available data. These proposals foster compliance with the risk reduction targets of SDG&E's Wildfire Mitigation Plan and have the added benefit of enhanced resiliency in the face of a changing climate. The Commission should approve SDG&E's proposals.

- SDG&E's proposed O&M expenditures take into account necessary increases due to inflation, labor increases, and program evolution, and help maintain sufficient funding for these O&M activities.

- The Commission should continue two-way balancing of tree trimming costs and expand the Tree Trimming Balancing Account to include all vegetation management activities in the renamed Vegetation Management Balancing Account.

Customer Services:

Customer Services Information System Replacement Program - SoCalGas

- SoCalGas requests that the Commission adopt its forecasted $20.2 million for CIS Replacement Program O&M expenditures. SoCalGas further requests the Commission adopt its forecast for capital expenditures in 2022, 2023, 2024, 2025, and 2026, of $4.9 million, $2.7 million, $93.3 million, $74.1 million, and $46.6 million respectively.

- SoCalGas's O&M and capital forecasts reflect a detailed and thorough examination of the CIS Replacement Program and represent a reasonable level of funding for the activities and capital projects planned during this forecast period.

Customer Services Information System– SDG&E

- SDG&E requests that the Commission adopt its TY 2024 forecast for O&M and capital costs for the CIS for Test Year 2024.

- SDG&E presented an updated forecast of the benefits achieved for the new CIS for Test Year 2024, and requests to close the project implementation balancing accounts for the new CIS.

Customer Services Field and Advanced Meter Operations (CSF&AMO) - SoCalGas

- SoCalGas's requests that the Commission adopt its TY 2024 O&M forecast of $211.3 million that include incremental funding necessary to respond to regulations, implement changes to business processes, increase data analysis, update technology to synchronize with business process changes, and adequately train employees to implement changes in work processes and technology and are justified and reasonable.

- The IT capital projects related to SoCalGas's Advance Meter Operations (AMO) are required to replace obsolete technology, comply with regulatory mandates, and to deliver an improved customer experience.

- SoCalGas has met its burden by providing details regarding the PACER Workforce Management Replacement capital project and has fully justified the reasonableness of the project.

Customer Services Field Operations (CSF) – SDG&E

- SDG&E requests that the Commission adopt its TY 2024 O&M forecast of $40.452 million that supports the delivery of safe, effective, and reliable services through related supporting functions including Customer Services Field Operations and Supervision, Work Management, Customer Field Operations Support, and Smart Meter Operations and is justified and reasonable.

- SDG&E has proven that its smart meter system is reaching end of life and expected failures require immediate attention. Further, Field Service Delivery (FSD) will replace end of life and unsupported software, consolidate software applications, and improve customer experience and satisfaction. Inaction or retaining the status quo of an aging and unsupported system could only lead to increased inefficiencies.

Customer Services Office Operations (CSOO) - SoCalGas

- SoCalGas requests that the Commission adopt its TY 2024 OM forecast of $89.574 million, composed of non-shared service activities of $85.018 million and shared activities of $89.574 million.

- The CSOO forecasted activities and expenses support deliver safe, efficient, reliable and effective service through the Customer Contact Centers (CCC), Branch Offices (BO) and Authorized Payment Locations (APL), Billing & Payments, Credit and Collections, and other related customer service support functions and are justified and reasonable.

- SoCalGas has justified approval of its forecasts as reasonable.

- Issues regarding the branch office closure are out of scope for the GRC.

- SoCalGas has met its burden by providing details regarding both the CCC Modernization Project and AclaraOne capital project and the Commission should adopt SoCalGas's forecast as reasonable.

Customer Services Office Operations (CSOO) – SDG&E

- SDG&E requests that the Commission adopt its TY 2024 non-shared O&M forecast of $37.922 million which supports the delivery of safe, convenient, responsive, efficient, and personalized customer service through the CCC, Branch Offices, Authorized Payment Locations, Billing Services, Credit & Collections, Operations Strategy and Compliance and is justified and reasonable.

Customer Services Information – SoCalGas

- SoCalGas provides customers information and services through multiple channels to enhance the ability of SoCalGas's customers to understand and manage their energy usage. Customer Services-Information (CS-I) requires the additional funding request primarily due to an increase in safety marketing and communications; increased education and outreach to customers regarding clean transportation, new technologies including the hydrogen economy, carbon management; and increased renewable gas interconnection.

Customer Services Information – SDG&E

- SDG&E requests that the Commission adopts its TY 2024 non-shared O&M forecasted costs of $24.353 million and the IT capital costs that support SDG&E's goal of being a trusted energy advisor for all segments of customers by providing safe, efficient, effective, timely and personalized customer service, as justified and reasonable.

Supply Management, Logistics and Supplier Diversity

- SoCalGas requests that the Commission adopt its Supply Management, Logistics, and Supplier Diversity Test Year 2024 forecast of $35.489 million for O&M costs. The O&M forecast is comprised of $31.022 million for non-shared services activities and $4.467 million for shared services activities.

- SoCalGas's requests that the Commission adopt its 2022, 2023, and 2024 forecast for capital expenditures of $17.697 million, $10.364 million, and $1.703 million, respectively, each on an aggregate basis.

- SDG&E requests that the Commission adopt its Supply Management, Logistics, and Supplier Diversity Test Year 2024 forecast of $20.719 million for O&M costs. The O&M forecast is comprised of $15.569 million for non-shared activities and $5.150 million for shared activities.

- No parties opposed the dollar amounts requested for Supply Management for either company.

Clean Transportation (SDG&E Only)

- SDG&E requests that the Commission adopts its Clean Transportation forecast of $4.831 million for O&M expenses and $7.58 million for capital expenses for activities outside the scope of SDG&E's EV infrastructure programs funded through incremental Commission decisions.

- SDG&E requests that the Commission authorizes the establishment of a two-way balancing account for the Electric Vehicle Infrastructure Rule Balancing Account (EVIBA) to support the costs associated with the new Rule 45

Fleet Services

- SoCalGas requests that the Commission adopts its s test year (TY) 2024 Fleet Services O&M forecast of $82.51 million for Non-Shared Services O&M,

- SDG&E requests that the Commission adopts its s test year (TY) 2024 Fleet Services O&M forecast of $52.731 million for Non-Shared Services O&M.

- The Commission should find that both Companies' funding requests are driven by the need to replace vehicles that are being operated beyond their useful lives, and the need to secure incremental vehicles for the incremental FTEs and projects that the Commission approves. These needs are further supported by other areas of testimony, such as gas distribution, PSEP, gas engineering, and others.

- The Commission should find that both Companies plans to use the requested funds to procure and maintain zero-emission vehicles and alternative fuel vehicles such as battery electric vehicles, hydrogen fuel cell electric vehicles, and renewable natural gas vehicles, that meet the Companies' medium-duty and heavy-duty vehicle needs, are in furtherance of California's climate change goals.

Real Estate and Facility Operations

- SoCalGas requests that the Commission adopt its Real Estate and Facility Operations (RE&F) Test Year 2024 forecast of $51.296 million for its O&M costs. The O&M forecast is composed of $27.371 million for non-shared services and $23.925 million for shared services activities. SoCalGas's O&M costs are justified and reasonable and are uncontested by any party.

- SoCalGas requests that the Commission adopt its RE&F forecast for capital expenditures of $79.672 million for 2022, $116.351 million for 2023, and $110.718 million for TY 2024.

- SoCalGas's Real Estate request is primarily driven by contractual lease obligations and labor and consulting services needed to manage the real estate portfolio, perform lease administration, and comply with Sarbanes-Oxley and other reporting requirements. These activities are necessary to support SoCalGas's goal of providing safe and reliable customer service.

- SoCalGas's Facility Operations request is primarily driven by labor required to manage general facility infrastructure, technology, and sustainability; maintenance costs associated with the new building at the Pico Rivera facility; and RAMP-related security measures at staffed facilities aimed at preventing workplace violence. These activities are necessary to support the Company's goal of providing safe and reliable service by ensuring that the employee work environment and customer-interfacing facilities are safely and properly maintained and operated.

- Real Estate and Facility Operations capital costs are for infrastructure and other asset improvement, safety and compliance, sustainability and conservation, fleet projects, and fleet alternative refueling. These activities are necessary to support SoCalGas's safety, workplace violence prevention, and sustainability goals.

- Costs associated with the proposed Hydrogen Refueling Station and Renewable Natural Gas (RNG) refueling stations are just and reasonable as they enable SoCalGas's specialized fleet to serve its customers while reducing fleet emissions.

- The [H2] Innovation Experience (H2IE) provides benefits to rate payers and is in line with the State's energy goals, and costs for it should be approved.

Real Estate, Land **Services**, and Facility Operations

- SDG&E requests that the Commission adopt its Real Estate, Land Services, and Facility Operations (REL&F) Test Year 2024 forecast of $38.208 million for its O&M costs as justified and reasonable. The O&M forecast is composed of $15.156 million for non-shared services and $23.052 million for shared services.
- The O&M forecast is primarily driven by rents and operating expenses associated with lease payments and facility operations maintenance costs for increased security, aging infrastructure repairs, and sustainability improvements.
- SDG&E also requests that the Commission adopt its REL&F forecast for capital expenditures of $65.178 million for 2022, $75.530 million for 2023, and $73.890 million for TY 2024 as justified and reasonable.
- The REL&F capital costs reflect increased compliance, safety, and security-related improvements, support long-term facilities strategies, and support sustainability practices. The capital forecast also includes costs to replace or improve aging infrastructure to maintain system integrity and meet operational needs.

Environmental Services

- SoCalGas and SDG&E request that the Commission adopt the reasonable ongoing O&M expense forecasts for Environmental Services of $2.142 million and $1.480 respectively, including continued funding for SDG&E's non-shared San Onofre Nuclear Generating Station (SONGS) marine mitigation and workers' compensation costs.
- No party opposed SoCalGas's or SDG&E's TY 2024 forecasts; therefore, the Commission should find that SoCalGas's and SDG&E's Environmental Services and SONGS-related forecasts for TY 2024 are justified and reasonable.
- The New Environmental Regulatory Balancing Accounts (NERBA), should be approved as costs in the NERBA are uncertain and can be incrementally significant, and the mechanism has been consistently approved in the last three GRCs.

Information Technology

- SoCalGas requests the Commission adopt its reasonable TY 2024 Information Technology (IT) O&M forecast of $56.784 million, and its Capital forecasts for 2022, 2023 and 2024 of $253.159 million, $229.046 million and $174.827 million respectively, which are justified and reasonable.
- SDG&E requests the Commission adopt its reasonable TY 2024 Information Technology (IT) O&M forecast of $110.418 million, and its Capital forecasts for 2022, 2023 and 2024 of $220.012 million, $208.793 million and $214.186 million respectively, which are justified and reasonable.

- Through these IT investments the Companies stay abreast of the rapid pace of change in the technology industry to safely, securely, and reliably operate and serve its customers. The IT Division's forecasts:
  - Provide support services that directly contribute to SoCalGas's and SDG&E's ability to provide safe, secure, and reliable service at reasonable rates for our customers while maintaining a safe work environment for our employees.
  - Respond and resolve technology operational incidents that require O&M and capital expenditures.
  - Support the transition to the Cloud to provide high levels of availability, resiliency, scalability, and business continuity and modernize applications as part of lifecycle management to improve reliability, security, and performance of Company systems to serve the business and our customers.
- No party has contested SoCalGas's TY 2024 O&M forecast, therefore the Commission should find that SoCalGas's IT O&M forecast for TY 2024 is justified and reasonable.
- SDG&E has demonstrated that its proposed projects address the risk of obsolescence.

Cybersecurity

- SoCalGas requests the Commission adopt its reasonable TY 2024 Cybersecurity O&M forecast of $3.97 million, and its Capital forecasts for 2022, 2023 and 2024 of $28.842 million, $36.788 million and $42.915 million respectively, which are justified and reasonable.
- SDG&E requests the Commission adopt its reasonable TY 2024 Cybersecurity O&M forecast of $16.377 million, and its Capital forecasts for 2022, 2023 and 2024 of $8.424 million, $9.66 million and $9.66 million respectively, which are justified and reasonable.
- SoCalGas and SDG&E Cybersecurity O&M and Capital costs are reasonable and necessary to manage increasing cybersecurity risk, which is one of the Companies' top safety risks identified in the Companies' 2021 RAMP Reports.
- No party has contested SoCalGas's TY 2024 O&M forecast, therefore the Commission should find that SoCalGas's Cybersecurity O&M forecast for TY 2024 is justified and reasonable.
- No party has contested SDG&E's TY 2024 Capital expenditures forecasts, therefore the Commission should find that SDG&E's Cybersecurity Capital expenditures forecasts for TY 2024 are justified and reasonable.

Corporate Center – General Administration

- The Commission should approve the reasonable forecast for allocations of General Administration costs from Sempra Energy's Corporate Center to SoCalGas and SDG&E.

Insurance

- The Companies' proposed insurance expenses are reasonable and should be approved.
- SoCalGas and SDG&E request that the Commission reauthorize their two-way Liability Insurance Premium Balancing Accounts (LIPBAs) for liability insurance premiums because of the continued cost volatility and challenges in forecasting insurance premiums.

Compensation & Benefits/Post-Retirement Benefits

- SoCalGas and SDG&E's request for Compensation and Benefits/Post-Retirement Benefits cost recovery is reasonable, consistent with past CPUC decisions, will benefit customers, and should be approved.
- SoCalGas's and SDG&E's compensation and benefits programs are critical to attracting, motivating and retaining a skilled, high-performing workforce. The compensation and benefits programs provided to SoCalGas and SDG&E employees, retirees and their dependents reflect the impacts of the marketplace, collective bargaining and government regulation. Benefits include health and welfare programs and retirement plans, as well as pension and Post-Retirement Benefits Other than Pensions (PBOP).
- Compensation programs are designed to focus employees on key priorities, such as safety and customer service.
- SoCalGas and SDG&E propose to continue the current pension funding policy that the Commission authorized in D.19-09-051, while shortening the amortization period of the pension funding shortfall/surplus from fourteen years to seven years (as originally proposed by the Companies in the TY 2019 GRC proceeding), to further improve and maintain a strong funded position, minimize long-term costs, and advance intergenerational equity among ratepayers. No party has contested the Companies' Pension and Post-Retirement Benefits Other than Pension proposals. A comprehensive study of the Companies' compensation and benefit programs, by Willis Towers Watson found the Companies' total compensation to be "at market," as defined by Commission standards. No party refuted the results of SoCalGas's and SDG&E's total compensation study.

People and Culture Department

- SoCalGas requests that the Commission adopt its forecast of $48.923 million for O&M expenses. These expenses are comprised of $48.599 million for non-shared service activities and $0.324 million for shared services activities and are justified and reasonable.

- SoCalGas's Workers' Compensation and Long-Term Disability costs are a significant portion of the overall requested increase. These cost increases are due to labor and non-labor escalation and medical premium escalation.

- Non-labor and labor funding is requested to support the diversity, equity, and inclusion components of SoCalGas's sustainability strategy.

- Industry dues SoCalGas and SDG&E are appropriately included in historical costs. SoCalGas utilizes its AGA membership across several divisions in the company and relies heavily on AGA committees to provide benchmarking information, and best practices. EEI serves as a key safety benchmarking organization that allows SDG&E to compare its health and safety processes, improve compliance, and discuss best management practices – all of which have a direct benefit to ratepayers by helping SDG&E achieve important safety and reliability goals. The Commission should approve of the inclusion of industry dues as reasonable.

- SDG&E requests that the Commission adopt its forecast of $21.574 million for O&M expenses. These expenses comprise $19.605 million for non-shared service activities and $1.969 million for shared services activities and are justified and reasonable.

Administrative and General

- SoCalGas requests that the Commission adopts its reasonable TY 2024 O&M forecasts of Administrative and General (A&G) costs for SoCalGas's Accounting and Finance, Legal, Business Strategy and Energy Policy, Regulatory Affairs, and External Affairs divisions of $47.177 million as justified and reasonable.

- SoCalGas requests that the Commission adopts the reasonable forecasts of A&G costs for Franchise Fees expenses in 2022, 2023 and 2024 of $43,939 million, $47.140 million and $52.684 million respectively.

- SDG&E requests that the Commission adopts its reasonable TY 2024 O&M forecasts of A&G costs for SoCalGas's Accounting and Finance, Legal, Regulatory Affairs, and Community Relations divisions of $41,885 million as justified and reasonable.

- SDG&E requests that the Commission adopts the reasonable forecasts of A&G costs for SDG&E's Franchise Fees expenses of in 2022, 2023 and 2024 of $77.957 million, $82.391 million and $93.791million respectively.

- Cal Advocates does not challenge SoCalGas's and SDG&E's forecast for Franchise Fees.

- SoCalGas has demonstrated the need and reasonableness of its SAP Transformation project and the Commission should approve its associated capital forecast.

Shared Services & Shared Assets Billing, Segmentation, & Capital Reassignments

- The Commission should approve SoCalGas and SDG&E's proposed shared services and shared assets billing, segmentation, and capital reassignment methodology, which no party opposed.

Rate Base

- SoCalGas and SDG&E's rate base recommendations are uncontested and should be adopted.
- SoCalGas and SDG&E's proposals to capitalize implementation costs for cloud computing for service contracts, prepaid agreement costs associated with software and computer hardware, and pipeline hydro testing should be adopted.

Depreciation

- SoCalGas and SDG&E's gas depreciation recommendations are based upon a comprehensive study of assets and should be adopted.
- SoCalGas and SDG&E's proposals strike a reasonable balance between competing positions regarding acceleration with respect to gas depreciation.
- To support affordability, SDG&E proposes to hold its electric and common plant depreciation rates constant.

Taxes

- SoCalGas and SDG&E's tax recommendations are uncontested and should be adopted.
- SoCalGas and SDG&E's forecast for payroll taxes, ad valorem taxes, and income taxes should be adopted.
- The Tax Memorandum Accounts (TMA) should continue for the TY2024 GRC cycle, including the post-test year period, and track tax-related items that are the result of changes in tax law, tax accounting, tax policy, or tax procedure.

Working Cash

- Applicants' working cash requests consistently follow the requirements of CPUC Standard Practice (SP) U-16-W and reasonably compensate investors for providing funds committed to operating expenses in advance of receiving the offsetting customer revenues.

Customer Forecast:

Gas (SoCalGas and SDG&E)

- SoCalGas requests that the Commission adopt its TY 2024 forecasts for gas customers and finds it to be justified and reasonable. Annual average active gas customers for SoCalGas are forecasted to increase from 5.87 million in 2021 to 6.00 million in 2024.4 SoCalGas gas customer growth is forecasted to be 0.73%, 0.72%, and 0.69% in 2022, 2023, and 2024, respectively.

- SDG&E requests that the Commission adopt its TY 2024 forecasts for gas customers and finds it justified and reasonable. Annual average total gas customers for SDG&E are forecasted to increase from 903,649 in 2021 to 927,597 in 2024. SDG&E gas customer growth is forecasted to be 0.80%, 0.92%, and 0.90% in 2022, 2023, and 2024, respectively.

- Both utilities use econometric and statistical techniques to develop quarterly-data forecasts of residential, commercial, and industrial customers, using linear econometric models.

Electric (SDG&E Only)

- SDG&E requests that the Commission adopt its TY 2024 forecasts for electric customers. The annual average total electric customers are forecasted to increase from 1.490 million in 2021 to 1.531 million in 2024. Included within those totals are residential electric customers, which are forecasted to increase from 1.329 million in 2021 to 1,340 million in 2024. Total electric customer growth is forecasted to be 0.83%, 0.93% and 0.99% in, 2022, 2023 and 2024, respectively.

- SDG&E developed its electric customer forecasts using statistical models based on economic and demographic data, seasonal patterns, and other inputs that influence customer growth.

Cost Escalation

- SoCalGas and SDG&E's escalations are reasonable forecasts that should be adopted by the Commission for use in determining the utilities' TY 2024 revenue requirement and annual PTY adjustments.

- No party disputed the cost escalation factors used to reflect the effect of external inflation in SoCalGas and SDG&E's labor O&M, non-labor O&M, and capital-related costs, nor the updated cost escalations. The escalations are reasonable forecasts that should be adopted by the Commission for use in determining the Companies' TY 2019 revenue requirement and annual PTY adjustments.

Miscellaneous Revenues

- SoCalGas and SDG&E request that the Commission adopt its forecasts. No party has opposed SoCalGas and SDG&E's reasonable forecasts of miscellaneous revenues.

- Miscellaneous Revenues are comprised of fees and revenues collected by SoCalGas and SDG&E from non-rate sources for the provision of specific products or services. Miscellaneous revenues are incorporated into rates as a reduction to base margin revenue requirements charged to customers for utility service, thereby lowering rates.

- No party opposes SoCalGas and SDG&E's forecasts of miscellaneous revenues.

Regulatory Accounts

- The Commission should approve the Companies' memorandum and balancing accounts.
- SDG&E has thoroughly supported why its proposed ratemaking treatment is appropriate and reasonable for current and proposed regulatory accounts.

Summary of Earnings/Results of Operations

- SoCalGas and SDG&E request that the Commission adopt their requested revenue requirements for TY 2024 as proposed.
- SoCalGas and SDG&E's Results of Operations (RO) model has been accepted by all parties without challenge or indication that any redesign is necessary to more accurately calculate a revenue requirement.

Post Test Year Ratemaking

- The Companies' Post-Test Year (PTY) proposals account for their major cost drivers, which allows them to provide safe and reliable service to their customers, comply with regulations, and manage their operations as prudent financial stewards.
- The Companies proposal provides a numerical basis that reflects a representative index of cost escalation, an appropriate estimation of capital additions, an associated impact on rate base, and a calculation that results in increases for each revenue requirement component.
- The Commission should approve the Companies' proposal to continue the existing Z-factor mechanism, unchanged for this 2024-2027 GRC term.

Revenues and Rates:

Present and Proposed Gas Transportation Revenues and Rates

- Impacts of SoCalGas and SDG&E's proposals in this GRC on gas customer rates is correctly demonstrated by SoCalGas and SDG&E.

Present and Proposed Electric Revenues and Rates

- Impacts of SDG&E's proposals in this GRC on electric customer rates is correctly demonstrated by SoCalGas and SDG&E.

Affordability Metrics

- In compliance with the D.22-08-023, SoCalGas and SDG&E submitted affordability metrics testimony. Intervenors have not objected to the accuracy of the metrics provided by SDG&E and SoCalGas.

Other Issues:

Results of Examination (Cal Advocates' Audit)

- No adjustment to the SDG&E TY 2024 Safety Management System forecast is appropriate because the expenses Cal Advocates recommends adjusting as one-time, non-recurring expenses were historical costs that were not used for the BY forecast presented by SDG&E. Additionally, the vendor expenses at issue are of a nature that could be classified as a recurring expense in TY 2024.

- No adjustment of the SoCalGas Audit Services costs to conduct the internal audits (2017-2021) is required as recommended by Cal Advocates. SoCalGas is not required to waive the exercise of its attorney-client privilege on legitimate audit activities. Additionally, the historical audit costs at issue were not used in the zero-based forecast presented by SoCalGas for TY 2024.

- No adjustment of the SDG&E Audit Services costs to conduct the internal audits (2017-2021) is required as recommended by Cal Advocates. SDG&E is not required to waive the exercise of its attorney-client privilege on legitimate audit activities. Additionally, the historical audit costs at issue were not used in the zero-based forecast presented by SDG&E for TY 2024.

Political Activities Booked to Ratepayer Accounts

- The Commission should find that SoCalGas has demonstrated that is has excluded from this GRC any costs that Cal Advocates alleges were originally, incorrectly booked to ratepayer accounts. SoCalGas has undertaken substantial steps to exclude such costs and also to put into place significant new procedures, including training and verification of allocations, in the years leading up to this GRC. Cal Advocates' unsubstantiated recommended reductions of 80% and 35% are duplicative of exclusions that SoCalGas has already removed from the GRC, are not based on any calculations or methodology, and are significantly larger than the expenses recorded to FERC Account 426.4 in recent years.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U 904 G) for Authority, Among Other Things, to Update its Gas Revenue Requirement and Base Rates Effective on January 1, 2024.	Application No. 22-05-015 (Filed May 16, 2022)
And Related Matter.	Application No. 22-05-016 (Filed May 16, 2022)

OPENING BRIEF OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) IN THE TEST YEAR 2024 GENERAL RATE CASE

1. Introduction/Summary of Recommendations

Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) (collectively, Applicants or Companies) herein file their Opening Brief (Brief) in the above captioned, consolidated General Rate Case (GRC) proceedings. The Summary of Recommendations is provided after the Table of Contents and Table of Authorities herein.

2. Procedural Background

Applicants filed their respective Test Year (TY) 2024 Applications (A.) 22-05-015 and A.22-05-016 on May 16, 2022.[1] These Applications were consolidated on June 8, 2022 by a ruling issued by Administrative Law Judge (ALJ) Lakhanpal and a prehearing conference was held on July 26, 2022. ALJ Lakhanpal granted Applicants' Motion for Protective Order[2] on August 9, 2022. On October 3, 2022, Commissioner Houck issued the Assigned Commissioner's Scoping Memorandum and Ruling (Scoping Ruling), which set forth the procedural schedule and the issues to be considered in this case. The Scoping Ruling also required supplemental information on the impacts of the proposed rate increases on affordability and disconnections for non-payment and

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1 Applicants served revised testimony on August 17, 2022.

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

removal of the Ventura Compressor Station Modernization project from the general rate case scope.[3] On November 18, 2022, in compliance with the ALJ Lakhanpal's October 2, 2022 ruling, the Applicants served the results of their analysis on the impacts of the proposed rate increases on affordability and disconnections for non-payment.

On December 5, 2022, in response to a motion by Environmental Defense Fund (EDF), ALJ Lakhanpal issued a ruling requiring the Applicants to provide access to their gas demand computer model and respond to a series of questions related to gas demand followed by a ruling on December 6, 2022, clarifying and revising the procedural schedule and setting the date for submittal of the Joint Comparison Exhibit and Update Testimony.

The ALJ issued a May 1, 2023, ruling in response to a motion by The Utility Reform Network (TURN) to remove from the GRC consideration of a proposal relating to whether Line 235 should be repaired or replaced. The ruling essentially granted the motion, but allowed certain work relating to 235 to stay in the case.

On May 18, 2023, the Commission approved Decision (D.) 23-05-012 granting SoCalGas and SDG&E the authority to establish the requested General Rate Case Memorandum Accounts (GRCMAs),[4] which provide a necessary safeguard in the event that a final decision in these proceedings is not rendered by January 1, 2024.

Per ALJ Lakhanpal's January 17, 2023 ruling, the Commission held six public participation hearings, four of them (two for each utility) remote via the internet on March 6, 2023 and March 15, 2023, and two in-person public participation hearings for SDG&E customers on March 23, 2023.

On March 27, 2023, Intervenor testimony was served by 14 parties.[5] Rebuttal testimony was served on May 12, 2023.

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[3] The scoping memo ruled that the proposed Ventura Compressor Station Modernization project be removed from the scope of this GRC and be submitted via a separate application.

[4] On November 14, 2022 SoCalGas and SDG&E filed a motion seeking to: (1) establish General Rate Case (GRC) memorandum accounts (GRCMAs) for the recording of the test year (TY) 2024 GRC revenue requirements effective January 1, 2024; (2) to make January 1, 2024 the effective date of any new revenue requirements and associated tariff revisions and ratemaking mechanisms approved by the Commission in this 2024 GRC; and (3) to include interest, based on a Federal Reserve three month, non-financial, commercial paper rate.

[5] Intervenors that served testimony were California Environmental Justice Alliance (CEIA); California Public Advocates Office (Cal Advocates); Coalition of California Utility Employees (CUE); Community Legal Services; Environmental Defense Fund (EDF); Federal Executive Agencies

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

Pursuant to the Rate Case Plan[6] and the adopted procedural schedule, Applicants served Update Testimony on July 7, 2023, reflecting the most recent available cost escalation rates and to reflect any changes arising from governmental actions, such as tax or postage rate changes. SoCalGas and SDG&E also included changes that SoCalGas and SDG&E agreed to during the course of discovery, in rebuttal testimony, or at hearings. With these changes, the Update revenue requirement for SoCalGas is $4,434,000. The Update revenue requirement for SDG&E is $3,007,000 on a combined basis, with $2,346,000 and $658,732 for electric and gas respectively.[7]

In addition to the above, ALJ Lakhanpal issued a ruling on June 12, 2023, to clarify the scope of this GRC with respect to the use of alleged lobbying activity information booked to shareholder accounts (June 12 Ruling) – an issue only raised in this GRC by Cal Advocates. The June 12, 2023 ruling found that "it is reasonable for SoCalGas to seek protection of the details of its vendor contract information to the extent it is booked to a shareholder account" and confirmed that "[t]he details, meaning the specific identification of contractors by name and the specific purposes and advocacy activities for which the expenditures were used, regarding shareholder funded vendor expenses, are protected . . . and will not be considered evidence in this proceeding."[8] Cal Advocates did not comply with the June 12, 2023 deadline.

During the course of the hearings, ALJ Lakhanpal provided additional explanation of her ruling numerous times.[9] Ultimately, ALJ Lakhanpal ordered Cal Advocates to file a motion for admission of approximately 9 exhibits and to bring them into compliance with the June 12 Ruling. Cal Advocates filed its motion on July 7, 2023 (Motion to Admit Exhibits); SoCalGas filed its opposition on July 21, 2023, and Cal Advocates provided a reply on August 2, 2023. On August 8, 2023, ALJ Lakhanpal issued a Ruling (August 8 Ruling) that: (1) granted the Motion to Admit

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(FEA); Indicated Shippers (IS); Mussey Grade Road Alliance (MGRA); Protect Our Communities Foundation (PCF); San Diego Community Power, Clean Energy Alliance) (CCAs); Small business Utility Advocates (SBUA); The Utility Reform Network (TURN); Southern California Generation Coalition (SCGC); Utility Reform Network (UCAN).

6 Decision (D.) 89-01-040, as modified by D.93-07-030; D.07-07-004; D.14-12-025; D.20-01-002.

7 Ex. SCG-401/SDGE-401 (Hom) at 23.

8 June 12, 2023 ALJ Ruling at 5.

9 *See, e.g.,* Transcript (Tr.) V21:3720:25-3728:11, V22:3812:6-3814:9, V22:3956:6-3957:20.

Exhibits with respect to exhibits that SoCalGas had stipulated to, (2) required Cal Advocates and SoCalGas to attend a hearing in-person to respond to questions and discuss possible stipulations with respect to the exhibits that remained at issue; and (3) stated that a separate briefing schedule would be set for the lobbying activities. References to these issues or Section 48.2 should be read as referencing the ultimate briefing on this issue.

3. Evidentiary Standards and the Burden of Proof

Pursuant to Section 454(a) of the California Public Utilities Code, rates may only be changed upon "a finding by the [C]ommission that the new rate is justified." SoCalGas and SDG&E have the burden of proof and must justify the reasonableness of their positions in this ratemaking proceeding.[10] The evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence. Preponderance of the evidence simply means that something is "more likely to be true than not true."[11] In short, "[the utility] must present more evidence that supports the requested result than would support an alternative outcome."[12] The Commission affirmed in the S-MAP Decision, D.14-12-025 that this standard specifically applies to a GRC.[13] In addition, "any party opposing such a request then has a burden of going forward to present evidence to raise a reasonable doubt and show a different result was warranted."[14]

As conclusively demonstrated by the record in this proceeding and as discussed *infra*, SoCalGas's and SDG&E's showings are well supported. The Companies have exceeded their burden and have demonstrated the reasonableness of their requests through prepared direct, revised, rebuttal, and updated testimony, extensive workpapers, and other exhibits of over 80 of the Companies' subject matter expert witnesses, and hearing testimony of over 50 of these witnesses. The Companies also responded to over 10,800 data request questions from multiple parties throughout this proceeding. In contrast, most of the assertions made by the intervenors fail to put forth any evidence to support alternative outcomes, and where evidence has been put forth it is clearly outweighed by SoCalGas's and SDG&E's evidence supporting their positions.

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10 D.09-03-025 at 8; D.06-05-016 at 7.

11 Witkin, Cal. Evid. (5th ed., Vol. 1), "Burden" § 36 (2022).

12 D.16-06-056 at 23.

13 D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence."). *See* also D.19-05-020 at 7; D.15-11-021 at 8-9.

14 D.11-03-049 at 9 (citation omitted).

The TY 2024 GRC evidentiary presentation represents a continuation along the path of providing further detail and support for the Companies' risk mitigation activities related to their funding requests, including explanations of how the Companies have incorporated risk management into the TY 2024 GRC and additional showings providing risk analysis for the PTYs. As part of their RAMP to GRC integration showing, the Companies have provided roadmaps of RAMP risks included in the GRC and where these risks are represented, identification of each GRC witness who is sponsoring mitigation activities associated with the Companies' RAMP risks, and additional details on RAMP-related risks, costs, and units. Moreover, RAMP items, including changes from the RAMP Report, were presented in a dedicated section, generally Section II, of the direct testimony. The Companies' information in this proceeding was presented in accordance with Commission-adopted requirements and, consistent with those requirements, represents an increasingly more safety-focused GRC showing.[15]

In addition to the focus on mitigating safety and reliability risks, this was the first GRC where sustainability was a major component, which reaffirms the Companies' commitment to supporting and advancing the State's climate policy goals. SoCalGas and SDG&E each explained their strategy to support these goals and provided a roadmap and summary of each of these clean-advancing activities being conducted by the different witness areas across SoCalGas and SDG&E. Many witnesses in this case testified about sustainability and safety culture. Generally, this issue was addressed in Section III of the direct testimonies and discussed sustainability and safety culture efforts from the perspective of the witness areas – ranging from the Companies' most senior executives to field operations, customer services, or human resources.

4. Scoping Memorandum Issues

The October 3, 2022 Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) identified the issues to be addressed in this proceeding. They are:

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15 *See*, *e.g.,* D.07-07-004; D.20-01-002 (extending the GRC cycle from three years to four years and modifying the generic GRC proceeding schedule); D.14-12-025 (incorporating a risk-based decision-making framework into the Rate Case Plan for the energy utilities' GRC); D.16-08-018 (interim decision adopting multi-attribute approach and directing utility to take steps toward a more uniform risk management framework); D.18-12-014 (adopts a Risk-Informed Decision-Making Framework (RDF) providing the requirement for the utilities to use to assess and rank safety risks, assess and rank potential safety mitigations, and undertake other steps in order to prepare RAMP applications); D.21-11-009 (adopting technical clarifications to the RDF); and RAMP Proceeding (A.21-05-011/-014 (cons.)), Assigned Commissioner's Ruling Directing Sempra Utilities to Incorporate Staff Recommendations on Their Risk Assessment and Mitigation Phase in the Upcoming 2024 General Rate Case Applications (March 30, 2022).

1. Whether Sempra Utilities' proposed revenue requirements, costs, and recovery mechanisms for Test Year 2024 are just and reasonable and should be adopted by the Commission and reflected in rates;
2. Whether Sempra Utilities' post-test-year ratemaking mechanisms are just and reasonable;
3. Whether the various regulatory account proposals are just and reasonable;
4. Whether SDG&E's recorded amounts in its Wildfire Mitigation Plan Memorandum Account from its inception in May 2019 through December 31, 2023, are reasonable and prudent for cost recovery;
5. Whether Sempra Utilities' Applications align with the Commission's Environmental and Social Justice (ESJ) Action Plan;16
6. Whether the identified risks and recommendations in the Safety Policy Division's evaluation report of Sempra Utilities' joint Risk Assessment and Mitigation Phase Applications and the data on revised risk spending efficiency calculation, required pursuant to March 30, 2022, Scoping Memo issued in A.21-05-011, have been adequately integrated into this GRC proceeding and whether mitigation programs and projects that address safety risks are reasonably balanced with the costs associated with such programs and projects; and
7. Whether programs align with California's climate objectives, decarbonization goals, forecasts of future natural gas demand, and whether the expenditures result in just and reasonable rates.

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

a. The impact of the proposed rate increases on affordability and disconnections for non-payment, under § 718(b); Supplemental testimony is due by November 18, 2022; and
b. Whether proposed investments in alternative fuels, including bio-methane and hydrogen, are reasonable and sourced without disproportionally burdening disadvantaged communities with air pollution.

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[16] CPUC, *Environmental & Social Justice Action Plan Version 2.0* (April 7, 2022), *available at:* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-and-outreach/documents/news-office/key-issues/esj/esj-action-plan-v2jw.pdf.

SoCalGas and SDG&E's positions on these items are set forth below and addressed more extensively throughout this Opening Brief.

1. Just and reasonable revenue requirements, costs, and recovery mechanisms for Test Year 2024.

The costs presented in the record for SoCalGas and SDG&E are just and reasonable, as explained throughout this brief.

2. Just and reasonable post-test-year ratemaking mechanisms.

The post-test-year (PTY) ratemaking mechanisms presented in the record for SoCalGas and SDG&E are just and reasonable, as explained throughout this brief, and in particular Section 45.

3. Just and reasonable regulatory account proposals.

The regulatory account proposals presented in the record for SoCalGas and SDG&E are just and reasonable, as explained throughout this brief, and in particular Section 43.

4. Reasonable and prudent recorded amounts in Wildfire Management Plan Memorandum Account.

Wildfire Management Plan Memorandum recorded amounts presented in the record for SDG&E are reasonable and prudent, as explained throughout this brief, and in particular Section 20.3 and 43.

5. Alignment with Environmental and Social Justice Action Plan.

The ESJ Action Plan is "a commitment to furthering principles of environmental and social justice, as well as an operating framework with which to integrate ESJ considerations throughout the [CPUC's] work."[17] The ESJ Action Plan identifies nine goals for the Commission with respect to ESJ Communities, as defined by the CPUC,[18] and a number of action items for the Commission to undertake in moving forward with the Action Plan.[19] Although the goals are largely geared toward steps the Commission can take with respect to engagement with ESJ Communities, two goals are particularly relevant to SoCalGas and SDG&E's requests in this this proceeding.

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17 *Id.* at 2.

18 *Id.* at 96-97 (ESJ Communities are: "predominantly communities of color or low-income communities that are underrepresented in the policy setting or decision-making process, subject to a disproportionate impact from one or more environmental hazards, and are likely to experience disparate implementation of environmental regulations and socioeconomic investments in their communities.").

19 *Id.*, Appendix A: ESJ Action Items.

Goal 2: Increase investment in clean energy resources to benefit ESJ communities, especially to improve local air quality and public health.

Many of the proposals in this GRC are related to clean energy for both SoCalGas and SDG&E. Specific testimonies and areas of this brief discuss at length the clean energy proposals and goals for both Companies. These proposals explain the benefits to the communities they will be located in, including ESJ Communities, to improve air quality and public health. Just a few examples of a focus on clean energy for ESJ Communities include:

- Proposals for hydrogen refueling stations and hydrogen vehicles, which will reduce regional air pollution, GHG emissions, and provide local residents and fleets with the opportunity to fuel and operate hydrogen fuel cell electric vehicles.[20]
- Three of SoCalGas's five Sustainability goals are to "(1) accelerat[e] the transition to clean energy, (2) protect[] the climate and improving air quality in our communities, [and] (3) increase[e] clean energy access and affordability,"
- SoCalGas's proposal for a Carbon Capture Utilization and Sequestration (CCUS) Front End Engineering and Design (FEED) study, which would analyze the potential for a CO2 pipeline that would help improve air quality be removing pollutants and provide localized benefits in areas like Kern County, an energy overburdened area.[21]
- SDG&E's Hybrid at Miramar Energy Facility, involves integrating two battery energy storage systems into the existing generation plant that will enhance the performance of the plant while reducing criteria air pollutant emissions to the benefit of all customers in the local San Diego basin.[22]

Approving SoCalGas's and SDG&E's clean energy requests in this GRC will help the Commission achieve this goal in the ESJ Action Plan.

Goal 7: Promote high road career paths and economic opportunity for residents of ESJ communities.

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[20] *See* Sections 18.1 (hydrogen vehicle air quality benefits), 18.1 (hydrogen refueling station air quality benefits), 18.2. (hydrogen vehicle air quality benefits), 18.2.5.1.1 (hydrogen fueling station air quality benefits).

[21] *See* Section 18.1.

[22] *See* Sections 18.2 and 19.

SoCalGas and SDG&E pride themselves on the diversity of their workforces, and continue take actions to incorporate diversity, equity, and inclusion into Company culture in their workplaces, as well as in their business partners and communities.[23] With workforces of around 9,000 and 5,100 respectively,[24] SoCalGas and SDG&E are significant employers throughout the communities they serve. And, both companies also have exemplary records with respect to contracting with diverse businesses throughout the communities we serve.[25] Approving SoCalGas's and SDG&E's requests in this GRC will help the Companies continue to hire in the many communities they serve, and help the Commission achieve its goal related to economic opportunities for residents of ESJ Communities.

6. Integration of Safety and Policy Division's RAMP evaluation, and whether mitigation programs related to safety are reasonably balanced with costs.

SoCalGas and SDG&E have integrated Safety and Policy Division's (SPD) RAMP evaluation with this GRC.[26] As shown throughout this brief and the record, the revenue requests in this GRC are just and reasonable, and mitigation costs are reasonably balanced with benefits.[27]

7. Program alignment with California climate objectives, decarbonization goals, forecasts of future natural gas demand.

As shown through robust testimony and exhibits, the requests in this GRC align with California climate objectives, decarbonization goals, and the forecasts of future natural gas demand.[28]

8. Impact of proposed rate increases on affordability and disconnections for non-payment, under § 718(b).

Pursuant to Pub. Util. Code § 718(b), the Commission is required to "Conduct an assessment of and properly identify the impact of any proposed increase in rates on disconnections for nonpayment, which shall be included in the record of the proceeding." SoCalGas and SDG&E have presented evidence on anticipated levels of disconnections as a result of this proceeding.[29]

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23 Ex. SCG-01-2R (Brown) at 13; Ex. SDG&E-01-R at 29-30.

24 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 8.

25 *See* Section 22.

26 *See* Section 9.2.

27 *See* Section 9.3.

28 *See, e.g.,* Sections 8, 18.1, 18.2, and 40.

29 Ex. SCG-15-S (Sides); Ex. SDG&E-18-S (Baule).

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

SoCalGas and SDG&E discuss at length proposals relating to alternative fuels.[30] To the extent any challenges were raised with respect to sourcing of alternative fuels, those are addressed in this brief.

5. Test Year Forecasting Methods and GRC Ratemaking

5.1 General Forecasting

SoCalGas and SDG&E prepared this GRC in accordance with the Rate Case Plan, which requires utilities, among other things, to do the following:

- "Furnish base year historical and estimated data and subsequent years with evaluation of changes up to and including the test year;"[31]
- "Include at least five years of recorded data;"[32]
- "Show the development of all adjustments;"[33] and
- "All data for expenses shall be stated in recorded dollars and dollars inflation adjusted to a constant base year."[34]

Pursuant to D.20-01-002, SoCalGas and SDG&E timely filed their respective GRC applications on May 16, 2022. The last available year of recorded financial data at the time of the GRC filings, referred to as the "base year," was 2021. The Companies started with 2021 base year financial data and included the prior five years of recorded data (2017-2021). The Companies evaluated their historical financial data and made adjustments as necessary. Examples of adjustments that are made to historical data includes excluding costs not recovered through the GRC, transferring data to different cost centers, and excluding one-time expenditures.

SoCalGas and SDG&E then prepared forecast estimates for each year up to and including the test year, as required. These forecast estimates are presented in 2021 adjusted-recorded constant dollars in accordance with the Commission's Rate Case Plan. The Companies request

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30 *See, e.g.,* Sections 8, 18, 24, and 25.

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

32 *Id.*

33 *Id.*

34 *Id.*

Commission approval of their forecasts for operations and maintenance (O&M) expenses in TY 2024 and forecasted capital expenditures for the years 2022, 2023 and 2024, with expected in-service dates such that the costs of capital (depreciation, tax, return) can be estimated from the resultant additions to ratebase. Generally, the TY 2024 O&M and 2022-2024 capital direct cost forecasts contribute to the Companies' revenue requirement request.

For SoCalGas and SDG&E, O&M expense forecasts are presented in two groupings. Utility Shared Services (USS) are O&M expenses incurred by one utility and subject to billing to the other utility or a Sempra affiliate.[35] The second group of O&M expenses is Non-Shared Services (NSS), which are expenses incurred by a utility that are not subject to billing. In addition to O&M expenses, there are shared assets on the capital side. In the GRC, costs for USS O&M expenses and shared assets are reflected in forecasts where the costs are incurred. For example, SoCalGas incurs much of the cybersecurity capital costs on behalf of both SoCalGas and SDG&E. While the costs appear in this GRC as SoCalGas capital forecasts, the RO model appropriately assigns such costs to the company or companies that benefits from these activities, which results in some of the cybersecurity costs being billed to and ultimately paid for by SDG&E ratepayers. For O&M USS costs, the workpapers describe the allocation methodology as well as the percentages for where the costs will settle. Shared services costs have been separated in this manner to ensure costs subject to allocation include appropriate billing overheads and are properly allocated to the correct company.

The Corporate Center – General Administration prepared testimony[36] (discussed in more detail in Section 29. *infra*) describes the TY 2024 forecasts for allocations of Shared General Administration costs from Sempra's Corporate Center to SDG&E and SoCalGas. The testimony presents costs on an incurred basis: the recorded costs for 2021; forecasted costs for 2024; and the allocation of those costs to SDG&E, SoCalGas, and "Infrastructure/Retained."[37] Corporate Center shared service costs that are not allocated to SDG&E and SoCalGas are "Infrastructure/Retained" costs that are not included in this request.

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[35] *See* Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 3-4.

[36] *See* Ex. SCG-23-R-E/SDG&E-23-R-E (Cooper); Ex. SCG-223/SDG&E-223 (Cooper); Ex. SCG-23-WP-R-E/SDG&E-23-WP-R-E (Cooper).

[37] "Infrastructure/Retained" costs, as the term is used *infra,* in Sections 29 and 30, refers to costs incurred at Sempra's Corporate Center that are allocated to the holding company for most of Sempra's operating companies – *i.e.,* costs that are not allocated to SoCalGas and SDG&E and are not subject to CPUC regulation.

5.1.1 Test Year Forecasting Methods

Witnesses develop GRC forecasts for expenditures they believe are necessary to provide safe and reliable gas and electric service to our customers. As mentioned above, witnesses forecasted the TY 2024 for O&M and years 2022 through 2024 for capital. To develop forecasts for the instant proceeding, witnesses may use historical data available at the time (*i.e.*, through the 2021 base year) to inform their GRC request. More specifically, utilities (and parties) utilize generally accepted forecast methodologies to reflect the future funding needs. These generally accepted forecasting methods include 2021 base year, historical averages, linear trends, or zero-based (a method that does not rely on history and rather bases the forecast on other information).

Typically, historical averages are used when costs fluctuate over time to smooth the ups and downs of recorded data. Linear trends may be used when there is a pattern of growth or decrease over time. Base year may be selected when costs are steady, there is not adequate historical data, or to recognize the most recent financial data is the preferred starting point for forecasting the future. For example, if an activity is relatively new, does not have many years of historical data, or if the historical data is not representative of future expectations, a base year forecast methodology may be most appropriate. Lastly, a zero-based forecasting method may be used when historical information is not relevant or where there is detailed information available that is more indicative of future needs. Zero-based methods can include:

- An arithmetic method such as unit cost multiplied by expected volume;
- Referencing a Request for Proposal response, an invoice, or other reference document;
- Use of Subject Matter Expert judgment;
- Reference to a like-kind project or activity performed elsewhere; and
- Reference to a similar project or work done in the past and updated for current conditions.

The various underlying forecast methodologies are applied depending on the facts and circumstances of the various projects and programs. In the various workpapers accompanying both O&M and capital forecasts, witnesses show which forecast methodology was chosen and provide additional description of why the chosen methodology was determined to be most appropriate to the circumstance.

In addition to reviewing and analyzing historical data, making historical adjustments, and selecting a forecast method, witnesses have an opportunity to make additional adjustments to their forecasts. These are referred to as forecast adjustments. Forecast adjustments may be made to incorporate incremental needs of the business. Examples include additional full-time equivalents that may be forecasted or incremental funding proposed for a project. All adjustments, historical and forecast, are described in the workpapers.

5.1.2 Data Systems

For most GRC cost forecasting, the Companies use an internally-developed forecasting application called the General Ratecase Integrated Database (GRID). The financial data that is utilized in GRID originates from the Companies' financial system of record, Systems Applications and Products (SAP). Before witnesses begin their GRC processes, GRID performs an automatic process to exclude costs that are recorded in SAP but are not relevant to the GRC. For example, costs under the jurisdiction of the Federal Energy Regulatory Commission or costs recorded to FERC Account 426.4 would be automatically excluded. Once the automatic exclusion process is complete, there is a second manual process available to witnesses to further exclude historical costs. Removing historical costs from the GRC means that such costs to do not contribute to the Companies' forecasts in this case and thus the Companies are not seeking recovery through the GRC.

In addition to the automatic process of preparing costs for further review, GRID performs the following functions:

- Permits the review and adjustment of historical costs;
- Allows for selection of an underlying forecast methodology (3, 4 or 5-year average, 3, 4 or 5-year simple linear trend, use of the 'base year' 2021 values, or a 'zero-base' method by which the estimates of future costs are discretely entered with no underlying forecast, using adjusted historical costs);
- Allows for adjustment of forecasted costs for new or changed activities, and entry of descriptive data including RAMP attributes;
- Produces workpapers as portable-document-files (PDFs);
- Produces 'testimony tables' as Word tables to be placed in testimony; and
- Exports data for Results of Operations (RO) model purposes.

These same forecasting practices have been utilized to support SoCalGas and SDG&E's last several GRC requests and have resulted in the Companies' forecasts being adopted by the Commission in prior GRC proceedings.

Once all the forecasts through the Test Year have been prepared, GRID provides data inputs for the RO model. The RO model calculates ratebase (including the return component of the total revenue requirement), taxes, and all appropriate shared services billings to compute the revenue requirement request. In other words, the RO model takes the direct costs forecasts prepared in GRID, as well as other revenue requirement inputs, and calculates the Test Year revenue requirement request for SoCalGas and SDG&E. Also, as part of the RO model, the cost forecasts are escalated from 2021 base year constant dollars to 2024 dollars.[38]

The Test Year revenue requirement calculated in the RO model is then used to determine the Companies' revenue requirement requests for years 2025-2027 in a separate post-test year model. At the same time, the Test Year revenue requirement is analyzed for rate and bill impacts.

5.1.3 2022 Data

The GRC applications are filed using data at a necessary point in time. The data for the Base-Year-Plus-1 (in this case 2022, also called '2022 actuals') became available during the course of these proceedings after the filing of the Application. This data was made available to the parties.[39] In some instances, parties recommended adoption of those 2022 values in place of the Company's 2021 recorded data. In their respective rebuttal testimonies, SoCalGas and SDG&E witnesses discussed why using 2021, rather than 2022, as the base year to prepare the forecasts is most appropriate and consistent with the TY 2024 GRC framework. Namely, the Rate Case Plan does not contemplate the use of 2022 recorded data; as such, the forecasts were not developed using that information. While recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others.[40] Although SoCalGas and SDG&E provided 2022 recorded data per the revised Scoping Memo and Ruling,[41] the utility is

38 Certain costs are identified as "Non-Standard Escalation" (NSE) items. These items contain their own escalation provisions (for example, by contract), and thus are not escalated in the RO model using the standard and requested escalation factors. Some examples of non-labor items subject to NSE include fuel, leases, and postage expenses.

39 SoCalGas's and SDG&E's 2022 Recorded Expenditures were served on March 13, 2023.

40 D.19-09-051 at 278.

41 ALJ's Ruling Modifying the Procedural Schedule and Partly Denying Sempra Utilities' Joint Motion to Amend the Assigned Commissioner's Scoping Memorandum and Ruling (December 6, 2022).

generally not permitted to revise its forecasts using that data, either up or down, once the application is filed.[42]

The Commission found in the Companies' prior TY 2019 GRC that "in order to be able to conclude the proceeding, it is reasonable and prudent for the Commission to stop considering updated information at some point in time. Otherwise, the proceeding may be subjected to continuously review and consider constant updates leading to inconsistencies if only certain forecasts or information were to be updated."[43] Consistent with this Commission practice, it would be impracticable and improper to continuously update GRC data. Using 2021 as the base year to prepare the forecast is most appropriate and consistent with the TY 2024 GRC framework, where the forecast should be based on a specific moment of time rather than being continuously updated.

5.2 GRC Ratemaking

The Commission sets "just and reasonable"[44] rates based on the well-established principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities' rate base."[45] A GRC decision determines the "reasonable costs and expenses" component of the equation, and the Commission determines a utility's authorized return on equity in a separate proceeding.[46] "[A] utility is generally entitled to its reasonable costs and expenses," as well as "the opportunity, but no guarantee, to earn a rate of return on the utility's rate base."[47] This principle is commonly referred to as the "regulatory compact," and the Commission has confirmed that this principle "continues to guide every rate case … and involves a balancing of customer and stockholder interests."[48] The GRC process is

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42 D.19-09-051 at 278.

43 *Id.* at 612.

44 Cal. Pub. Util. Code § 451.

45 D.03-02-035; *see also* D.14-08-011 at 31 ("[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]")(quoting *Southern California Gas Company v. Public Utilities Commission*, (1979) 23 Cal. 3d 470, 476 ").

46 *See* R.87-11-012 for the Commission's Rate Case Plan which established separate Commission proceedings on revenue requirement, cost of capital, and rates.

47 D.12-11-051 at 10.

48 D.20-01-002 at 12, *quoting Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944), at 603 ("[t]he rate-making process ... *i.e.*, the fixing of just and reasonable rates, involves a balancing of the investor and the consumer interest.").

thus designed to provide that opportunity through a fair regulatory process that provides "the utility with adequate and reasonable funding levels for both operating and capital costs."[49]

This GRC will determine SoCalGas and SDG&E's rates for 2024-2027. The prior 2019 GRC proceeding set the rates for the years 2019 through 2023.[50] A GRC decision is based on an "extensive review of the test year forecasts" combined with a formulaic approach to determining post-test year revenue requirements.[51]

Based on the principle of retroactive ratemaking, which is well established by the Commission and the courts, rates cannot be retroactively adjusted:

> It is a well-established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for previously incurred expenses unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenditures into a memorandum or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking.[52]

Rather than looking backwards, California sets rates on a forecasted basis: "The use of a forecasted test period allows the revenue requirement to represent a forward-looking perspective."[53] To develop forecasts for this forward-looking perspective, the generally accepted forecast methodologies discussed above are utilized to reflect the future funding needs.

5.2.1 Post-Test Year Ratemaking

Consistent with precedent, the Commission does not conduct an extensive review of forecasts in the post-test years to determine revenue requirements. Rather, the Commission has consistently favored a simpler, escalation-based approach whereby an index, such as IHS Markit Global Insight's Power Planner (Global Insight), is used to forecast future increases in utility costs.

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49 Ex. SCG-245-R (Mijares), Appendix H at H-7.

50 CPUC already determined the current rates that SoCalGas and SDG&E could charge ratepayers in the TY 2019 GRC D.19-09-051 and as modified by the Petition for Modification D.21-05-003 for the years 2019-2023. *See* Ex. SCG-245-R (Mijares), Appendix G.

51 D.20-01-002 at 8.

52 D.07-07-041 at 5-6, Section 2.2.1 Prohibition Against Retroactive Ratemaking (*citing* "The courts have recognized this problem and found: If the prohibition against retroactive ratemaking is to remain a useful principle of regulatory law and not become a device to fetter the commission in the exercise of its lawful discretion, the rule must be properly understood. … But we did not require that each and every act of the commission operate solely in futuro; our decision was limited to the act of promulgating 'general rates.' (*Southern California Edison Co. v. Public Utility Commission*, 20 Cal. 3d 813 (1978) at 816.)").

53 *See* Ex. SCG-245-R (Mijares), Appendix H at H-21.

Such escalation-based mechanisms have been adopted over a capital budget-based approach to PTY ratemaking, a method that provides discrete project forecasts in the post-test years.[54]

To determine the Companies' post-test year revenue requirement request (years 2025 to 2027), O&M and capital are forecasted differently; however, both O&M and capital costs are used as a proxy to estimate future needs for the Companies. With limited exceptions, SoCalGas and SDG&E do not provide discrete project forecasts in the post-test years. This means that while projects may be used to forecast the amount of funding needed in years 2025-2027, the projects used in such calculations may or may not continue in the post-test years. However, similar projects may be conducted. This provides SoCalGas and SDG&E flexibility to manage the Companies while at the same time relies on historical data to set a revenue requirement that the Companies will operate within.[55]

5.2.2 Accountability Reporting and Reprioritization

After rates are set in this GRC, the Commission monitors utility spending compared to authorized through various means, including the Risk Spending Accountability Reporting (RSAR) filed annually.[56]

The ratemaking mechanism approach for determining PTY revenue requirements is consistent with Commission guidance that GRC funding following a final Commission decision may be reprioritized in order to undertake incremental activities to meet emergent needs. For example, in the Rate Case Plan Decision, the Commission explained that it "has always acknowledged that utilities may need to reprioritize spending between GRCs. Now, given the evolving reality [of moving to a four-year GRC cycle], that necessity may even be growing."[57] The Commission has explicitly recognized that "new programs or projects may come up, others may be cancelled, and there may be reprioritization. This process is expected and is necessary for

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54 *See* Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 2:21-27.

55 *Id.* at 3.

56 On April 28, 2023, SDG&E and SoCalGas filed their fourth annual RSAR, which compares TY 2019 GRC authorized funds to cumulative actual recorded costs for all safety, reliability, and/or maintenance activities. In addition, the RSAR requires the Utilities to compare authorized Risk Assessment Phase (RAMP) mitigation programs and actual RAMP activities performed, using, where available, "work units" as the unit of reporting. Variance explanations are only required for the current year 2022 variances in addition to GRC testimony/workpaper references to the TY 2019 GRC and also the TY 2024 GRC for any variance over a specific threshold, as separately defined for each utility, and impacted lines of business.

57 D.20-01-002 at 33; *see also,* Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 3:5-4:2.

the utility to manage its operations in a safe and reliable manner."[58] It is for these reasons that "utilit[ies] [are] allowed the flexibility to reprioritize the authorized funds in order to ensure safe and reliable operations."[59] Reprioritizing spending also allows utilities to "[r]espond to immediate or short-term crises outside of the RAMP and GRC process,"[60] in accordance with Commission directives. As the Commission has stated: "RAMP and GRCs…are not designed to addresses immediate needs; the utilities have responsibility for addressing safety regardless of the GRC cycle."[61] Accordingly, SoCalGas and SDG&E re-prioritize spending as needed, which is accepted and anticipated, and will transparently provide the Commission and parties updates through the RSAR annual filings.

6. Policy Overview

6.1 Policy SoCalGas

This Test Year 2024 GRC is SoCalGas's forward-looking evaluation of the necessary investments SoCalGas needs to maintain and enhance reliability and safety, support sustainability, promote innovation, and develop SoCalGas's workforce. As Ms. Maryam Brown testified: "[C]lean gases and the gas system combined with clean electricity, the electric grid system, working together provide the most affordable pathway to the state accomplishing their decarbonization goals."[62] SoCalGas's proposals and requests included in the instant proceeding reflect a strong commitment to delivering safe, clean, and reliable natural gas service to customers at reasonable rates while paving a path toward the clean energy future.

SoCalGas makes the requests in this GRC at a time of transformative change in California and around the world. SoCalGas's responsibility to maintain and enhance the safety and reliability of its infrastructure remains critically important. While these cornerstones of SoCalGas's business

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58 D.11-05-018 at 27, 82 (FOF 10).

59 Energy Division, *Safety-Related Spending Accountability Report for Southern California Edison* (May 2017) (Safety Report) at 10, *available at*: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/risk-spending-accountability-reports/sce-2015-ed-response-sapr.pdf; *see also* Res. E-4464 (May 10, 2012) at 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

60 D.18-04-016 at 6, n.7 (*citing* D.16-08-018 at 152).

61 *Id.*

62 Tr. V4:832:17-21 (Brown).

and operations continue, the world is transitioning to a cleaner, decarbonized energy future, and California is leading the way. SoCalGas embraces and supports California's environmental and climate goals. This GRC presents an opportunity to invest in clean energy and the pipeline infrastructure that will transport it, providing a pathway to successfully meet the State's goals.

SoCalGas also recognizes that these considerations come at a time of affordability challenges. SoCalGas's requests in this GRC center around (1) maintaining and enhancing reliability and safety, (2) supporting sustainability, (3) promoting innovation and technology to meet operational and customer needs, and (4) developing our workforce – all while keeping affordability in mind. With the requests in this GRC, SoCalGas seeks to continue serving its customers while forging a path to a decarbonized energy future that is reliable, resilient, safe, affordable, and equitable.

6.1.1 Affordability

Maintaining affordability while presenting the costs needed for SoCalGas to operate safely, reliably, and as a prudent operator creates challenges in every GRC. As also discussed in the following Section (Section 7 (Affordability and Customer Impacts)), and demonstrated by the evidence in the record, SoCalGas presents costs in this GRC that result in just and reasonable rates in light of SoCalGas's needs. SoCalGas also continues to address affordability through customer assistance programs and rate reform to help ratepayers.

Maintaining affordability while making the investments SoCalGas needs to make to meet the goals discussed below is a continuous balance. As recognized by Ms. Brown:

> We're very empathetic to the issue of affordability.
>
> And, in fact, at SoCalGas, we pride ourselves on being the lowest bill that customers see in a month. But as we look at this general rate case, we have to remember that energy needs to be a lot of things all at the same time. It needs to be safe. It needs to be reliable. It needs to be affordable. It needs to be equitable. It needs to be clean.[63]

These pillars are codependent and not one of these pillars can be elevated above the other. In other words, if you privilege one over the other, it creates undue risk to the system and could compromise the quality of life that the energy system is designed to provide.[64] Ultimately, the

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63 Tr. V4:812:11-20 (Brown).

64 *See id*. at V4:812:18-23 (Brown).

showing in this proceeding that SoCalGas must make is that the proposed requests are just and reasonable[65] - and that is informed by affordability.[66]

The requests included in this proceeding are balanced to consider affordability. That is why the overwhelming majority of the costs in this GRC are guided by SoCalGas's fundamental obligation to provide safe and reliable service.[67] An unsafe and unreliable system is inherently unaffordable. Throughout the evidence in this proceeding, and as discussed below, SoCalGas has emphasized and explained the benefits to safety and reliability in all of the proposed activities where safety and reliability are improved by the expected investment. This GRC includes requests related to clean energy as well. Although not all of them are directly related to safety or reliability, they advance the important role that SoCalGas's infrastructure – transmission, compression, distribution, and storage – must play in the affordability of the clean energy future.[68]

In order to help customers most impacted by affordability issues, SoCalGas has undertaken various efforts, both in and out of this GRC. Ms. Brown testified that SoCalGas actively seeks ways to be more efficient and "voluntarily removed from consideration in this GRC certain costs based on policy considerations including long-term incentive compensation and Sempra executive officer compensation costs."[69] Ms. Brown also explains SoCalGas's multiple efforts outside of this proceeding including, CARE, the Level Pay Plans (LPP), the Ways to Save tool, the Energy Savings Assistance Program, Arrearage Management Plans, the Percentage of Income Pilot Program (PIPP), and the GAF (Gas Assistance Fund) all can help customers reduce their bills and provide rate relief to customers who need it.[70] This year, "SoCalGas committed $11 million in shareholder funding to help customers with bill assistance and to support community resources that aid those struggling financially."[71] SoCalGas has also made a proposal in the Cost Allocation Proceeding to help prevent fluctuations in customers gas bills. All of these efforts should help make gas bills – typically a customer's lowest monthly bill[72] – more affordable for those customers

65 *See* Section 3 (Burden of Proof).

66 Tr. V4:808:6-10 (Brown).

67 D.19-09-051 at 20.

68 *See* Section 8 (Climate Policy and Sustainability Policy).

69 Ex. SCG-201 (Brown) at 4:10-12.

70 *Id.* at 2:1-13.

71 *Id.* at 3:8-10.

72 Tr. V4:812:13-14 (Brown).

most in need. Finally, in recognition of the confluence of market conditions and unprecedented high winter commodity prices that adversely affected customers' bills, through its recently-filed Year 29 GCIM Application, SoCalGas proposes to share a substantial portion of its Year 29 reward.[73] Specifically, SoCalGas has proposed to share $37.4 million of the $62.8 million it would be entitled to under the GCIM with core customers through procurement rates over the 2024-2025 period.[74] All of these efforts by SoCalGas help support affordability for customers.

6.1.2 Maintaining and Enhancing Reliability and Safety

The importance of safety and reliability to SoCalGas is evident throughout the requests in this GRC. Approximately 97% of capital and 56% of O&M expenditures requested in this GRC support safety, reliability, and maintenance measures.[75] The Gas Integrity Management Programs, Pipeline Safety Enhancement Plan, Gas Distribution, and Gas Transmission areas include important requests that are required to continue and enhance safety and also maintain compliance with state and federal regulations. SoCalGas's Integrity Management Programs are designed to meet federal and state requirements and reduce risk. Intervenors seem to recognize the importance of these critical programs, as the capital forecasts for TIMP and SIMP were not opposed by intervenors.[76] For the PSEP, this is the first GRC where the program has been fully incorporated into the GRC. The prudent management of the program, the costs of which have been almost entirely approved in past proceedings,[77] is demonstrated and supported by the ten volumes of supporting workpapers.[78] There is little opposition by intervenors to PSEP, with only two intervenors challenging the costs, primarily with disagreements about appropriate risk factor percentages and whether forecasts should be reduced based on numbers for 2022.[79] Gas Transmission and Gas Distribution include a number of costs necessary for the safe and reliable operation of the SoCalGas and SDG&E gas transmission systems. Notably, these areas include the

73 A.23-07-005, Application of Southern California Gas Company Regarding Year 29 (2022-2023) of its Gas Cost Incentive Mechanism, Application at 2-3.

74 *Id.*

75 Ex. SCG-01-2R (Brown) at 2:23-24.

76 *See* Section 15 (Gas Integrity Management Programs).

77 *See* Section 14 (Pipeline Safety Enhancement Plan).

78 Exs. SCG-08-WP (Kostelnik), SCG-08-CWP (Kostelnik), SCG-08-WP-S Vol. I-VIII (Kostelnik).

79 *See* Section 14.1 (Pipeline Safety Enhancement Plan).

finalization[80] of the Control Center Modernization (CCM), a "project [that] will integrate new and existing data points from the gas distribution system into Gas Control by enhancing distribution regulator stations with real-time monitoring and control capabilities, and by bringing near real-time electronic pressure monitoring (EPM) and meter data into the control room," allowing Gas Control to "serve as the single point of centralized coordination to monitor and manage data from over 9,800 new and existing field assets."[81] The project will allow automatic and fast identification of, response to, and remediation of potential leaks on the transmission system, 24 hours a day and seven days a week.[82]

Other requests support safety in various ways. Customer service is critical to safety. For example, SoCalGas's customer service field technicians perform services at customer premises, including meter work, establishing and terminating gas service, lighting gas pilot lights, conducting customer appliance checks, investigating reports of potential gas leaks, and more.[83] SoCalGas is focused on investing in cybersecurity. SoCalGas faces increased and ever-changing security threats that has the potential to impact operations, especially as attacks on energy infrastructure have increased.[84]

Overseeing and informing SoCalGas's safety activities is SoCalGas's Safety Management System (SMS). SoCalGas's SMS is a "framework that is designed to connect a multitude of safety activities, safety programs, safety policies, safety compliance plans, safety controls, and safety mitigations that have existed and have been evolving" since before 2015.[85]

The purpose of SMS "is to provide a framework that integrates and connects everything SoCalGas does when it comes to safety" thereby "improv[ing] overall safety performance."[86] SoCalGas also includes in its revenue request costs to continue improving and evolving its SMS.

Many of these investments in safety also support reliability. By regularly identifying, evaluating, and reducing integrity risks for the natural gas system, the Integrity Management

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80 *See* D.19-09-051 at 130-131 (approving the Distribution Operations Control Center, the predecessor to the CCM).

81 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell) (adopted by Chiapa, Hruby, Garcia) at Appendix D; Ex. SCG-04-R (Aguirre) (adopted by Walker and Quezada) at 98.

82 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell) at 85-86.

83 Ex. SCG-14-R (Rendler) at 1-3.

84 Ex. SCG-22-R (Mueller) at Appendix D (Cybersecurity Threat References).

85 Ex. 27-2R-E (Master) at 6:8-12.

86 *Id.* at 6:12-15.

Programs help minimize unexpected outages.[87] Gas Distribution includes capital improvements to maintain reliability, such as "pressure betterment projects [that] improve areas of low pressure, pipeline renewals to replace deteriorated pipelines or obsolete equipment, anode and rectifier installations and replacements of cathodic protection systems, and electronic monitoring device purchases for pressure tracking and monitoring,"[88] Gas Storage includes "continuous maintenance activities and ongoing investments on the wells, pipelines, and other storage facilities [to] support the withdrawal demands, [and] to meet customer demands," helping SoCalGas maintain energy reliability, even during the coldest periods.[89] These investments will help SoCalGas to continue providing the reliable service throughout the year that ratepayers expect.

6.1.3 Supporting Sustainability

Sustainability is a holistic and broad environmental, social, and governance strategy for the Company. It has five focus areas: (1) Accelerating the transition to clean energy; (2) Protecting the climate and improving air quality; (3) Increasing clean energy access and affordability; (4) Advancing a diverse, equitable, and inclusive culture; and (5) Achieving world-class safety.

Of particular emphasis in this GRC are the first two in this list, "accelerating the transition to clean energy" and "protecting the climate and improving air quality." SoCalGas is furthering the State's decarbonization efforts by focusing on providing a resilient backbone transmission and storage system that supports the clean energy transition – requests supporting this aspect of accelerating the transition to clean energy are throughout this GRC, and include transmission, integrity management, and storage related requests. SoCalGas also supports this goal through investments in renewable natural gas (RNG), which can provide near-term GHG reductions.[90] Costs proposed in this GRC related to RNG include four Senate Bill (SB) 1383 Dairy Farm pilots in the San Joaquin Valley,[91] support for RNG refueling stations,[92] and support for RNG interconnections.[93]

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87 Ex. SCG-09 (Kitson, Sera) at iv.

88 Ex. SCG-04-R-E (Aguirre) (adopted by Walker and Quezada) at 74.

89 Ex. SCG-10-R (Bittleston, Hruby) at 14:10-17.

90 Ex. SCG-01-2R (Brown) at 11:5-10.

91 Ex. SCG-08 (Kostelnik) at 67:6-76:12.

92 Ex. SCG-19-R-2E (Guy) at 35:15-37:13.

93 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell/Garcia) at 77-78.

Given the strong support by state and federal policymakers, and various government agencies,[94] SoCalGas also presents in this GRC a limited number of important requests aimed at systemwide decarbonization over the long term, such as those tied to hydrogen and carbon capture. Government support for hydrogen[95] and carbon capture[96] has been emphasized in recent years, and are considered essential for the state to meet its climate goals. The CPUC itself recently issued Resolution E-5254 (April 2023), "adopt[ing] a procedural venue for the electric and gas investor-owned utilities (IOUs) to request cost recovery for match funding" for federal programs aimed at "Regional Clean Hydrogen Hubs," "Carbon Capture Technology Program, Front-End Engineering Design for CO2 Transport," and "Regional Direct Air [Carbon] Capture (DAC) Hubs…."[97] This procedure explicitly states that SoCalGas… may request cost recovery through… General Rate Case applications…."[98]

The proposed hydrogen and carbon capture requests in this GRC will allow SoCalGas to take the next steps in partnering with California to meet the State's long-term climate goals. SoCalGas's Research Development and Demonstration (RD&D) program has had a long and successful history collaborating with businesses, universities, and government entities to foster new energy technologies.[99] In this GRC, SoCalGas requests minor increases for the program, but also is looking to take steps beyond RD&D with respect to clean energy technologies.

SoCalGas includes in its request funding costs for the Hydrogen Innovation Experience (H2IE). The H2IE is an "islanded microgrid that includes a home, solar arrays, a home battery, and an electrolyzer to convert solar energy into green hydrogen… [and] include[s] a fuel cell to convert the hydrogen back to electricity."[100] The H2IE serves as a "'living lab' microgrid setup,"

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94 *See* SCG-02-R Chapter 1 (Peress) (adopted by Niehaus) at 3-8; Ex. SCG-202-E (Niehaus, Arazi) at 2-7.

95 Ex. SCG-202-E (Niehaus, Arazi) at 8:22-23 (*citing* CARB, 2022 Scoping Plan for Achieving Carbon Neutrality (November 16, 2022) at 78, available at: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp.pdf).

96 *Id.* at 3:23-25 (*citing* CARB, *2022 Scoping Plan for Achieving Carbon Neutrality* (November 16, 2022), *available at*: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp.pdf.) ("Carbon capture and sequestration (CCS) will be a necessary tool to reduce GHG emissions and mitigate climate change while minimizing leakage and minimizing emissions where no technological alternatives may exist.")

97 Res. E-5254 at 1, 4.

98 *Id.* at OP 4.

99 Ex. SCG-12-R (Infanzon) at 44:4-47:8, 48:28-49:24.

100 *Id.* at 56:3-6.

allowing for research and testing that will "inform the viability assessments and to further innovate and adopt future hydrogen technologies at scale."[101] The H2IE is not only a first of its kind, it has been named one of Fast Company's 2021 World-Changing Ideas because of its impact on climate goals, design, scalability, and ingenuity in innovation,[102] and lauded by Lieutenant Governor Kounalakis as an "Innovative project[]" that "demonstrate[s] how California is leading the clean energy transition…."[103]

SoCalGas is also including costs for Carbon Capture Utilization and Sequestration (CCUS) Front End Engineering and Design (FEED) Study Program. The CCUS FEED Study Program is intended to identify a Carbon Dioxide (CO2) pipeline route in Southern California following existing pipeline corridors to help optimize project development and reduce environmental disturbance and siting concerns while connecting CO2 sources to a potential CO2 storage sink.[104] Just before this filing, the Department of Energy selected for funding the California Direct Air Capture Hub Front-End Engineering Design and Planning project that SoCalGas is a member of.[105] These costs support the first steps for SoCalGas, with its "extensive experience in engineering, constructing, operating, inspecting, safety, and maintaining pipelines in the backcountry and urban settings," to "play a key role in the development of a region-critical CO2 pipeline network that would benefit ratepayers and the state by… reducing emissions from the hard to electrify economic sectors in the LA Basin, and creating new jobs and economic benefits."[106] Costs for this program should be approved to allow SoCalGas to help accelerate the clean energy transition.

SoCalGas is proposing several other clean energy activities in this GRC.[107] Hydrogen fuel cell vehicles to eliminate emissions for SoCalGas's fleet,[108] a hydrogen refueling station to support

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101 *Id.* at 58:6-14, 57:11-21.

102 *Id.* at 57:3-7.

103 Ex. SCG-212 (Infanzon) at 12:20-24.

104 Ex. SCG-12-R (Infanzon) at 22:3-12.

105 *See* Department of Energy, *Project Selections for FOA 2735: Regional Direct Air Capture Hubs – Topic Area 1 (Feasibility) and Topic Area 2 (Design), available at* https://www.energy.gov/fecm/project-selections-foa-2735-regional-direct-air-capture-hubs-topic-area-1-feasibility-and). SoCalGas seeks official notice of the project selection pursuant to Rule 13.10 and Evidence Code 452(c) as it constitutes an "official act of the legislative, executive, and judicial departments of the United States and of any state of the United States."

106 *Id*. at 25:8-13.

107 *See* Ex. SCG-322/SDGE&E-320.

108 *See* Ex. SCG-18-R-E (Franco) at 6-7.

the fleet and public hydrogen vehicles,[109] and educational support for customers interested in distributed energy resources[110] or hydrogen fuel cell or renewable natural gas vehicles.[111] Helping oversee and support these many projects are different groups within the Clean Energy Innovations group. These will help "identify[], analyz[e], select[], and prioritize[e] clean energy and decarbonization initiatives and projects,"[112] "assess … current infrastructure, processes and standards for operational readiness, and identify[] gaps in technological, material, operational, safety, workforce, and training standards,"[113] and a Clean Energy Innovations Project Management Office (PMO) to oversee the processes for any projects through "develop[ment] and implement[ation of] project controls including scope, schedule, financials, risk analysis, and change management…."[114] These groups are necessary to efficiently manage clean energy projects at SoCalGas to accelerate the transition to the clean energy future and to protect the climate and improve air quality.

The third sustainability focus, increasing clean energy access and affordability, is also furthered by these clean energy proposals. Opening a hydrogen refueling station, maintaining renewable natural gas stations, and providing educational information on low and zero emission vehicles increases clean energy access to the public. Interconnection and support services make RNG more available to customers and increases the amount of RNG on the gas system. More broadly, clean fuels like hydrogen and carbon capture will help the state achieve its climate goals more affordably than through 100% electrification.[115] SoCalGas's requests through this GRC move the Company toward this more affordable clean energy future.

SoCalGas's requests in this GRC also support advancing a diverse, equitable, and inclusive culture. Funding for Employee Resource Groups (ERGs), Diversity, Equity, and Inclusion (DEI) training, and increasing data and analytics capabilities for reporting on DEI related metrics.[116] SoCalGas fosters DEI through its Supply Management, Logistics, and Supplier Diversity group as

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109 Ex. SCG-19-R-2E (Guy) at 37:14-38:17.

110 SCG-12-R (Infanzon) at 6-7 (Clean Fuels Power Generation Function).

111 *Id.* at 7 (Clean Fuels Transportation Program).

112 *Id.* at 5-6 (Business Development Function).

113 *Id.* at 7 (Clean Fuels Operational Readiness Program).

114 *Id.* at 8 (Clean Energy Innovations Project Management Office).

115 *See* Ex. SCG-02-R (Peress/Niehaus, Sim (adopted by Arazi)) at Appendix C (The Role of Clean Fuels and Gas Infrastructure in Achieving Net Zero Climate Goals.

116 Ex. SCG-28-R-E (Nishimoto) at 27:27-28:21.

well. SoCalGas has exceeded the CPUC's requirements for supplier diversity for approximately three decades, and has more than doubled the CPUC's target for the last 10 years (reaching over 40% of spend on diverse businesses).[117] Even intervenors have recognized SoCalGas's exceptional performance in this area, with Community Legal Services "acknowledg[ing] SoCalGas's efforts and accomplishments in their Supplier Diversity [] program…."[118]

SoCalGas's final sustainability focus is to achieve world-class safety. As explained above, safety related activities permeate the requests in this GRC.

6.1.4 Promoting Innovation and Technology

Investments in Innovation and Technology help keep SoCalGas current from a technological perspective. As described above, some investments will help the Company evolve in the clean energy space. Others help SoCalGas improve the safety and reliability of the system. The CCM, discussed above, will provide a wealth of information in real-time across SoCalGas's system which will improve early detection of leaks or issues on gas system.

Other investments go directly to SoCalGas's IT systems. SoCalGas requests funding to continue converting its IT capabilities to Cloud-based solutions, with a target of 50% of SoCalGas's applications to be Cloud-based by 2024. SoCalGas also intends to replace its Customer Information System (CIS) that is nearly obsolete with a new, CIS platform. The new CIS will move all customer data to one consolidated location, support deployment of new features and functions, and allow for faster and more cost-effective implementation of mandated changes.[119] SoCalGas is also making critical investments in Cybersecurity. As mentioned above,

"Cybersecurity threats have continued to evolve, increase, and become more complex and impactful year over year. Adversaries continue to use an evolving and increasingly more sophisticated set of tools and strategies to conduct attacks on the energy sector."[120] To protect SoCalGas's operations and also customer information, these investments are necessary.

6.1.5 Developing Our Workforce

SoCalGas seeks to continue developing its workforce through activities proposed in this GRC. The SMS group in particular oversees various safety related trainings, including "Causal

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117 Ex. SCG-17 (Chow) at 15:21-26.

118 Ex. CLS-01 (Gondai) at 22.

119 Ex. SCG-13 (Goldman) at 1:11-17.

120 Ex. SCG-22-R (Mueller) at 13:17-21.

Analysis Training for pipeline safety incidents," "Lessons Learned / Effectiveness Reviews," driver safety, contractor SMS awareness, and other trainings that educate employees and contractors about SMS and safety best practices. Other areas, like the Employee Development group, "uses a variety of learning and development methodologies and technologies to provide programs specific to leadership development, employee development, individual effectiveness, and employee coaching," all to develop the workforce to be more effective down to the individual employee level.[121] Developing and maintaining a skilled, qualified, dedicated and diverse workforce is critical to SoCalGas's continued success.[122]

Developing SoCalGas's workforce includes attracting talent in order for SoCalGas to meet its operational needs. SoCalGas has proposed a headcount in this GRC that is reasonable and needed for the activities SoCalGas proposes in this proceeding. The headcount increase for this GRC was created from a bottoms-up calculation from these activities. Driving this increase are additional employee needs for safety and reliability, clean energy, increasing scope and complexity of pipeline projects, and developing a workforce and operations that are less reliant on contractors. Although Cal Advocates disagrees with SoCalGas's overall headcount, any reduction should be based on an analysis of individual FTE proposals within various witness areas – not a blanket opposition to the well-founded, reasonable proposals presented by SoCalGas.[123]

6.1.6 Conclusion

SoCalGas's GRC requests balance the needs for safety and reliability, sustainability, innovation and technology, developing its workforce, and affordability. These investments will help SoCalGas continue providing safe and reliable service to ratepayers while moving, with the State, toward the clean energy future, to the benefit of all ratepayers.

6.2 SDG&E

SDG&E's GRC proposals are predicated upon making its system safer such as with wildfire mitigation, more reliable and resilient in a changing climate, and making the necessary changes to decarbonize the system to reach net-zero by 2045 in the most cost-effective manner possible. SDG&E cannot afford to focus upon one issue. Instead, SDG&E considered a myriad of sometimes conflicting pressures. SDG&E's GRC application here balances all these interests by

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121 Ex. SCG-28-R-E (Nishimoto) at 23:5-24.

122 Ex. SCG-201 (Brown) at 6:18-24.

123 *Id*. at 6:25-7:28.

focusing on safety, reliability, resiliency and affordability, with safety taking a primary role—while keeping the Company's combined gas and electric proposals within the six percent energy burden metrics (percent of income) threshold cited by TURN.[124]

SDG&E's application also takes a long-term view, rather than only focusing on short term needs or recent trends. Critical investments now will support a cleaner, more dynamic green economy that allows SDG&E to meet the evolving needs of its customers. SDG&E seeks "to deploy ratepayer dollars in the most effective manner to reduce risk"[125]—with investments now offering more value than ever due to the greater reliance on the grid going forward with decarbonization[126]—and the urgent need to meet California state policies, such as reaching net-zero Greenhouse Gas (GHG) emissions by 2045.[127]

These needed additional investments for electrification also provide economic benefits for customers, as discussed in a recent Commission's staff white paper (White Paper) regarding "'high electrification scenarios.'"[128] That White Paper similarly anticipates that the need for energy services will increase with electrification,[129] with expectations that the volume of electricity sold will nearly double by 2045.[130] The investments proposed here are thus critical to meeting both short and long-term safety, reliability, and electrification goals.

6.2.1 SDG&E's GRC Proposals Support Safe Operations, Reliability, and Grid Modernization to Reach Net-Zero

Safety is SDG&E's most important value. No activity implicates safety more than wildfire prevention and mitigation.[131] SDG&E is routinely recognized as a wildfire mitigation leader. Its proposals here both further support the Company's efforts to reduce wildfire risks and Public

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124 Ex. SDG&E-201 (Folkmann) at 6 (citation omitted).

125 Tr. V4:865:9-11 (Folkmann).

126 Ex. SDG&E-01-R (Folkmann) at 9.

127 Ex. SDG&E-201 (Folkmann) at 1.

128 Ex. SDG&E-201 (Folkmann) at 6 (quoting White Paper at 87).

129 Ex. SDG&E-201 (Folkmann at 1) (citing CPUC Staff White Paper on Affordability, at 69, n.144 ("The CEC's 2019 IEPR forecasts CAISO-wide electric sales due to electrification growing from 7.8 TWh in 2023 to 14.6 TWh in 2030"), available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2021/senate-bill-695-report-2021-and-en-banc-whitepaper_final_04302021.pdf).

130 Tr. V4:903:1-4 (Folkmann).

131 *Id.* at 2.

Safety Power Shutoff (PSPS) events[132]—including hardening approximately 590 miles with covered conductor and undergrounding, and investing in its weather network, situational awareness, and risk modeling.[133] Using its risk modeling system and subject matter expertise, SDG&E's undergrounding proposals reasonably balance the need to mitigate the risk of utility-caused wildfire and reduce the impacts of PSPS events with the cost impact on customers.[134] Contrary to TURN's suggestion, the Commission should account for long-term PSPS reduction in conjunction with wildfire mitigation and approve SDG&E's risk-based approach to strategic undergrounding and covered conductor.[135]

SDG&E has similarly long been recognized as an industry leader for reliability.[136] Supporting reliability is now more important than ever. As the Commission has recognized, there is an expanding need for increased investments "'in wildfire mitigation measures, clean energy resources and electric system reliability enhancements,'"[137] given anticipated increases in building electrification, electric vehicles, and other clean energy solutions.[138]

SDG&E's GRC proposals similarly support safety and reliability in the ongoing use of its natural gas system. Certain parties argue that gas demand is declining and assert that SDG&E's gas infrastructure requests should be reduced.[139] Yet although gas volumes continue to decline, that does not mean that there has been a decline in customer growth—with customer growth being

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132 *Id*.

133 *Id.* at 10.

134 *Id.* at 16, 21.

135 *See* Ex. TURN-08-E (Borden) at 26 ("widespread undergrounding is not a viable mitigation measure, particularly for residential ratepayers, due to its high costs compared to the relatively low value of avoiding a PSPS event.") (citation omitted).

136 Ex. SDG&E-01-R (Folkmann) at 3.

137 Ex. SDG&E-201 (Folkmann) at 5-6 (quoting 2022 Senate Bill 695 Report (May 2022) at 78), available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2022-sb-695-report.pdf.

138 *Id.* at 6 (citing SB 100 CPUC, CEC, and CAISO Joint Agency Report (March 15, 2021) (Joint Agency Report) at 125 ("Meeting the SB 100 2045 target" of 100 percent of electricity retail sales and state loads from renewable and zero-carbon resources in California "will likely require substantial new investments in the electric system"), available at https://www.energy.ca.gov/publications/2021/2021-sb-100-joint-agency-report-achieving-100-percent-clean-electricity.

139 *See* Ex. EDF-01 (McCann/Seong) at 20; Ex. UCAN (Woychik) at 323-224; Ex. SBUA (McCann/Moss) at 6.

more relevant to SDG&E's GRC request.[140] Nor is there evidence to support SBUA's assertion that "customer growth will largely disappear" by 2024.[141] Instead, SDG&E's forecast is reasonable for the relevant period for this proceeding.[142] Continued investment in the gas system is critical as customers continue to depend on the service.[143]

SDG&E's application also ensures resiliency. Resiliency extends beyond the traditional concept of reliability, ensuring that SDG&E can prevent, withstand, adapt to, and quickly recover from challenges. SDG&E must maintain resiliency to meet challenges such as climate change, higher levels of renewable energy sources, the use of new technologies, and unexpected events such as the COVID-19 pandemic.[144]

And, as noted above, SDG&E's GRC application supports SDG&E's path to net zero by 2045, consistent with California's mandates—including through the Company's 10-year grid modernization plan proposal.[145] SDG&E's path to net zero is a reasonable representation of the steps necessary for decarbonization—given the policy requirements and decisions made in California—and is the most cost-effective way to achieve those goals.[146] As reflected in SDG&E's GRC application, that plan reflects a diverse approach to achieve 2045 net-zero by leveraging clean electricity, clean fuels, and carbon removal—including by quickly transitioning to zero-emission vehicles (as the transportation sector is the largest source of GHG emissions in California).[147]

SDG&E's plan is premised on SDG&E as the operator, planner, and integrator for the system, in conjunction with supporting adoption of Distributed Energy Resources (DER).[148] SDG&E anticipates a five percent annual growth in DERs between now and 2045.[149] Yet a DER-

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140 Tr. V4:824:17-21 (Folkmann); SDG&E-01-R (Folkmann) at 9. *See* Tr. V4:825:3-10 (Folkmann) ("Gas volumes in general have been declining, you know, for residential usage for quite a long time as appliances have become more efficient . . . . So a particular decline in a decoupled environment that we have here in California, may or may not be material.").

141 Ex. SBUA (McCann/Moss) at 5-6.

142 Ex. SDG&E-01-R (Folkmann) at 23.

143 *Id.* at 9.

144 *Id.* at 4.

145 *Id.* at 22.

146 Tr. V4:859:2-10; 838:2-5; 860:19-21; 861:16-18 (Folkmann).

147 Ex. SDG&E-01-R (Folkmann) at 6.

148 *Id.* at 22.

149 Tr. V4:905:18-24 (Folkmann).

only approach as advocated by UCAN and PCF[150] cannot realistically support decarbonization's significantly expanded electric end uses, which results in, as noted, an expected nearly 100% growth in electricity volumes sold under SDG&E's Path to Net Zero.[151]

Moreover, the record in this GRC does not show how DERs could support the entire grid, including meeting industrial, commercial, and multi-unit residential needs. Nor is there an explanation for how all customers would be able to afford such an approach.[152] Notably, the Commission, CEC, and CAISO found that DERs can help support the state's decarbonization goals, but that '"[m]eeting the 100 percent clean electricity target will likely require substantial new investments in the electric system.'"[153]

6.2.2 SDG&E's GRC Proposals Advance These Critical Goals While Balancing Affordability

In meeting the goals of safety, reliability, and decarbonization with its GRC application, "affordability was a top consideration."[154] As described in Bruce Folkmann's rebuttal testimony, SDG&E is committed to keeping rates affordable via reasonable proposals both within and outside the GRC.[155] SDG&E has pursued numerous rate affordability initiatives, including:

- Pursuing rate reform in response to AB 205 to stabilize and lower energy bills;[156]
- Supporting AB 982, which would require state-mandated social programs (also known as public purpose programs) to be paid through the state's general fund—rather than through customers' electric bills—and AB 1513, which would spread wildfire safety improvement costs over a longer period;[157] and
- Applying for up to $100 million in federal funds through the United States Department of Energy's Grid Resilience and Innovation Partnerships Grant program under the Infrastructure Investment and Jobs Act, which, if awarded,

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150 Ex. UCAN (Woychik) at 6; Ex. PCF-01 (Powers) at 2.

151 *Id.* at 18; Tr. V4:902:7-9 (Folkmann); Ex. SDG&E-201 (Folkmann) at 10-11.

152 2022 Senate Bill 695 Report at 16 (finding that high-income customers are more likely to adopt DERs).

153 Ex. SDG&E-201 (Folkmann) at 11 (citing SB 100 Joint Agency Report at 18).

154 Tr. V4:771:20-21; 775:18-20 (Folkmann).

155 Ex. SDG&E-201 (Folkmann) at 3-6.

156 *Id.* at 2 (citing R.22-07-005).

157 *Id.*

> would help offset the costs of wildfire hardening efforts on and around federally recognized Tribal Nations' land.[158]

SDG&E also promotes a culture of efficiency, which can "generate savings or capacity for additional work."[159] This can be evidenced through SDG&E being able to procure wildfire insurance at competitive rates due to its wildfire mitigation efforts, and SDG&E's reduced strategic undergrounding costs through using smaller conductor and not burying lines as deeply.[160]

And SDG&E has similarly taken steps in this GRC to support affordability. As noted, affordability was considered throughout the GRC application. In addition to removing compensation associated with certain officers in compliance with Public Utilities Code Section 706, SDG&E also voluntarily removed from its GRC request long-term incentive compensation costs for employees not covered by Section 706[161] and Sempra executive officer compensation costs. And SDG&E proposes keeping its common and electric plant depreciation levels constant throughout this GRC cycle[162] Notably, Cal Advocates supports SDG&E's common and electric plant depreciation proposal.[163]

SDG&E's application is thus a balance between maintaining safe and reliable service (such as wildfire mitigation), supporting California policies through decarbonization, mitigating risk, and maintaining affordability.[164] As noted, SDG&E's combined gas and electric proposals result in energy burden metrics (percent of income) in-line with the six percent threshold cited by TURN,[165] resulting in about a $9 increase for electric or gas residential customers.[166]

The Commission should reject TURN's "inflation-constrained" alternative,[167] SBUA "zero-based method,"[168] or other proposals that would limit the Commission's ratemaking

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158 *Id.* at 2-3.

159 Tr. V4:804:12-13 (Folkmann).

160 *Id.* at 867:2-3.

161 *See id.* at 904:22-25.

162 *Id.* at 901:6-8

163 Ex. SDG&E-201 (Folkmann) at 4 (citing CA-17 (Ayanruoh) at 30).

164 Ex. SDG&E-01-R (Folkmann) at 1; Tr. V4:785:4-16 (Folkmann).

165 Ex. SDG&E-201 (Folkmann) at 6 (citation omitted).

166 Ex. SDG&E-01-R (Folkmann) at 13-14.

167 Ex. TURN-02 (Dowdell) at 24.

168 Ex. SBUA (McCann/Moss) at 12-13.

authority.[169] The Commission has constitutional and statutory authority to ensure that all charges are just and reasonable.[170] As SBUA itself recognizes,[171] the Commission likewise already has a duty to make decisions on GRC applications "'based on evidence in the record.'"[172] A proposal cannot be deemed affordable or not based simply on a ratio.[173]

Similarly, UCAN's overstated reference to a "death spiral" regarding expanding rate base falsely assumes that the population base in SDG&E's service territory will remain stagnant or decline[174]—instead of the reality of a growing population utilizing higher volumes of electricity to achieve decarbonization. For example, electrification should create a new value proposition for electric service.[175] Because customers will purchase less supplies of other sources of energy, particularly gasoline, a customer's whole energy burden in real dollars goes down even if their utility bill grows.[176]

In other words, the energy network becomes more valuable as electricity plays a larger role in transportation fuel and heating needs.[177] And certain value propositions—such as the reduction in wildfire risk through wildfire safety mitigations—cannot be measured in immediate dollars but must also be considered in terms of costs avoided. The Commission can already determine whether rates are just and reasonable by considering economic conditions such as inflation in conjunction with critical legal requirements and policy goals such as wildfire mitigation and electrification.[178] There is no reason to impose further limitations on the Commission's ratemaking authority that would prevent the Commission from considering a GRC application holistically.

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169 Ex. SDG&E-201 (Folkmann) at 8-9.

170 D.20-01-002 at 12 (the "Commission's role is not to merely pass utility cost estimates on to ratepayers, but rather to independently determine the just and reasonable level of costs necessary for the utility to meet its obligation.").

171 Ex. SBUA (McCann/Moss) at 12.

172 D.20-01-002 at 22 (quoting Pub. Utils. Code § 1701.3(j)).

173 Tr. V4:786:14-16; 902:21-22 (Folkmann).

174 Ex. UCAN (Woychik) at 5-6.

175 Tr. V4:903:1-4 (Folkmann).

176 *Id.* at 903:9-20.

177 Ex. SDG&E-01 (Folkmann) at 17.

178 D.20-01-002. at 11 ("it is up to the Commission to maintain the balance in outcomes between customers and shareholders.").

Similarly, the Commission has repeatedly recognized that SDG&E and other utilities need the flexibility to make prudent investments. For example, FEA contests SDG&E's electric distribution request on the basis that SDG&E underspent on electric distribution in 2017-2021, arguing that SDG&E's test year 2024 forecasted electric distribution capital expenditure should be based on an average of SDG&E's actual capital spending from 2017 - 2021.[179] Cal Advocates similarly argues that SDG&E's fleet vehicle and real estate spending forecasts should be rejected based on recent historical underspend.[180] And TURN relatedly asserts that 2022 data should be included to forecast costs.[181]

But FEA and others' arguments misunderstand (or attempt to alter) the Commission's longstanding *forecasted* ratemaking process, which is based on the best information about expected *future* events combined with historical trends.[182] The Commission does not generally authorize rates based upon actual historical costs—or penalize a utility when it spends less money in an area than forecasted. Nor does the Commission utilize formula ratemaking based upon actual costs.

In fact, the "Commission has always acknowledged that utilities may need to reprioritize spending between GRCs."[183] This allows a utility to respond to "rapidly unfolding events such as the catastrophic wildfires in 2007, 2017, 2018, and now, 2019," that require a utility to "quickly re-direct[] Commission-authorized GRC funding from its originally intended purpose to a wholly different purpose."[184] And other risks may emerge during the GRC cycle, for example, increased cyber threats, which may result in the reallocation of necessary funding. Moreover, over 85% of SDG&E's proposed capital expenditures would be subject to Risk Spending Accountability Reporting (RSAR), allowing interested parties to review SDG&E's actual spending choices.

The need to repurpose funding from one area to another is precisely applicable to the electric distribution capital authorization cited by FEA.[185] That is, in SDG&E's last GRC, wildfire mitigation was not even recognized as a separate issue from electric distribution—a situation that

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179 Ex. FEA-01 (Smith) at 9.

180 Ex. CA-11 (Waterworth) at 25-26, 47.

181 Ex. TURN-06 (Monsen) at 16-17.

182 *See* D.20-01-002 at 8.

183 *Id.* at 38; *accord id.* at 33, 36.

184 *Id.* at 35.

185 *See* Ex. SDG&E-01-R (Folkmann) at 16 (describing SDG&E's extensive wildfire mitigation efforts since 2019).

has self-evidently drastically changed with recent wildfires and the passage of SB 901 and AB 1054.

Similarly, SDG&E's fleet distribution request in this GRC is driven, in part, by the evolving transportation need to increase the portion of SDG&E's fleet that are zero-emission vehicles.[186] Reliance on reductions in funding in this GRC based on historical underspending misunderstands the needs for the future. It also fails to account for areas where spending over authorized was needed in recent years, such as in gas distribution.[187]

Such flexibility allows SDG&E to operate efficiently, succeed with its wildfire mitigation, reliability, decarbonization and other critical efforts, and is consistent with the Commission's longtime model for utility ratemaking. The Commission sets rates consistent with the longstanding principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities' rate base."[188] SDG&E's ability to offer an attractive investment opportunity (rate of return) enables it to invest in wildfire mitigation, electrification, and other benefits to customers.

TURN contention that SDG&E has regularly over-earned its ROE is flawed and not relevant here.[189] SDG&E's ROE and rate of return are determined in the Cost of Capital proceeding, which is outside the scope of this proceeding. Moreover, TURN's calculations are incorrect. TURN acknowledges that its calculations for SDG&E's earned ROE includes SDG&E's FERC jurisdictional earnings based upon SDG&E's FERC ROE. By using all of SDG&E's data, including FERC jurisdictional information, TURN's analysis cannot inform the requests put forth in this GRC because those calculations do not provide an apples-to-apples comparison with SDG&E's CPUC-jurisdictional earnings on SDG&E's CPUC authorized ROE.[190] Regardless, SDG&E's ability to succeed by prudent management and efficient operations is an underlying premise of the Commission's ratemaking model and allows SDG&E to invest in its

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186 *Id.* at 28.

187 *See* SDG&E-201 (Folkmann) at 7-8.

188 D.03-02-035 at 6; *see also* D.14-08-011 at 31 ("'[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]"' (citation omitted)).

189 Ex. TURN-02-3R (Dowdell) at 2-3.

190 *See* SDG&E-319 at PDF p. 7 (acknowledging that there is no indication that the data TURN relied upon is limited to CPUC-jurisdictional rate base).

system.[191] SDG&E is not guaranteed a return. Instead, it only has the opportunity to earn a fair return on its investment through prudent management and efficient operations.

SDG&E is proposing additional personnel to support the many projects and programs and increasing regulatory requirements. As explained in the Alexandra Taylor's rebuttal testimony (Exhibit SDG&E-232) and Debbie Robinson's revised direct testimony (Exhibit SCG-25-R/SDG&E-29-R), developing and maintaining a skilled, qualified, dedicated, and diverse workforce is critical to SDG&E's continued success.[192]

Cal Advocates disagrees with SDG&E's requested headcount and recommends instead an average annual labor inflation rate for SDG&E of 1.5%.[193] Ms. Taylor explains why Cal Advocates' calculations and assumptions are incorrect, and demonstrates that, after accounting for an anomalous growth period from 2017 to 2018, SDG&E's average year-over-year historical growth rate for 2018 - 2021 is slightly above 4% per year.[194] Because it is aligned with historical headcount growth of around 4% per year and supports SDG&E's planned workforce growth given the anticipated projects and programs in this GRC cycle, SDG&E's headcount forecast is reasonable.

In sum, SDG&E's GRC requests balance the need for continued investment in its infrastructure and operations, supports critical goals such as electrification and wildfire mitigation, and mitigates rate impacts. These investments will have long-term benefits, supporting a cleaner, dynamic economy and environment where the benefits of electrification are spread to all customers.

7. Affordability and Customer Impacts/Alternatives

Both SDG&E and SoCalGas structured their TY 2024 GRC Application requests to reflect an appropriate balance of each Company's foundational work and the urgent need to act on the State's imperatives, such as net-zero emissions. Affordability was a key consideration in developing these requests,[195] and SDG&E and SoCalGas care about affordability for customers.

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191 *See* D.22-12-031 at 15 ("That return should also be reasonably sufficient to ensure confidence in the financial soundness of the utility and adequate, under efficient management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its duties.").

192 *See* Ex. SDG&E-01-R (Folkmann) at 29-30

193 Ex. CA-13 (Emerson) at 7.

194 Ex. SDG&E-232 (Taylor) at 7-8.

195 Ex. SDG&E-01-R (Folkmann) at 14-15; Ex. SCG-01-2R (Brown) at 1; Tr. V4:771:20-21 (Folkmann) ("Affordability was a top consideration").

The Commission has noted challenges in balancing affordability concerns in the context of other primary utility concerns, such as safety, risk mitigation and reliability, in the TY 2019 GRC decision:

> While affordability is of great concern, this must be balanced with other primary concerns such as safety and risk mitigation, and reliability.
> We must also consider that utilities should be allowed to earn a fair return on their investment. In reviewing each request, be it O&M or capital related, only necessary projects and reasonable costs are being authorized and so certain expenses and projects were disallowed taking into account various facts, positions, and recommendations raised by various intervenors and also from our own review. We find this approach to be consistent with Public Utilities Code section 451 which requires utilities to provide safe and reliable service at just and reasonable rates.[196]

Thus, in considering affordability, the Commission must continue its longstanding practice of setting "just and reasonable"[197] rates based on the well-established principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities' rate base."[198] The Commission must also continue to address a utility's primary operational concerns, such as safety, risk mitigation, and reliability. It is through this approach that SDG&E and SoCalGas's requests in this GRC should be considered.

7.1 SoCalGas Affordability and Customer Impacts

Maintaining affordability while making the investments SoCalGas needs to make to meet SoCalGas's goals is a delicate balance. As explained by Ms. Brown:

> [SoCalGas] g[a]ve direction to develop a revenue requirement request that balanced the need of [] enhancing and maintaining the reliability and resilience of our system simultaneously with supporting the system's support of the clean energy transition. All of that was with a view of seeking for that request to be determined to be just and reasonable by the Commission, and I think affordability -- just and reasonable rates by the Commission, and I think affordability is a part of that.[199]

This balance is further complicated by the fact that different customers have different perspectives on affordability.[200]

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196 D.19-09-051 at 714-715.

197 *See* Cal. Pub. Util. Code § 451.

198 D.03-02-035 at 6; *see also* D.14-08-011, at 31 ("[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]").

199 Tr. V4:808:1-10 (Brown).

200 Tr. V4:888:17-889:9 (Brown).

To help advance affordability for customers, SoCalGas has undertaken various efforts, in and out of this GRC. SoCalGas has "voluntarily removed from consideration in this GRC certain costs based on policy considerations including long-term incentive compensation and Sempra executive officer compensation costs."[201] Ms. Brown outlined in testimony many programs that help customers with their bills:

The California Alternate Rates for Energy (CARE) program provides a 20% discount on the gas bill for qualifying households; the Level Pay Plan (LPP), averages annual natural gas use and costs over 12 months; the Ways to Save tool can help customers with energy savings options through a personalized savings plan; the Energy Savings Assistance Program provides home improvements to qualifying customers to help reduce their gas bills; Arrearage Management Plans can further help CARE customers who are behind on their bills; and the percentage of income pilot program (PIPP) caps a customer's utility bill at a percentage of monthly household income. The GAF (Gas Assistance Fund) provides a one-time grant to customers who are experiencing financial hardship and the Medical Baseline Program provides additional gas usage at the lowest rate for customers with qualifying medical conditions.[202]

SoCalGas has also made proposals in the Cost Allocation Proceeding to help with affordability.[203] SoCalGas proposed an enhanced two-tier, income-based residential fixed charge, which would phase in a fixed charge to level costs across customers as customers eventually shift away from gas in the long-term and reduce month-to-month bill volatility by decreasing winter bills and collecting more transportation-related revenue in the non-winter months.[204] SoCalGas has also engaged in substantial efforts to defray costs for customers during rate spikes. "SoCalGas committed $11 million in shareholder funding to help customers with bill assistance and to support community resources that aid those struggling financially"[205] during the unprecedented 2022-2023 winter. This was done through various programs at SoCalGas and through partnering with United Way.[206] In addition, in recognition of the confluence of market conditions and unprecedented high winter commodity prices that adversely affected customers' bills, through its recently-filed Year

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201 Ex. SCG-201 (Brown) at 4.

202 Ex. SCG-201 (Brown) at 2-3.

203 *Id*.

204 *Id*.

205 *Id.* at 3.

206 *Id*.

29 GCIM Application, SoCalGas proposes to share $37.4 million of the $62.8 million SoCalGas would be entitled to under the GCIM.[207]

In the long term, SoCalGas's system will be important for keeping energy costs affordable in the clean energy future. As discussed elsewhere in this Opening Brief,[208] investments today in the backbone gas transmission and storage systems will help affordability and resiliency of energy in the State in the future, while new technologies will present opportunities for energy diversification and affordability that use those systems. Thus, SoCalGas's system will not just help affordability today, but in the clean energy future.

Affordability is further demonstrated by the affordability metrics presented by SoCalGas in this proceeding. On November 18, 2022, SoCalGas served the supplemental direct testimony of Sharim Chaudhury providing required customer affordability metrics associated with both current revenues in effect and the annual revenue requirement requested.[209] These metrics are discussed further in Section 47 (Affordability Metrics).

In addition, SoCalGas served the supplemental direct testimony of Bernardita Sides, providing SoCalGas's requisite assessment of whether and how the proposed increase in rates may impact customer disconnections for non-payment.[210] This disconnection assessment determined that during this GRC period, SoCalGas's proposed increase in rates will have little to no impact on disconnections because SoCalGas is following the required disconnection cap mandated by D.20-06-003.[211]

Finally, SoCalGas reiterates the points below by SDG&E with respect to alternative rate proposals. SoCalGas's proposals in this GRC strike the needed balance between affordability through just and reasonable rates and what SoCalGas needs to do to provide safe and reliable service that is in line with the State's goals.[212]

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207 A.23-07-005, Application of Southern California Gas Company Regarding Year 29 (2022-2023) of its Gas Cost Incentive Mechanism, Application at 2-3.

208 *See* Sections 6 (Policy Overview) and 8 (Climate Policy and Sustainability Policy).

209 Ex. SCG-43-S (Chaudhury/Foster).

210 Ex. SCG-15-S (Sides).

211 *Id.* at 1:12-16.

212 *See* Section 6 (Policy Overview).

7.2 SDG&E Affordability and Customer Impacts

"[A]ffordability was a top consideration" for SDG&E in preparing its GRC application.[213] SDG&E repeatedly considered the reasonableness of its proposal in the aggregate.[214] As described in Bruce Folkmann's rebuttal testimony, SDG&E is committed to keeping rates affordable both within and outside the GRC.[215] SDG&E has pursued numerous rate affordability initiatives outside of this proceeding, including:

- Pursuing rate reform in response to AB 205 to stabilize and lower energy bills by providing financial relief for low-to-moderate income customers with an estimated savings of up to $300 per year for the average lowest income customer;[216]
- Advocating for state legislation to reduce ratepayer impacts, such as supporting AB 982, which would require state-mandated social programs (also known as public purpose programs) to be paid through the state's general fund—rather than through customers' electric bills—and AB 1513, which would spread wildfire safety improvement costs over a longer period;[217] and
- Pursuing federal assistance for customers, including applying for up to $100 million in federal funds through the United States Department of Energy's Grid Resilience and Innovation Partnerships Grant program under the Infrastructure Investment and Jobs Act, which, would help offset the costs of wildfire hardening efforts on and around federally recognized Tribal Nations' land, and seeking federal investment tax credits for its utility-owned clean energy storage projects under the IRA that will be passed on to ratepayers, lowering the costs of energy storage projects.[218]

SDG&E also promotes a culture of efficiency, which "generate savings or capacity for additional work."[219] For instance, SDG&E established a business optimization group to maximize efficiency company-wide.[220] SDG&E has been able to procure wildfire insurance at competitive

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213 Tr. V4:771:20-21; 775:18-20 (Folkmann).
214 Tr. V4:775:18-20 (Folkmann).
215 Ex. SDG&E-201 (Folkmann) at 3-6.
216 *Id.* at 2 (*citing* R.22-07-005).
217 *Id.* at 2.
218 *Id.*
219 Tr. V4:804:12-13 (Folkmann).
220 Ex. SDG&E-01-R (Folkmann) at 14-15.

rates due to its wildfire mitigation efforts and reduce strategic undergrounding costs through using smaller conductor and not burying lines as deeply.[221]

SDG&E has similarly taken steps in this GRC to support affordability. As noted, affordability was considered throughout the GRC application. SDG&E voluntarily removed from its GRC request long-term incentive compensation (which is available to far more employees beyond executives[222]) and Sempra executive officer compensation costs.[223] SDG&E also proposes keeping its common and electric plant depreciation levels constant throughout this GRC cycle[224]—despite expert analysis demonstrating certain increases were necessary.[225] This proposal would result in an overall saving for ratepayers of $42.9 million based on 2021 accumulated reserve balances.[226] Notably, Cal Advocates supports that depreciation proposal.[227]

SDG&E's application is thus a balance between maintaining safe and reliable service (such as wildfire mitigation), supporting California policies through decarbonization, mitigating risk, and maintaining affordability.[228] Certain safety measures—such as the reduction in wildfire risk through wildfire safety mitigations—cannot be measured in immediate dollars but must also be considered in terms of costs avoided. Even so, SDG&E's combined gas and electric proposals result in energy burden metrics (percent of income) in-line with the six percent threshold cited by TURN,[229] resulting in about a $9 increase for electric or gas residential customers.[230]

Affordability is further demonstrated by the affordability metrics SDG&E presented in the supplemental direct testimony of Sharim Chaudhury and Rachel Baez, as discussed further in Section 47 (Affordability Metrics).[231] Additionally, pursuant to SB 598, SDG&E served the supplemental testimony of Sandra F. Baule, which concluded that any rate increase proposed in this

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221 Tr. V4:867:2-3 (Folkmann).

222 *See id.* at 904:22-25.

223 Ex. SDG&E-01-R (Folkmann) at 14-15; SDG&E-201 (Folkmann) at 3.

224 Tr. V4:901:6-8 (Folkmann).

225 Ex. SDG&E-01-R (Folkmann) at 18.

226 Tr. V4:902:1-2 (Folkmann).

227 Ex. SDG&E-201 (Folkmann) at 4 (*citing* Ex. CA-17 (Ayanruoh) at 30).

228 Ex. SDG&E-01-R (Folkmann) at 1; Tr. V4:785:4-16 (Folkmann).

229 Ex. SDG&E-201 (Folkmann) at 6 (citation omitted).

230 Ex. SDG&E-01-R (Folkmann) at 13-14.

231 *See generally* Ex. SDG&E-50-S-E (Baez); Ex. SDG&E-51-S (Chaudhury/Foster) (providing required customer affordability metrics associated with both current revenues in effect and the annual revenue requirement requested).

GRC will have little to no impact on residential customer disconnections for non-payment.[232] And, SDG&E will comply with the three percent disconnection cap mandated by D.20-06-003.[233]

The Commission should reject TURN's "inflation-constrained" alternative,[234] Small Business Utility Advocates' (SBUA) "zero-based method,"[235] or other proposals that would limit the Commission's ratemaking authority.[236] The Commission has constitutional and statutory authority to ensure that all charges are just and reasonable.[237] A proposal cannot be deemed affordable or unaffordable based on an individual ratio or metric.[238] As noted above in the last GRC, the Commission found that it must balance affordability with other concerns, such as safety, reliability, and risk mitigation.[239]

As discussed in Mr. Folkmann's testimony, electrification should create a new value proposition for electric service.[240] Because customers will purchase less supplies of other sources of energy, particularly gasoline, a customer's whole energy burden in real dollars goes down even if their utility bill grows.[241] The energy network thus becomes more valuable as electricity plays a larger role in transportation fuel and heating needs—even if, under a narrow view, utility rates themselves are rising faster than inflation metrics.[242] If rates were constrained to inflation, it would prevent the investments necessary to reach the point where a customer's whole energy burden could decrease due to electrification.

Finally, as noted above, the Commission sets rates consistent with the longstanding principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an

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232 Ex. SDG&E-18-S (Baule) at 1.

233 *Id*.

234 Ex. TURN-02-3R (Dowdell) at 24.

235 Ex. SBUA-01 (McCann/Moss) at 12-13.

236 Ex. SDG&E-201 (Folkmann) at 8-9.

237 D.20-01-002 at 12 (the "Commission's role is not to merely pass utility cost estimates on to ratepayers, but rather to independently determine the just and reasonable level of costs necessary for the utility to meet its obligation.").

238 Tr. V4:786:14-16, 902:21-22 (Folkmann).

239 D.19-09-051 at 19-20.

240 Tr. V4:903:1-4 (Folkmann).

241 Tr. V4:903:9-20 (Folkmann).

242 Ex. SDG&E-01-R (Folkmann) at 17.

opportunity to earn a rate of return on the utilities' rate base."[243] SDG&E's ability to offer an attractive investment opportunity (rate of return) enables it to secure the capital necessary invest in wildfire mitigation, electrification, and other benefits to customers.

TURN contends that SDG&E has regularly over-earned its ROE.[244] But TURN's ROE analysis is flawed and should be disregarded. First, SDG&E's ROE and rate of return are determined in the Cost of Capital proceeding, which is outside the scope of this proceeding. Second, TURN's calculations are incorrect. TURN acknowledges that its calculations for earned ROE calculation for SDG&E in this proceeding includes SDG&E's FERC jurisdictional earnings based upon SDG&E's FERC ROE. By using all of SDG&E's data, including FERC jurisdictional information, TURN's analysis cannot inform the requests put forth in this GRC because those calculations do not provide an apples-to-apples comparison with SDG&E's CPUC authorized ROE.[245]

Regardless, SDG&E's ability to succeed by prudent management and efficient operations is an underlying premise of the Commission's ratemaking model and allows SDG&E to invest in its system.[246] SDG&E is not guaranteed a return. Instead, it has the opportunity to earn a fair return on its investment through prudent management and efficient operations.

In sum, the Commission can already determine whether rates are just and reasonable by considering economic conditions such as inflation in conjunction with critical legal requirements and policy goals such as wildfire mitigation and electrification[247]—auguring against imposing further limitations on the Commission's ratemaking authority that would prevent the Commission from considering a GRC application holistically. SDG&E's application here—and actions outside of this proceeding—seek to support affordability while simultaneously pursuing critical investments in reliability, wildfire mitigation, and grid modernization for electrification.

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243 D.03-02-035; *see also* D.14-08-011, at 31 ("[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]").

244 Ex. TURN-02 (Dowdell) at 2-3.

245 *See* Ex. SDG&E-319 at 1 (acknowledging that there is no indication that the data TURN relied upon is limited to CPUC-jurisdictional rate base).

246 *See* D.22-12-031 at 15 ("That return should also be reasonably sufficient to ensure confidence in the financial soundness of the utility and adequate, under efficient management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its duties.").

247 D.20-01-002 at 11 ("it is up to the Commission to maintain the balance in outcomes between customers and shareholders.").

8. Climate Policy/Sustainability Policy

8.1 Climate Policy/Sustainability Policy (SoCalGas)

8.1.1 SoCalGas's Sustainability Policy and Response to Climate Change

SoCalGas and other California energy utilities play an essential role in the collective effort to advance California's carbon neutrality goals.[248] Federal and state legislation and policy initiatives are increasingly focused on the need to reduce greenhouse gas (GHG) emissions, transition away from reliance on fossil fuels, improve air quality, and provide safe, reliable, and clean energy to residents. Given SoCalGas's critical role and the need for its infrastructure to help achieve noted climate goals, "SoCalGas has embarked upon several initiatives that demonstrate its commitment to work across its service territory as a carbon reduction, management, and mitigation company."[249] These initiatives are consistent with and support SoCalGas's sustainability strategy, which aims "to advance state climate goals and promote the interests of utility customers, with particular consideration for communities of concern and those most vulnerable to the effects of climate change, public and employee safety, social justice, and the energy transition."[250] SoCalGas's sustainability strategy broadly encompasses the pursuit of environmental health, social equity, and the well-being of our communities and stakeholders, and is comprised of five focus areas: (1) accelerating the transition to clean energy, (2) protecting the climate and improving air quality in our communities, (3) increasing clean energy access and affordability, (4) advancing a diverse, equitable, and inclusive culture, and (5) achieving world-class safety.[251]

As further detailed below and discussed in the direct testimony on Climate Policy and Sustainability Policy (*See* Ex. SCG-02-R) and Ms. Despina Niehaus and Ms. Shirley Arazi's rebuttal testimony (Ex. SCG-202-E), in March 2021, SoCalGas announced its goal of achieving net-zero GHG emissions in its operations and delivery of energy by 2045, aligning with California's goal "to achieve carbon neutrality as soon as possible, and no later than 2045, and achieve and maintain net negative emissions thereafter."[252] SoCalGas appreciates that reaching the

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248 Ex. SCG-02-R (Peress, adopted by Niehaus) at 1.

249 *Id*. at 9.

250 Ex. SCG-02-R (Sim, adopted by Arazi) at 1.

251 *Id*. (Sim/Arazi) at 2, 3.

252 Ex. SCG-02-R, Appendix C at 3; State of California, Executive Department, Executive Order B-55-18 to Achieve Carbon Neutrality (September 10, 2018), *available at:* https://www.ca.gov/archive/gov39/wp-content/uploads/2018/09/9.10.18-Executive-Order.pdf

State's goal requires solving a complex challenge: "how to boost renewable energy penetration while simultaneously decarbonizing hard-to-abate sectors like heavy industry and aviation, all while operating a resilient affordable energy system as the overall electric load continues to increase."[253] To examine how to best achieve net-zero carbon while managing risk and delivering a reliable, resilient and affordable energy system, SoCalGas commissioned a study that analyzed how California might successfully meet the decarbonization goal.[254] As noted in testimony, "The Role of Clean Fuels and Gas Infrastructure in Achieving California's Net Zero Climate Goal" (the "CFS") examined "the complexity of reaching 100 percent net-zero emissions in California by 2045" and "offered detailed solutions that include[d] the clean fuels infrastructure needed to support and accelerate decarbonization efforts."[255] The CFS noted the importance of clean fuels and carbon management in achieving carbon neutrality.[256]

SoCalGas formulated its GRC proposals in support of advancing federal and state climate policy goals through implementation of its sustainability strategy, which aims to help achieve such stated goals. The CPUC has acknowledged that the GRC process is the appropriate venue to seek funding for such activities.[257] As such, SoCalGas requests approval of its proposed investments.

8.1.2 California's Climate and Energy Transition Goals: State and Federal Legislation and Policy Initiatives Highlight the Need to Deploy Clean Fuels and Carbon Management Decarbonization Solutions

At the federal and state levels, legislative and policy initiatives clearly signal the need to deploy clean fuels and carbon management decarbonization solutions to aid California's energy transition goals. SoCalGas's initiatives take into account the legislative approach and recognize the critical energy system attributes that these solutions, such as deployment of clean fuels and carbon management, provide, including their ability to set the stage for deep decarbonization.[258]

The growing body of legislation and policies providing such direction aimed at advancing decarbonization solutions include, but are not limited to:

- **Assembly Bill (AB) 32** and **Senate Bill (SB) 32, Global Warming Solutions Act of 2006/California Global Warming Solutions Act of 2016**, which, among other

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253 Ex. SCG-02-R (Peress/Niehaus) at 4.

254 *Id.* at 9.

255 *Id.*

256 Ex. SCG-02-R at Appendix C; Transcript (Tr.) V5:930:10-20 (Niehaus).

257 Ex. SCG-202-E (Niehaus/Arazi) at 6; *see also* Ex. SCG-322/SDG&E-320; Res. E-5254 (April 2023), *available at* https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M506/K016/506016078.PDF.

258 Ex. SCG-202-E (Niehaus/Arazi) at 7.

things, established GHG emission reduction targets requiring the reduction of GHG emissions to 1990 levels by 2020 and then further expanded requirements for statewide GHG emissions reductions 40% below 1990 levels by 2030. [259]

- **SB 100**, **California Renewables Portfolio Standard Program of 2018**, which, among other things, set an electric renewables portfolio standard that requires that renewable energy and zero-carbon resources supply 100% of the electric retail sales to end-use customers by 2045.[260]

- **SB 1383**, **Short-lived climate pollutants: methane emissions: dairy and livestock: organic waste: landfills**, which, among other things, established methane emissions reduction targets to reduce emissions of short-lived climate pollutants in California, and established targets for reducing organic waste in landfills. This bill also required the CPUC to direct gas corporations to implement at least five dairy biomethane pilot projects to demonstrate interconnection with the common carrier pipeline system.[261]

- **SB 1440**, **Biomethane Procurement**, which, among other things, required the CPUC to consider adopting biomethane procurement targets or goals for each gas corporation so each gas corporation procures a proportionate share of biomethane annually.[262]

- **SB 905**, **Carbon sequestration: Carbon Capture, Removal, Utilization, and Storage Program**, which, among other things, required the California Natural Resources Control Board, in consultation with the CPUC, to issue a report on CO2 pipelines and requires CARB to establish a carbon capture removal utilization and storage framework.[263]

- **SB 1075**, **Hydrogen: green hydrogen: emissions of greenhouse gases**, which, among other things, requires CARB, the CPUC, and the CEC to consider the potential use of hydrogen in California and strategies supporting hydrogen infrastructure.[264]

- **Executive Order B-55-18**, which, among other things, set the goal to achieve carbon neutrality by 2045.[265]

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259 Ex. SCG-02-R (Peress/Niehaus) at 3-4 and SCG-202-E (Niehaus/Arazi) at 3, 15.

260 Ex. SCG-02-R (Peress/Niehaus) at 4 and SCG-202-E (Niehaus/Arazi) at 3, 5.

261 Ex. SCG-02-R (Peress/Niehaus) at 3 and SCG-202-E (Niehaus/Arazi) at 3, 17.

262 Ex. SCG-02-R (Peress/Niehaus) at 4 and SCG-202-E (Niehaus/Arazi) at 3.

263 Ex. SCG-202-E (Niehaus/Arazi) at 3.

264 *Id*. at 10.

265 Ex. SCG-02-R (Peress/Niehaus) at 4 and SCG-202-E (Niehaus/Arazi) at 16.

- **AB 3232**, **Zero-emissions buildings and sources of heat energy**, which, among other things, requires a 40% reduction of in GHG emissions from residential and commercial buildings below 1990 levels by 2030.[266]

- **Final 2022 California Air Resources Board (CARB) Scoping Plan**, which, among other things, sets forth the GHG emission reduction strategy and activities needed to reach the State's decarbonization targets and highlights the value and the critical role of clean fuels, such as a biomethane and clean hydrogen and the need for carbon management to reach carbon neutrality GHG emission targets. Notably, the Scoping Plan notes that the scale of the transition from existing energy infrastructure and deployment of new clean technology includes adding about "1,700 times the amount of current hydrogen supply."[267]

- **CARB's Advanced Clean Feet Rule**, which provides new rules for medium-and heavy-duty vehicles **and** requires public and private fleets to begin transitioning towards zero-emissions starting in 2024 with a goal of being 100 percent zero-emissions by 2045, where feasible.[268]

- **California Energy Commission's (CEC) 2022 Integrated Energy Policy Report (IEPR)**, which highlights the role of hydrogen in California's clean energy future and considers the "current state of play in terms of CEC activities supporting the use of hydrogen in decarbonization."[269] The IEPR also encourages use of both renewable gas and renewable hydrogen.[270]

- **Executive Order B-48-18**, which directs that all State entities work with the private sector to put at least five million zero-emission vehicles on California's roads by 2030 and spur the construction and installation of 200 hydrogen refueling stations.[271]

- **California Natural Resources Agency's (CNRA) Report** as part of SB 905 emphasizes that "To address the impacts of climate change, California must not only reduce greenhouse gas emissions, but also remove CO2 from the atmosphere. CCUS and carbon removal technologies are essential to achieving California's carbon removal goals of 20 million metric tons CO2 equivalent by 2030 and 100

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266 Ex. SCG-02-R (Press/Niehaus) at 4 and SCG-202-E (Niehaus/Arazi) at 3.

267 CARB, *2022 Scoping Plan for Achieving Carbon Neutrality* (November 16, 2022) at 9, *available at*: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp.pdf; *See also* Ex. SCG-202-E (Niehaus/Arazi) at 3, 8-9.

268 Ex. SCG-202-E (Niehaus/Arazi) at 5; CARB, *Advanced Clean Fleets Resolution 23-13* (April 27, 2023), available at: https://ww2.arb.ca.gov/sites/default/files/barcu/board/books/2023/042723/prores23-13.pdf.

269 Ex. SCG-202-E (Niehaus/Arazi) at 4.

270 *Id.* at 17, nn.7-8.

271 Ex. SCG-02-R (Peress/Niehaus) at 18, (Sim/Arazi) at 13; Ex. SCG-202-E (Niehaus/Arazi) at 4, 17; Executive Department State of California, *Executive Order B-48-18 To Achieve Carbon Neutrality* (September 2018), *available at*: https://www.library.ca.gov/wp-content/uploads/GovernmentPublications/executive-order-proclamation/39-B-48-18.pdf.

million metric tons CO2 equivalent by 2045 and offer an opportunity to expand the green economy in California."[272]

- **SB 1020**, **Clean Energy, Jobs and Affordability Act of 2022**, which accelerated the mandate for "eligible renewable energy resources and zero-carbon resources [to] supply 90 percent of all retail sales of electricity to California end-use customers by December 31, 2035, 95 percent of all retail sales of electricity to California end-use customers by December 31, 2040, 100 percent of all retail sales of electricity to California end-use customers by December 31, 2045, and 100 percent of electricity procured to serve all state agencies by December 31, 2035."[273]

- **The Inflation Reduction Act of 2022** (IRA), which, among other things, highlights that "the industrial sector is diverse, hard to decarbonize, and contributes nearly one-third of the nation's greenhouse gas emissions […] Deploying technologies like carbon capture and storage (CCS) at scale will be critical for decarbonizing many industrial processes."[274]

- **The Infrastructure Investment and Jobs Acts** (IIJA), which, among other things, dedicates funding to support clean fuel and carbon management activities necessary to enable decarbonization solutions for industrial applications. The CPUC recognized the importance of IIJA fundings, noting that the IIJA "presents a significant opportunity to attract federal funding to finance IOU infrastructure needed in California to support zero carbon emissions, grid reliability, safety, and bill affordability for electric and gas customers."[275]

- **AB 209, Energy and Climate Change,** and **AB 179, Budget Act of 2022**, which, among other things, encourage the development of the new clean renewable hydrogen demonstration program.[276]

The above legislation and initiatives highlight the clear climate imperative and the corresponding call to action. In support of California's goal to reach carbon neutrality by 2045, SoCalGas established its own goal to achieve net zero GHG emissions in its operations and energy delivery by 2045. SoCalGas's proposed decarbonization investments and sustainability cross-

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272 Ex. SCG-202-E (Neihaus/Arazi) at 4-5; CNRA, Proposal to the Legislature for Establishing a State Framework and Standards for Intrastate Pipelines Transporting Carbon Dioxide (March 2023) at 14, available at: https://resources.ca.gov/-/media/CNRA-Website/Files/Initiatives/Transitioning-to-Clean-Energy/SB-905--CO2-Pipeline-Regulatory-Framework--Stds-March-2023.pdf#:~:text=SB%20905%20requires%20the%20California%20Natural%20Resources%20Agency,posed%20to%20public%20and%20environmental%20health%20and%20safety.%E2%80%9D.

273 Ex. SCG-202-E (Niehaus/Arazi) at 5 and nn 15-16.

274 Ex. SCG-202-E (Niehaus/Arazi) at 5-6.

275 *Id.*; Res. E-5254 (April 2023) at 18, *available at*: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M506/K016/506016078.PDF.

276 Ex. SCG-202-E (Niehaus/Arazi) at 10.

departmental activities in this GRC were a major focus for our application and are further described in Ex. SCG-02-R.[277]

8.1.3 SoCalGas Recognizes the Importance of Participating in the Collective Effort to Address Climate Challenges and Proposes Both Near-Term and Long-Term Initiatives to Help Achieve Carbon Neutrality

SoCalGas is committed to advancing the State's evolving climate goals and can play a crucial role in addressing the critical interdependencies between electricity and gas system reliability in the State during the clean energy transition.[278] To meet the goals noted in the above section 8.2.2, there will need to be thoughtful near-term as well as long-term decarbonization strategies, which is why SoCalGas embeds its sustainability strategy across business units in an effort to support such necessary balancing. To achieve this, SoCalGas seeks to "align business initiatives and energy infrastructure investments with state and federal decarbonization and carbon neutrality policies and goals" while maintaining "robust, reliable, affordable, and resilient infrastructure."[279]

Based on analysis conducted as part of SoCalGas's climate policy efforts, "SoCalGas expects that an integrated energy system comprised of renewable electricity and clean fuels will achieve carbon neutrality faster, more reliably, and more affordably than one without clean fuels."[280] As such, "[a]s part of SoCalGas's sustainability strategy and in support of California's goal to deliver increasing amounts of renewable energy and support economy-wide decarbonization, SoCalGas aims to accelerate the energy transition by increasing the delivery of clean fuels, adapting its system for blended hydrogen, and supporting customer decarbonization."[281] SoCalGas is in the unique position of being able to utilize the existing gas system, which "currently transports and delivers fuel relied upon by millions of residential and commercial customers."[282]

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277 Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 15-17, Table NP-1; Ex. SCG-02-R (Sim/Arazi), Table MS-1 at 25-31.

278 Ex. SCG-02-R (Peress/Niehaus) at 5, (Sim/Arazi) at 4.

279 Ex. SCG-02-R at (Sim/Arazi) at 4.

280 *Id.*; *See generally* Ex. SCG-02-R at Appendix C.

281 Ex. SCG-02-R (Sim/Arazi) at 5.

282 Ex. SCG-02-R (Peress/Niehaus) at 7-8.

As further explained in testimony, today's fuels network enables broader resiliency and reliability services for the energy system, and it will increasingly be relied upon as electric supply portfolios become more volatile.[283] In the 2021 Integrated Energy Policy Report (IEPR), the CEC recognized that the functions of and services from the gas grid are increasingly weighted towards electric reliability as decarbonization measures are deployed.[284] By leveraging the fuels network to deliver cleaner molecules, reliability and resiliency can be preserved while driving deeper decarbonization at lower cost.

In addition to envisioning and further analyzing the critical role that SoCalGas's infrastructure system can play in reaching the State's decarbonization goals, and in-line with considering both near-term and long-term decarbonization strategies, SoCalGas "is implementing many decarbonization strategies with immediate and near-term benefits," including requesting "funding for RNG infrastructure development and related functions."[285] "Since RNG is produced through the capture and repurposing of methane, it has the unique ability to both displace traditional natural gas emissions in the pipeline and reduce emissions into [the] atmosphere from" various sources "to have an immediate effect and support the state's goals to reduce short-lived climate pollutants, reduce the disposal or organic waste, and help address air quality issues."[286] "In March, 2019, SoCalGas announced a plan to replace 20 percent of the Company's core customers' traditional natural gas supply with Renewable Natural Gas (RNG) from organic waste streams by 2030."[287] These goals are in alignment with both SB 1383 and SB 1440.[288]

Additionally, in alignment with SB 1371, SoCalGas has made significant progress in the reduction of methane emissions of its pipeline system. SoCalGas achieved a 37% reduction in methane emissions from a 2015 baseline as of 2021, ahead of the state's goal, and is working towards the 40% goal by 2030.[289]

SoCalGas's long-term decarbonization strategies are similarly necessary to support the clean energy transition. These activities include the evaluation of hydrogen and the potential to

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283 Ex. SCG-02-R (Press/Niehaus) at 6, 8; Tr. V5:930:10-20 (Niehaus).

284 Ex. SCG-02-R (Peress/Niehaus) at 7.

285 Ex. SCG-202-E (Sim/Arazi) at 6.

286 *Id.*

287 Ex. SCG-02-R (Peress/Niehaus) at 10.

288 Ex. SCG-202-E (Niehaus/Arazi) at 3, 17.

289 Ex. SCG-202-E (Niehaus/Arazi) at 15-16.

blend hydrogen into the gas grid to displace traditional natural gas and to reduce GHG emissions, as well as exploring carbon management activities.[290] The Gas Engineering testimony of Ms. Martinez (Ex. SCG-07-R) provides further details and cost information related to these referenced activities. SoCalGas's Mr. Armando Infanzon also proposes measures, such as the Carbon Management Feed Study to support GHG emissions reductions, consistent with SB 100, Executive Order B-55-18.[291] Table NP-1 of Ex. SCG-02-R at 15-17 outlines the suite of projects proposed in support of the State's decarbonization goals.

Overall, SoCalGas's proposed sustainability investments both advance California's climate and energy transition goals and benefit SoCalGas customers through enhanced reliability and resiliency.

8.1.4 SoCalGas Response to Intervenor Testimony Questioning Appropriateness of Sustainability Investments: The CPUC Has Confirmed the GRC as the Appropriate Venue to Seek Funding for These Activities

The suggestion by certain intervenors that the sustainability investments are unnecessary or not related to the cost of providing gas delivery is misguided.[292] First, as detailed above, the California legislature makes clear that investor-owned utilities, including SoCalGas, play a key role in decarbonizing their infrastructure and in helping to address emissions from customers' energy use. Accordingly, SoCalGas is requesting costs for such efforts in this GRC. Second, CPUC Resolution E-5252 specifically provides that the GRC is a proper procedural venue for the electric and gas investor-owned utilities to request cost recovery for match funding and tax liabilities pursuant to any funds received from the federal IIJA, which encourages the IOUs to build out infrastructure needed in California "to support zero carbon emissions, grid reliability, safety, and bill affordability for electric and gas customers."[293] This GRC process is therefore the proper venue to request approval of SoCalGas's proposed sustainability investments.

SoCalGas must actively seek to advance California's climate goals and explore pathways to achieve carbon neutrality in a way that maintains reliability, affordability, and a resilient energy

290 Ex. SCG-02-R (Peress/Niehaus) at 11, (Sim/Arazi) at 8.

291 Executive Order B-55-18, available at: https://www.ca.gov/archive/gov39/wp-content/uploads/2018/09/9.10.18-Executive-Order.pdf; *see also* Cal. HSC § 38562; Ex. SCG-212 (Infanzon) at 21.

292 POC 23:2-12 (hydrogen); CEJA at 26, 31-38.

293 CPUC E-5254 at 18-19.

system. SoCalGas's proposed sustainability investments are necessary to reach the scale of GHG reductions targeted under the State's reduction goals. Not moving forward would slow down progress to advancing these important climate objectives. As noted in testimony, "carbon neutrality by 2045 only provides five GRC cycles to advance these initiatives to achieve our common goals" and only two cycles (including the present cycle) to achieve the State's 40% reduction goal.[294] Thus, the readiness and adaptation processes for decarbonization must be initiated in this GRC to study the optimal way to drive lasting change. This includes advancing research and development, pilots and programs to accelerate the deployment of clean fuels and carbon management, as it "will be critical to ensure these technologies are available at the scale when needed to deliver the emission reductions to facilitate net zero GHG emission targets."[295] As such, SoCalGas's request for sustainability investments in this GRC is appropriate.

8.1.5 SoCalGas's Response to Opponents of Clean Hydrogen: Legislators and Regulators, Including the CPUC, Have Clearly and Repeatedly Identified Hydrogen as a Key Solution to the Climate Crisis

As a threshold matter, SoCalGas wishes to address the issue of jurisdiction as it relates to exploring the use of hydrogen as a possible clean fuel alternative to methane. SoCalGas believes that the Commission has plenary authority to regulate methane under Public Utilities Code Section 221 ("Section 221"). The Commission's authority is broad: "The commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction."[296] "Public utility" includes "every . . . gas corporation,"[297] which are corporations "owning, controlling, operating, or managing any gas plant for compensation within this state."[298] In turn, "gas plant" is also defined broadly to include "all real estate, fixtures, and personal property, owned, operated, or managed in connection with or to facilitate the production, generation, transmission, delivery, . . . or furnishing of gas, natural or manufactured . . . for light, heat, or power."[299] The Commission has interpreted Section 221 to cover facilities that transport

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294 Ex. SCG-202-E (Niehaus/Arazi) at 8.

295 Ex. SCG-202-E (Niehaus/Arazi) at 8.

296 Cal. Pub. Util. Code § 701.

297 *Id*. at § 216, subd. (a)(1).

298 *Id*. at § 222.

299 *Id*.

or deliver gas, whether natural or manufactured.[300] Further, the Commission itself interprets "gas" broadly to include any combustible fuel or vapor used to produce heat by burning. (*See* General Orders 58-A, 58-B.)[301] Because hydrogen is a "gas, natural or manufactured," and produces heat by burning, as Section 221 contemplates, the Commission has jurisdiction over hydrogen-related projects, programs, and development as part of SoCalGas's "gas plant."

However, SoCalGas does not believe that the Commission needs to make a section 221 jurisdictional finding in order to approve the hydrogen-related expenditures proposed in this GRC. The programs, customer outreach, and research activities proposed in this GRC encompass the potential role of hydrogen in California's energy future at a very protean level. In that respect, consideration of hydrogen is no different than previously approved expenses for other alternate forms of energy or innovative forms of conservation for our customers such as RNG, CNG, or fuel cells.

Some intervenors have raised concerns that hydrogen-related activities support "new business lines" and do not benefit ratepayers.[302] Some intervenors assert that it is "not appropriate for SoCalGas's methane customers to subsidize its development of new, separate lines of business."[303] However, the Commission has a solid record of approving activities that keep SoCalGas and other utilities at the forefront of energy developments at their early stages.[304] The

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300 *See In re Sound Energy Solutions* (C.P.U.C. 2004) 2004 WL 2610071, at 13 (determining that a liquefied natural gas storage and gasification facility in Long Beach constituted a "gas plant" subject to Commission jurisdiction); *In re SoCal Edison Co.* (1980) 4 CPUC 2d 195, 1980 WL 128929, at12 (determining that a coal gasification facility that produced synthesis gas composed of carbon monoxide and hydrogen constituted a "gas plant".)

301 Public Utilities Code section 221 expressly excludes propane from Commission jurisdiction. There is no such exclusion for hydrogen. The Commission has interpreted the propane exemption carve-out strictly, holding that other gases that may be similar to propane are not so exempt. (*See In re SoCal Edison Co.* (1980) 4 CPUC.2d 156, 1980 WL 130264, at 5.)

302 *E.g.*, Ex. CEJA-01 (Vespa, Gersen, Saadat, and Barker) at 25:4-9.

303 *Id.*

304 *See e.g.,* Cal. Pub. Util. Code § 399.8(a) ("In order to ensure that the citizens of this state continue to receive safe, reliable, affordable, and environmentally sustainable electric service, it is the policy of this state and the intent of the Legislature that prudent investments in energy efficiency, renewable energy, and research, development and demonstration shall continue to be made."); Cal. Pub. Util. Comm'n, Opinion Regarding Implementation of Assembly Bill 1002, Establishing Natural Gas Surcharge, D.04-08-010 (Aug. 19, 2004) (establishing CEC R&D program to provide funding on an ongoing basis for gas research projects focusing on energy efficiency and renewable technologies); Cal. Pub. Util. Comm'n, *Decision Adopting Joint Settlement Agreement and Granting Southern California Gas Company's Application to Establish a Biogas Conditioning and Upgrading Services*

modest amounts requested are a very small contribution from SoCalGas customers to support potential alternatives to business as usual while the threat of global warming intensifies. It is well within the general authority of this Commission in setting just and reasonable rates to find that these limited, early-stage activities are appropriate for support. As noted above, not addressing activities that support technological advancements of clean energy solutions now, could slow down progress to advancing state climate objectives.

Here, the Department of Energy, the California Legislature, numerous State agencies and the Commission itself have clearly and repeatedly identified hydrogen as a key solution to the climate crisis. As testified to by Ms. Niehaus, there is "recognition on both the state and federal level around the value of hydrogen and clean hydrogen in decarbonizing the economy, specifically California's plan, which acknowledges the role of hydrogen in decarbonizing as well as the California Energy Commission Integrated Energy Policy Report, which also recognizes the critical role of hydrogen in California's clean energy future and on a national level . . .both the Infrastructure Investment Jobs Act and the Inflation Reduction Act, which dedicates funding to clean hydrogen activities and most recently . . . President Biden announced his clean hydrogen roadmap."[305] As these legislative actions and policies illustrate, there is broad support for the role of hydrogen as a necessary part of the climate solution.

Tariff, D.13-12-040 (Dec. 19, 2013), pp. 20-21 ("As part of its mission statement, the [Commission] . . . 'serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy.'"]; Cal. Pub. Util. Comm'n, *Decision Implementing Senate Bill 1440 Biomethane Procurement Program*, D.22-02-025 (Feb. 24, 2022) (requiring gas utilities to procure biomethane derived from organic waste at levels sufficient to meet California's statutory obligation to divert 75 percent of 2014 levels of organic waste away from California landfills by the end of 2025); Resolution G-3573, March 18, 2021, at 11-12, 18 (approving RD&D funds of (1) $1.5M for Renewable Gas Production, including, biomass processing and conversion, hydrogen production from renewable sources, and methanation (2) $2,924,200 for Low Carbon Hydrogen Production including, but not limited to, methane pyrolysis and advanced steam methane reforming (SMR) technologies); *id*. at Appendix A (approving RD&D funds of (1) $1M for Low GHG Chemical Processes subprogram, including Carbon Capture and Utilization (CCU), and Carbon Capture and Sequestration (CCS)); Advice Letter 5652-G, pp. 28-29 (explaining that the Low GHG Chemical Processes subprogram includes Carbon Capture and Utilization (CCU), and Carbon Capture and Sequestration (CCS)); Resolution G-3586, March 17, 2022, at Appendix A (approving: (1) $3,295,501 for Renewable Gas Production, specifically RNG and hydrogen, from various feedstocks and multiple technological pathways, (2) $2,197,001 for CCUS-related RD&D); Advice Letter 5824-G, p. 32 (explaining that Renewable Gas Production includes research regarding RNG and hydrogen, from various feedstocks and multiple technological pathways).

[305] Tr. V5:942:6-18 (Niehaus).

8.2 SDG&E's Sustainability Policy and Response to Climate Change

SDG&E recognizes that climate change requires urgent action by California investor-owned utilities (IOUs). As Estela de Llanos, SDG&E's Vice-President of Procurement and Sustainability, testified: "California is in a climate crisis."[306] "The threats posed by climate change and the need to act urgently are widely acknowledged and accepted."[307] California has set ambitious climate and energy transition goals. "To support and advance the state's objectives, SDG&E has adopted a Sustainability Strategy and its own goal to reach Net Zero greenhouse gas (GHG) emissions by 2045."[308] SDG&E's investments proposed in this GRC proceeding reflect SDG&E's focus on sustainability, particularly climate change mitigation, climate change adaptation, and grid transformation, consistent with the Commission's environmental and social justice policies.[309] SDG&E requests approval of its proposed investments.

8.2.1 California's Climate and Energy Transition Goals

SDG&E is committed to delivering "clean, safe, and reliable electric and natural gas service in a manner that supports California's climate and energy transition goals."[310] Those goals require SDG&E to reduce its own greenhouse gas (GHG) emissions, prepare its infrastructure to withstand climate change impacts, and provide reliable clean energy to enable decarbonization of California's homes, businesses, and transportation.[311]

As Ms. de Llanos testified, the Legislature has directed California agencies, including this Commission, to develop and implement plans to achieve dramatic GHG reductions.[312] A few of the latest examples are as follows:

- The California Climate Crisis Act, Assembly Bill (AB) 1279 (2022), set state policy to (a) "[a]chieve <u>net zero</u> greenhouse gas emissions as soon as possible, but no later than 2045, and to achieve and maintain <u>net negative</u> greenhouse gas emissions

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306 Ex. SDG&E-202 (de Llanos) at 6.

307 Ex. SDG&E-02-E (de Llanos) at 1; see generally Ex. SDG&E-202 (de Llanos) at 7.

308 Ex. SDG&E-02-E (de Llanos) at 1 (footnote omitted); Ex. SDG&E-01-R (Folkmann) at 6.

309 Ex. SDG&E-02-E (de Llanos) at 2.

310 Ex. SDG&E-202 (de Llanos) at 1; Ex. SDG&E-02-E (de Llanos) at 1; Ex. SDG&E-01-R (Folkmann) at 5.

311 Ex. SDG&E-202 (de Llanos) at 6.

312 *See, e.g.,* Assembly Bill (AB) 32 (California Global Warming Solutions Act of 2006); SB 350 (2015) (double statewide energy efficiency for both electric and gas end uses by 2030); SB 32 (2016) (reduce statewide GHG emissions to 40% below 1990 levels by 2030); SB 100 (2018) (require renewable and zero-carbon energy resources to supply 100% of electric retail sales and state loads by 2045).

thereafter," and (b) "[e]nsure that, by 2045, statewide anthropogenic greenhouse gas emissions are reduced to at least 85 percent below" 1990 levels. AB 1279 requires the California Air Resources Board (CARB) to work with state agencies, including this Commission, to achieve these goals.[313]

- The Clean Energy, Jobs, and Affordability Act of 2022, Senate Bill (SB) 1020 (2022), directed this Commission to plan for "eligible renewable energy resources and zero-carbon resources" to supply 100 percent of total retail sales of electricity in California by December 31, 2045, with interim milestones of 90 percent by December 31, 2035 and 95 percent by December 31, 2040, and "100 percent of electricity procured to serve all state agencies by December 31, 2035.[314]
- Electrification of transportation and buildings requires more electricity and a stronger, more resilient electric grid. "CARB's Advanced Clean Cars II Regulation requires 100% of new cars and light trucks sold in California to be zero emission by 2035."[315] CARB's "Advanced Clean Fleets regulation requires medium- and heavy-duty fleets to begin transitioning to zero-emissions technology beginning as early as next year, with requirements tightening as the state moves toward 2045."[316] "Assembly Bill (AB) 3232 directed the California Energy Commission to assess the feasibility of reducing emissions from the state's building sector 40% below 1990 levels by 2030. Senate Bill (SB) 1477 asks the CPUC to develop programs

313 AB 1279, Section 2, codified at California Health & Safety Code Section 38562.2(c)-(d) (emphasis added). This enacted into law Executive Order (EO) B-55-18 (2018), available at https://www.ca.gov/archive/gov39/wp-content/uploads/2018/09/9.10.18-Executive-Order.pdf. It built upon California Global Warming Solutions Act of 2006, AB 32 (2006), codified at Health & Saf. Code § 38561, which required CARB to adopt a scoping plan to achieve the "maximum technologically feasible and cost-effective reductions in greenhouse gas emissions" by 2020, and SB 32 (2016), Section 2, codified at Health & Saf. Code § 38566, which required CARB to "ensure that statewide greenhouse gas emissions are reduced to at least 40 percent below" 1990 levels. *See generally* Ex. SDG&E-202 (de Llanos) at 6 & n.17; Ex. SDG&E-02-E (de Llanos) at 4 & n.6.

314 SB 1020, Section 4, codified at Cal. Pub. Util. Code Section 454.53(a) (emphasis added). This tightened requirements in The 100 Percent Clean Energy Act of 2018, SB 100 (2018), Section 5, which first added Section 454.53, by adding the interim milestones for 2035 and 2040. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB100.

315 Ex. SDG&E-202 (de Llanos) at 3 and Attachment E (CARB Press Release 22-30). Regulations can be found at https://ww2.arb.ca.gov/rulemaking/2022/advanced-clean-cars-ii. *See, e.g.*, Sections 1961.4 & 1962.4, Title 13, California Code of Regulation (November 30, 2022).

316 Ex. SDG&E-202 (de Llanos) at 3-4 (citing CARB Release #23-13, *available at* https://content.govdelivery.com/accounts/CARB/bulletins/3579202).

(BUILD and TECH) aimed at reducing greenhouse gas emissions from buildings."[317]

The Commission, in D.20-08-046, instructed IOUs, including SDG&E, to "upgrade their infrastructure, operations and services to adapt to climate change, and to ensure safe and reliable energy service to all Californians – including those most vulnerable and disadvantaged."[318] "As required by the Commission, SDG&E's 2021 Risk Assessment and Mitigation Phase (RAMP) Report details threats posed by climate change," which then informed SDG&E's GRC requests.[319]

8.2.2 SDG&E's Efforts to Achieve California's Climate and Energy Transition Goals

SDG&E is committed to advancing the State's evolving climate and energy transition goals. SDG&E aims to achieve net zero GHG emissions from its business activities by 2045.[320] "In 2020, SDG&E first published its sustainability strategy in a report entitled 'Building A Better Future: Our Commitment to Sustainability (Sustainability Strategy).'"[321] SDG&E's "living" Sustainability Strategy guides the company's efforts to advance sustainability and "focuses on regional collaboration, stakeholder engagement, and strategic initiatives to promote clean energy innovation in a reliable and equitable manner."[322] "Although the suite of solutions in the Sustainability Strategy may evolve over time, the overarching purpose of advancing state policies in an orderly and equitable manner remains unchanged."[323]

To inform its efforts to advance sustainability, SDG&E commissioned and published "The Path to Net Zero: A Decarbonization Roadmap for California" in April of 2022.[324] Using modeling tools and inputs also used by California agencies, and the Commission-mandated electric reliability standard, the Path to Net Zero modeled "how to decarbonize California through 2045

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317 Ex. SDG&E-202 (de Llanos) at 4.

318 D.20-08-046 at 2; *see* Ex. SDG&E-202 (de Llanos) at 8-9.

319 Ex. SDG&E-202 (de Llanos) at 7 (footnotes omitted).

320 Ex. SDG&E-02-E (de Llanos) at 6; Ex. SDG&E-202, Attachment A at ED-B-16 (Sustainability Strategy at 16).

321 Ex. SDG&E-202 (de Llanos) at 2 and Attachment A (Sustainability Strategy).

322 Ex. SDG&E-02-E (de Llanos) at 6; Ex. SDG&E-202 at 2 and Attachments A, B & C.

323 Ex. SDG&E-02 (de Llanos) at 6.

324 Ex. SDG&E-02-E (de Llanos) at 6; Ex. SDG&E-202 (de Llanos) at 2 and Attachments D-1 & D-2 (Path to Net Zero & Technical Appendix).

while also prioritizing grid reliability, affordability, and equity."[325] "The Path to Net Zero recommends a diverse approach for California, leveraging clean electricity, clean fuels, and carbon removal to achieve the 2045 carbon neutrality goal through the lens of reliability, affordability, and equity."[326] "Among other important points, the Path to Net Zero predicts that electricity demand will increase dramatically by 2045 with electrification of the transportation and building sectors."[327] "Critically, both SDG&E's Sustainability Strategy and Path to Net Zero recognize the possibility and even likelihood that new technology, regulatory decisions, and customer choices will require changes to SDG&E's approach to sustainability."[328]

SDG&E's three major categories for sustainability investments are climate change mitigation (actions to avoid, reduce or remove GHG emissions), climate change adaptation (actions to enhance energy system reliability and resiliency from climate change risks), and grid transformation (actions to transform the energy grid to provide and facilitate clean energy to meet customer needs).[329] These actions align with SDG&E's identification of climate change risks in its 2021 RAMP Report.[330]

In Table ED-1 of Ex. SDG&E-02-E (de Llanos) at 10-13, Ms. de Llanos briefly identifies the sustainability benefits of projects proposed by other SDG&E witnesses. For example, SDG&E's Jonathan Woldemariam proposes measures to address wildfire risk worsened by climate change, thus advancing both safety and climate change adaptation.[331] SDG&E's Fernando Valero testifies about SDG&E's Clean Energy Innovation programs, which advance energy storage, microgrids, hydrogen and distributed energy resources to mitigate GHG emissions and promote grid resiliency.[332] These programs, and their sustainability benefits, are discussed by SDG&E witnesses for each such program. Overall, SDG&E's proposed sustainability investments both advance California's climate and energy transition goals and benefit SDG&E's customers through enhanced reliability and resiliency.

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325 Ex. SDG&E-202 (de Llanos) at 2-3; *see generally id*., Attachment D (Path to Net Zero Technical Appendix) at ED-B-143 to 158).

326 Ex. SDG&E-02-E (de Llanos at 6); Ex. SDG&E-01-R (Folkmann) at 6.

327 Ex. SDG&E-202 (de Llanos) at 3.

328 Ex. SDG&E-202 (de Llanos) at 4.

329 Ex. SDG&E-02-E (de Llanos) at 2-3; Ex. SDG&E-01-R (Folkmann) at 6.

330 Ex. SDG&E-02-E (de Llanos) at 9; Ex. SDG&E-202 (de Llanos) at 7.

331 Ex. SDG&E-02-E (de Llanos) at 11 (*referencing* Ex. SDG&E-13-2R-E (Woldemariam)).

332 Ex. SDG&E-02-E (de Llanos) at 11-12 (*referencing* Ex. SDG&E-15-R-E (Valero)).

8.2.3 SDG&E's Efforts Advance Climate Equity and the Commission's ESJ Plan

SDG&E's sustainability policy also provides a framework for considering environmental and social justice in accord with the Commission's Environmental & Social Justice (ESJ) Action Plan – Version 2.0 (April 7, 2022).[333] Ms. de Llanos describes proposed investments that advance sustainability in an equitable manner, including meeting the needs of disadvantaged customers and communities, such as supporting the transition to zero emission vehicles (ZEVs) for all."[334] SDG&E's Mr. Folkmann notes that the transition to ZEVs may improve public health in State-identified "disadvantaged communities," and describes SDG&E programs to accelerate transition to ZEVs by expanding access of EV charging stations.[335]

8.2.4 SDG&E's Response to Cal Advocates

Cal Advocates argues that SDG&E should not propose "voluntary" action to address climate change, contending that "California's legislature and the Commission are responsible for establishing mandates for the utility in service of the state's environmental goals" and that SDG&E's "duty [is] to meet these mandates."[336] According to Cal Advocates, the "best way for the utilities to support the state's environmental goals is by achieving the lowest possible rates while complying with safety, reliability, and environmental regulations."[337]

In short, rather than propose ways to achieve the State's and the Commission's climate goals, and protect its customers from the impacts of climate change, Cal Advocates contends that SDG&E should wait for the Commission to tell it what to do. SDG&E respectfully disagrees.[338] As noted above and explained by Ms. de Llanos:

> The California Legislature, California Governors, and this Commission have made plain that SDG&E and the other California investor-owned utilities (IOUs) are mandated to not only reduce their own GHG emissions and prepare their own infrastructure to withstand climate change impacts, but to advance the decarbonization of California's energy use by providing a resilient electrical grid

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333 *Id.* at 2, 5, 7-8.

334 *Id.* at 8.

335 Ex.SDG&E-01-R (Folkmann) at 6-8.

336 Ex. CA-09-E (Younes) at 15.

337 *Id.* at 16.

338 *See* Ex. SDG&E-202 (de Llanos) at 6-11.

> that has the capacity and reliability to meet customers' electric demand, as well as addressing emissions from customers' energy use.[339]

Ms. de Llanos testified to California laws, agency plans, and Commission decisions and active proceedings that establish applicable climate goals.[340] "SDG&E believes it is both necessary and prudent to propose programs and projects … that contribute to achieving the State's and this Commission's policies to respond to climate change and its impacts."[341]

Cal Advocates argues against the funding of SDG&E's Clean Energy Innovation projects by "asserting that SDG&E should not 'voluntarily' propose programs to advance decarbonization because '[r]atepayer funding of projects which are neither caused by ratepayers nor provide a net benefit to ratepayers is regressive and inequitable.'"[342] To the contrary, "SDG&E's proposed investments serve and benefit its ratepayers. … As discussed in the rebuttal testimony of Fernando Valero, Ex. SDG&E-215, SDG&E's proposed Clean Energy Innovations energy storage projects (both battery and hydrogen) will capture excess energy so that it can be made available to SDG&E customers when needed, its Hydrogen Build-Ready Infrastructure project will connect customers' hydrogen generation equipment to the electrical grid to enable hydrogen-fueled vehicles, and its Innovation Technology Development Department's Clean Energy research will facilitate the decarbonization and electrification of customer end-uses."[343] Further, "these sustainability programs provide net benefits to ratepayers because they assist in mitigating and adapting to climate change. Such mitigation and/or adaption helps Californians, including SDG&E ratepayers, avoid potential economic and health/wellbeing losses from catastrophic events" caused by climate change.[344] SDG&E's sustainability investments are prudent, reasonable, benefit ratepayers, and should be approved.

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339 Ex. SDG&E-202 (de Llanos) at 6.

340 *Id.* at 3-4, 6-9; Ex. SDG&E-02 (de Llanos) at 3-5.

341 Ex. SDG&E-202 (de Llanos) at 9-10.

342 *Id*. at 10 (*quoting* Ex. CA-09-E (Younes) at 15 (footnote omitted)).

343 Ex. SD&E-202 (de Llanos) at 10.

344 Ex. SD&E-202 (de Llanos) at 10. At the same time, "SDG&E is acutely aware of the need for an affordable and equitable energy transition. As discussed in the rebuttal testimony of Bruce Folkmann, Ex. SDG&E-201, SDG&E is actively pursuing multiple pathways to reduce rates." *Id.* at 11.

8.2.5 SDG&E's Response to Opponents of Clean Hydrogen and Carbon Removal

Certain intervenors oppose SDG&E's Clean Energy Innovation projects that "explore and utilize the potential of clean hydrogen, and study carbon removal, to help decarbonize California."[345] They argue that such projects do not benefit SDG&E ratepayers, are "new lines of business," or fail to advance decarbonization.[346] To the contrary, "federal and state agencies, and this Commission, agree that clean hydrogen and carbon removal have potential to advance decarbonization. Moreover, SDG&E's projects for clean hydrogen and proposal to study carbon removal have the potential to benefit SDG&E's current customers, and such ratepayers thus are properly charged the costs to explore such technologies."[347]

SDG&E's Path to Net Zero, CARB's 2022 Scoping Plan, and the California Legislature agree that clean hydrogen is necessary to achieve California's net zero GHG emissions goal.[348] California SB 1075 (2022) directs CARB, in consultation with this Commission, to determine strategies to support hydrogen infrastructure, to "consider green electrolytic hydrogen an eligible form of energy storage, and [to] consider other potential uses of green electrolytic hydrogen in their decarbonization strategies."[349] The Commission also recognized the potential benefits of clean hydrogen in D.22-12-055 and D.22-12-057.[350] Similarly, SDG&E's Path to Net Zero, CARB's 2022 Scoping Plan and California law all recognize that carbon removal "will be a necessary tool to reduce GHG emissions and mitigate climate change."[351] As noted above, and discussed by SDG&E's Fernando Valero in Ex. SDG&E-215, these projects generally benefit customers, are a modest investment in potential decarbonization solutions, and should be approved.

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345 *Id.* at 11 (footnotes omitted; citing to Ex. SDG&E-15-R-E (Valero) at 5-8 (Hydrogen Strategy and Implementation Department), 18-21 (Advanced Energy Storage and potentially Advanced Energy Storage 2.0), 28 (Hydrogen Build Ready Infrastructure), 29 (Hydrogen Energy Storage System Expansion), and 11-13 (Innovation Technology Development O&M)).

346 Ex. SDG&E-202 (de Llanos) at 12.

347 *Id.* at 12.

348 *Id*. at 13.

349 SB 1075 (2022, Skinner), Section 4, codified at California Public Utilities Code Section 400.3.

350 Ex. SDG&E-202 (de Llanos) at 14.

351 Ex. SDG&E-202 (de Llanos) at 15-16 (*quoting* CARB 2022 Scoping Plan at 84).

8.2.6 SDG&E's Response to UCAN and PCF Regarding DERs

Both UCAN and PCF suggest that customer-owned distributed energy resources (DER), particularly combined with grid-connected, customer-owned battery storage, could decarbonize California's electric supply and displace the need for some utility investments.[352] UCAN asserts that SDG&E's Sustainability Strategy does not adequately recognize the value of such DERs.[353]

UCAN and PCF are mistaken. While "SDG&E supports customer based DERs and customer choice," a "DER-only approach is not workable. For example, solar energy does not cover energy needs at night or days when the sun does not shine. Customer scale batteries do not have the longevity to support a household's energy consumption for long-periods of time. The reliability of the electrical grid is paramount today and will become even more so as customers increase their reliance on electricity as a source of energy for transportation, for example. Additionally, customer DERs do not cover all areas of the system."[354] The potential for customer-owned DERs "does not alter the investments SDG&E proposed in this proceeding."[355]

SDG&E responds to UCAN and PCF challenges to specific projects in the testimony about, and discussion of, those projects. However, it is wrong to claim that SDG&E's Sustainability Strategy does not value customer-owned DERs. SDG&E's Sustainability Strategy recognizes SDG&E's role "as a grid operator to be central to achieving California's climate agenda" and states: "Playing an important role in our grid modernization plans are intelligent DERs, especially when they are unified as a group and provide customers the means to optimize their energy futures. Doing so will allow them to use their DERs to fully participate in the grid, whether through energy generation, load or storage."[356] "The Path to Net Zero also recognizes the need for a diverse mix of energy resources, including DERs like residential solar, in order to meet California's goal of net

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352 Ex. SDG&E-202 (de Llanos) at 16, n.59. If UCAN or PCF are offering "affirmative proposals," their testimony is too vague and unsupported to meet their burden of proof. *See* Scoping Memo and Ruling (October 3, 2022) at 13 ("reasonable to allow parties to present affirmative proposals ….") It is not clear what is proposed and no description of work or budget is presented.

353 Ex. SDG&E-202 (de Llanos) at 17, n.60.

354 Ex. SDG&E-201-R (Folkmann) at 10-11.

355 Ex. SDG&E-202 (de Llanos) at 17.

356 Ex. SDG&E-202 (de Llanos) at 17, Attachment A at ED-B-47 (Sustainability Strategy 2020 at 47).

zero GHG emission by 2045."[357] Consistent with its sustainability strategy, SDG&E has programs supporting and incorporating customer-owned DERs.[358]

Fundamentally, UCAN's and PCF's proposals for incorporating customer-owned DERs into SDG&E's grid and resource planning are premature because doing so "raises technical and policy questions that are the subject of ongoing Commission proceedings."[359] Ms. de Llanos describes Commission proceedings addressing how to incorporate such DERs, which include: Order Instituting Rulemaking to Modernize the Electric Grid for a High Distributed Energy Resources Future (R.21-06-017); Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (R.22-07-005); and Order Instituting Rulemaking to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, Data Use And Access, And Equipment Performance Standards (R.22-11-013).[360] UCAN's witness wants SDG&E's GRC investments to implement staff recommendations in the "CalFUSE" proposal even though the Commission specifically stated that such recommendations would be considered in R.22-07-005.[361]

The Commission's ongoing "proceedings are the appropriate place for UCAN to offer its proposals for how customer-owned DERs may fit in with grid modernization and management. … When technical and feasibility concerns have been resolved, with stakeholder involvement, in the Commission's DER-specific proceedings, SDG&E's Sustainability Strategy and Path to Net Zero will adapt as needed to collaborate with customer-owned DER."[362]

9. Risk-Informed GRC Overview

SoCalGas and SDG&E's Risk Management direct testimony volume comprised the Risk Management Policy testimony of Deana M. Ng, SoCalGas, and Michael M. Schneider, SDG&E, and the RAMP to GRC Integration testimony of Gregory S. Flores and R. Scott Pearson,[363] each of which is discussed in turn in Sections 9.1 and 9.2, below. The Risk Management Policy testimony of Ms. Ng discusses how this is "SoCalGas's first GRC to incorporate the directives and guidance

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357 Ex. SDG&E-202 (de Llanos) at 17.

358 *Id.* at 18.

359 *Id.* at 19.

360 *Id.* at 19-22.

361 *Id.* at 19-20, 21, n.74-75.

362 *Id.* at 21-22.

363 Ex. SCG-03, Chapter 1 (Ng), SCG-03-2R-E/SDG&E-03-2R-E: Chapter 2 (Flores and Pearson); Ex. SDG&E-03, Chapter 1 (Schneider), SCG-03-2R-E/SDG&E-03-2R-E: Chapter 2 (Flores and Pearson).

set forth in the Settlement Decision and represents SoCalGas's best efforts to support achievement of the Commission's risk-based decision-making objectives. SoCalGas's practice of risk management continues to evolve, while retaining the flexibility needed to adapt to the Commission's ongoing development of statewide risk management standards, processes, and methodologies."[364] Similarly, Mr. Schneider's testimony discusses how SDG&E "presents its first General Rate Case (GRC) that incorporates requirements of [D.18-12-014]" and how "SDG&E has been, and will continue, to be a leader and active participant in the Commission's safety risk proceedings, including in the open S-MAP proceeding."[365] The RAMP to GRC Integration testimony of Messrs. Flores and Pearson "describes the process used by the Companies to integrate the 2021 RAMP into the TY 2024GRC applications."[366]

9.1 Risk Management Policy

9.1.1 SoCalGas

Ms. Ng's testimony provides an overview of SoCalGas's comprehensive enterprise risk management (ERM) framework, which manages risk across the enterprise through a structured, data-driven approach that "continuously identifies threats and opportunities, systemically evaluates and prioritizes risk, drives risk-informed decision making and risk mitigation planning, monitors dynamic risk conditions and the effectiveness of risk mitigations, and continuously improves."[367] As described in Ms. Ng's testimony, SoCalGas's ERM framework is modeled after International Organization for Standardization (ISO) Standard 31000 and incorporates three foundational principles: (1) Leadership Commitment & Governance; (2) Integration Across Organizational Activities; and (3) Communication & Consultation.[368]

SoCalGas's ERM framework incorporates a formalized governance structure to integrate and align risk management practices across the enterprise and drive appropriate communication and collaboration across the Company—so that both leadership and subject matter expert input is incorporated into the framework and so that the outputs of the risk management process inform decision-making and resource planning on a continuous basis.[369] Ms. Ng explains how "[r]isk is

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364 Ex. SCG-03, Chapter 1 (Ng) at 1. (citing to D.18-12-014).

365 Ex. SDG&E-03, Chapter 1 (Schneider) at ii and 1.

366 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2 (Flores/ Pearson) at 1.

367 Ex. SCG-03, Chapter 1 (Ng) at 2.

368 *Id*. at 2 -3.

369 *Id*. at 4.

managed across every organization within SoCalGas; everyone at SoCalGas has responsibility for managing risk. Risk management is part of, and not separate from, the Company's purpose, governance, leadership and commitment, strategy, objectives, and operations."[370] The purpose of communication and consultation is to assist relevant stakeholders in understanding risk, the basis upon which decisions are made and the reasons why particular actions are required.[371] Effective communication is critical to the successful implementation of any risk management process.[372]

In addition, Ms. Ng discusses how SoCalGas's comprehensive ERM framework follows a six-step process that "is designed to proactively identify emerging threats and opportunities, establish organizational priorities, develop risk mitigation plans and facilitate risk-informed business decisions and resource allocation, monitor and evaluate risk conditions and the effectiveness of risk mitigation plans using qualitative and quantitative methods and data, and enhance and continuously improve upon the Company's risk management practices and processes."[373]

- Step 1: Risk Identification & Analysis;
- Step 2: Risk Assessment & Prioritization;
- Step 3: Mitigation Plan Development;
- Step 4: Mitigation Plan Implementation;
- Step 5: Risk Monitoring & Review; and
- Step 6: Enhancement & Continuous Improvement.

Ms. Ng explains how this comprehensive approach to enterprise risk management is "an integral part of SoCalGas's Safety Management System (SMS) and supports and informs the Commission's Risk-Based Decision-Making Framework, a key component of which is the GRC."[374] SoCalGas's practice of risk management continues to evolve and improve, while retaining the flexibility needed to adapt to the Commission's ongoing development of statewide risk management standards, processes, and methodologies.

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370 *Id*. at 7.

371 *Id*. at 11:12-19.

372 *Id*.

373 *Id*. at 2 -3.

374 *Id*.

9.1.2 SDG&E

Mr. Schneider's testimony similarly provides an overview of SDG&E's ERM framework, which manages risk across the enterprise through a "structured, data-driven approach that continuously identifies threats, systematically measures risk, and assesses the effectiveness of risk mitigations."[375] As described in Mr. Schneider's testimony, SDG&E has "incorporated the Commission's risk-related decisions and orders and international standards such as ISO 31000 (Risk Management)."[376] Similar to SoCalGas, SDG&E uses a six-step framework:

- Step 1: Risk Identification;
- Step 2: Risk Analysis;
- Step 3: Risk Evaluation, Scoring, and Prioritization;
- Step 4: Risk Mitigation Plans Development and Documentation;
- Step 5: Risk Informed Investment Decision and Risk Mitigation Implementation; and
- Step 6: Monitoring and Review.[377]

As discussed by Mr. Schneider, "SDG&E believes, consistent with ISO 31000, to be effective, risk management must be integrated into the organization's culture. At SDG&E, the integration is accomplished in several ways. . . . the operating units are responsible for identifying, assessing, developing, and implementing mitigations to address their risks. ERM provides the tools, methodology, and facilitation to support the operating units' risk management efforts."[378] On a regular basis operating units review their risks to reflect the most current information regarding their risks.[379] As stated by Mr. Schneider, "[t]his best practice to managing risks is reflected in the GRC testimony, where witnesses testify about their risks and the controls/mitigations adopted to reduce SDG&E's overall risks."[380]

Mr. Schneider recognizes that "[f]oundational to making risk-informed decisions is having an ERM organization with the appropriate skills and capabilities to support the operating units' risk practices. The ERM organization will continue to promote sufficient risk competencies and tools to facilitate the identification and analysis of risk at a broad enterprise level and within the

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375 Ex. SDG&E-03, Chapter 1 (Schneider) at ii.

376 *Id*. at 5.

377 *Id*. at 5-7.

378 *Id*. at 7.

379 *Id*. at 8.

380 *Id*.

Company's operating units."[381] Advancing SDG&E's risk analysis capabilities is essential to guide Company decision making, however, the responsibility for making the final decisions on where to allocate resources to best mitigate SDG&E's risks will continue to rest with those that manage the risks.[382]

SDG&E's practice of risk management continues to evolve and improve. SDG&E is working to improve the efficiency and effectiveness of its risk-informed decision-making in support of the Commission's desire for increased transparency, modeling, and reporting of its risk mitigation activities.[383] The work includes process improvements, as well as system enhancements to automate the capture within the Company's enterprise financial system of costs and units of measure associated with SDG&E's primary risk activity drivers.[384] The Commission has created an environment where further leading risk management innovations can be discussed and tested, and SDG&E, as Mr. Schneider's testimony states, will continue to be a leader in this field.[385]

9.2 RAMP-to-GRC Integration

Messrs. Flores and Pearson's testimony summarizes SoCalGas and SDG&E's risk-informed GRC presentation, providing context within which SoCalGas and SDG&E's funding requests should be viewed, and, together with Ms. Ng's and Mr. Schneider's testimony, explains how SoCalGas and SDG&E have incorporated risk management into the TY 2024 GRC applications and supporting testimony. Messrs. Flores and Pearson's testimony also provides a roadmap of the RAMP risks included in this GRC and where (*i.e.*, in which SoCalGas and/or SDG&E testimony chapters) these risks are represented, and identifies each TY 2024 GRC witness who sponsors mitigation activities associated with the Companies' RAMP risks (as previously set forth in their RAMP Report)[386] including details on RAMP-related risks and costs, in Appendices D1 and D2 of their testimony.

Messrs. Flores and Pearson describe how the Companies have incorporated their GRC cost requests for risk mitigation activities into the Commission's risk-informed GRC framework

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381 *Id*. at 21.

382 *Id*.

383 *Id*. at 21-22.

384 *Id*.

385 *Id*. at 26.

386 A.21-05-011/-014(cons.), Risk Assessment and Mitigation Phase Report of Southern California Gas Company and San Diego Gas & Electric Company (May 17, 2021) (referred to herein as the "2021 RAMP Reports").

established through the Risk Framework Decision.[387] The Commission adopted the Risk Framework Decision in December 2014, to incorporate a risk-informed decision-making framework into the Rate Case Plan (RCP) for the GRCs of California's investor-owned utilities (IOUs).[388] The Commission intended this framework to incorporate risk, value transparency, and place safety of the public, employees, and contractors, as a top priority.[389] The Commission has stated that the risk framework is intended to "result in additional transparency and participation on how the safety risks for energy utilities are prioritized … and provide accountability for how these safety risks are managed, mitigated and minimized."[390]

The Companies filed their respective 2021 RAMP Applications and RAMP reports on May 17, 2021, as the first phase of the Companies' TY 2024 GRC process. The purpose of the RAMP Report is to "examine the utility's assessment of its key risks and its proposed programs for mitigating those risks."[391] As described by Messrs. Flores and Pearson, pursuant to D.18-12-014 (the Safety Model Assessment Proceeding [S-MAP] Decision) and the Settlement Agreement adopted therein (collectively, the Settlement Decision), the Companies: (i) built a Multi-Attribute Value Function (MAVF) methodology; (ii) identified risks for their respective Enterprise Risk Registers; (iii) performed risk assessment and risk ranking in preparation for their respective RAMP Reports; (iv) selected enterprise risks for inclusion in their respective RAMP Reports; and (v) performed mitigation analysis for risks in RAMP, including the calculation of Risk Spend Efficiency (RSEs) values.[392]

In November 2021, the Commission's Safety Policy Division (SPD) issued an Evaluation Report containing recommendations that could be made to the Companies' RAMP presentation prior to being integrated into the TY 2024 GRC. Examples of SPD and party recommendations include eliminating the Stakeholder Satisfaction attribute from the MAVF, allocating cross functional foundational costs, increasing the number of tranches used, and adjusting the baseline

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387 SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2 (Flores/Pearson) at 1 (citing D.14-12-025).

388 California IOUs consist of SoCalGas, SDG&E, Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE).

389 D.14-12-025 at 35.

390 *Id*. at 3; *see also id*. at 10. Note that SoCalGas's and SDG&E's GRC applications address risks and request funding for risk mitigation activities beyond their top safety risks (for example, reliability projects and safety risks that did not meet the minimum threshold to be included in RAMP).

391 D.14-12-025 at 31 (internal quotations and citations omitted).

392 SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2 (Flores/Pearson) at 1 (citing to D.18-12-014).

for costs from 2020 to 2023.[393] On March 30, 2022, Commissioner Houck issued a ruling directing the Companies to incorporate certain identified SPD recommendations into their TY 2024 GRC applications.[394] As discussed in detail in Messrs. Flores and Pearson's testimony, the Companies believe the RAMP filing and the adjustments made to address SPD's recommendations result in a TY 2024 GRC that meets the requirements of the Settlement Decision as well as the Commissioner's Ruling.[395]

Messrs. Flores and Pearson describe the process used to integrate the RAMP into the TY 2024 GRC applications.[396] The Companies took the following steps:

1. Developed a RAMP based mitigation portfolio as part of the TY 2024 GRC;
2. Incorporated the specific requests into the witnesses' GRC forecasts; and
3. Developed a roadmap for RAMP to GRC Integration.[397]

Messrs. Flores and Pearson's testimony describes each of the above steps in detail and provides an example of how RAMP was integrated into the GRC testimony forecasts.[398] The Companies made several changes in response to SPD and party feedback, including, but not limited to:

- Removed the Stakeholder Satisfaction attribute;
- Adopted a Generalized Pareto Distribution (GPD) analysis for SDG&E's Wildfire risk assessment;
- Increased tranche granularity as part of the risk analysis performed in the GRC, incorporating 31 additional levels of tranche granularity across 11 of the Companies' 15 key risks;
- Recalibrated the baseline for costs from 2020 to 2023;
- Where applicable, updated the historic data used to calculate the LoRE and CoRE values;

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393 *Id*. at 7.

394 RAMP Proceeding (A.21-05-011/-014 (cons.)), Assigned Commissioner's Ruling Directing Sempra Utilities to Incorporate Staff Recommendations on Their Risk Assessment and Mitigation Phase in the Upcoming 2024 General Rate Case Application (March 30, 2022).

395 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2 (Flores/Pearson) at 8-24.

396 *Id*. at 8-24.

397 *Id.*

398 *Id.*

- Calculated RSE values with an allocation of the requested dollars for Cross Functional Factor (CFF) activities; and
- Calculated RSEs for the 2025-2027 post-test year period.[399]

Further responses to SPD and party feedback on the Companies' 2021 RAMP Reports is found in Appendix B to Messrs. Flores and Pearson direct testimony. As testified by Mr. Flores, Appendix B was not intended to capture every word from every set of comments filed by intervenors in RAMP, but "is intended to be a summary of the [comments] we received from third-parties that were incorporated into our report that provides a brief description of those comments and a brief response with cross-references, when necessary, to other witness areas."[400]

9.3 Balancing of Costs and Risk Reduction Benefits

Direct testimony regarding SoCalGas and SDG&E's Risk Management presentation was submitted by TURN[401] who left the Companies' RAMP to GRC Integration process essentially unchallenged. Instead, TURN makes a set of policymaking arguments with respect to the Companies' risk evaluation process and calculation of RSEs. In its testimony, TURN asserts that RSEs are intended for "measuring and comparing the cost effectiveness of [the Companies'] programs proposed in this case."[402] As discussed by Messrs. Flores and Pearson in direct and rebuttal testimony, as well as during cross-examination, while RSE calculations are informative for comparing the relative benefits of various proposed utility safety and reliability investments for prioritization purposes, RSE calculations were never intended to be deterministic, and are not fit for that purpose.[403] As discussed by Messrs. Flores and Pearson, "RSEs do not allow for

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399 *Id.*; *see also* generally, Ex.SCG-03-S-2R/SDG&E-03-S-2R-E (Flores/Pearson).

400 Tr. V7:1271:8-16 (Flores).

401 Ex. TURN-04 (Borden/Lane).

402 *Id*. at 4.

403 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2 (Flores/Pearson) at 14-15 ("Conceptually, RSEs can be useful tools to assist in decision-making, and SoCalGas and SDG&E support their use and refinement. . . . [However,] a calculation or single value cannot replace prudent and reasonable risk policies and practices, but rather is an additional tool to be used in that process. . . . RSEs remain a data point for utilities to consider, but not the deciding factor for mitigation selection."); SCG-203-E/SDG&E-203-E (Flores and Pearson) at RSP/GSF-2 ("Like the RSE from which it came, [TURN's Benefit Cost Ratio] would still be one data point and would still require consideration of other qualitative and quantitative data points to evaluate whether to proceed with a particular investment."); Tr. (June 8, 2023), Volume 7 at 1264:5-9 ("RSEs, in and of themselves, require interpretation. I don't think that as a standalone metric that it determines a go, no-go decision. I would state that the interpretation of that data is equally, if not more, important than the metric itself").

comparison of costs and benefits, but rather, are merely a factor to be considered in deciding whether to proceed with a particular safety or reliability investment."[404]

TURN also uses the RSE calculations to calculate and present derivative Benefit Cost Ratios (B-C Ratio) and states they should be used to evaluate cost effectiveness.[405] TURN's derivative B-C Ratio calculations are not sound, have not been reviewed or adopted by the Commission in the proceeding dedicated to adoption of methodologies to evaluate risk in the State's utilities' general rate cases, and do not serve the public interest. Further, adoption of TURN's positions would erode the ability of SoCalGas and SDG&E to keep customers, communities, and workers safe.[406] An issue of such statewide importance should be carefully evaluated and decided in a Commission rulemaking, where the interests of all impacted stakeholders can be effectively and efficiently considered, not in a utility-specific ratemaking proceeding. Indeed, the Commission has an open rulemaking (R.20-07-013, the Risk OIR) to consider such alternative approaches.[407] In. D.22-12-027, the Commission outlines a timeline for the Companies to transition to a Benefit Cost Ratio (BCR) framework and adjust other risk methodologies, specifically when they submit their respective RAMP filings in 2025.[408] Given the ongoing RISK OIR Phase III proceeding and the continued adjustment and consideration of the BCR framework, it is inappropriate for TURN to propose an alternative risk evaluation methodology here.

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404 Ex. SCG-203-E/SDG&E-203-E (Flores and Pearson) at 3 (citing I.17-11-003, CPUC, Risk and Safety Aspects of Risk Assessment and Mitigation Phase Report of Pacific Gas & Electric Company, (March 30, 2018), at 35 (In its review of PG&E's RSE methodology, The CPUC Safety and Enforcement Division (SED) agreed that RSE were not the only factor for consideration in selecting mitigations.).)

405 Ex. TURN-04 (Borden/Lane) at 4. TURN, however, also acknowledges that "the MAVF approach adopted in the D.18-12-014 Settlement continues to apply to this GRC."; *Id*. at 26.

406 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 2.

407 *See* R.20-07-013, Order Instituting Rulemaking to Further Develop a Risk Based Decision-Making Framework for Electric and Gas Utilities (July 16, 2020) at 2 (The Commission initiated R.20-07-013 to build on requirements for a utility risk framework adopted in the first Safety Model Assessment Proceeding (S-MAP), Application 15-05-002, *et al*., and in R.13-11-006, the Risk-Based Decision-Making proceeding).

408 D.22-12-027, Appendix B, Risk-Based Decision-Making Framework Regarding Required Elements for Risk and Mitigation Analysis in the Risk Assessment Mitigation Phase (RAMP) and General Rate Case (GRC) Applications.

The Commission has agreed that RSEs can be useful, but their limitations must be recognized.[409] As noted by the Commission, "RSE values produced by the MAVF approach have had limited utility. While the RSE values produced by the MAVF approach allow for comparison of the relative cost-effectiveness of various mitigation measures, the RSE values do not indicate whether the Benefits of a proposed mitigation measure outweigh its costs."[410] Moreover, the Commission has stated that there are numerous other qualitative and quantitative factors that must be taken into consideration to make an evaluation on whether to proceed with a particular safety or reliability investment.[411] As such, even if an RSE could be converted to a Benefit Cost Ratio, such conversion would have the same limitations as the RSE. Like the RSE from which it came, it would still be one data point and would still require consideration of other qualitative and quantitative data points to evaluate whether to proceed with a particular investment.

The Commission should examine the Companies' risk-informed GRC showing in light of its risk-informed GRC framework, and disregard intervenor proposals that are inconsistent with risk-informed funding decisions.

9.4 Safety Management System (SMS): Safety, Risk, and Asset Management[412]

SoCalGas's Safety & Risk Management Systems testimonies and workpapers and SDG&E's Safety Management System: Safety, Risk, & Asset Management testimonies and workpapers, supported by witnesses Neena N. Master and Kenneth J. Deremer, respectively, describe and justify SoCalGas's forecasted Safety & Risk Management Systems and SDG&E's forecasted Safety, Risk, & Asset Management O&M and Capital expenditures.[413] They provide a detailed and thorough examination of SoCalGas's Safety & Risk Management activities and SDG&E's Safety, Risk, & Asset Management activities, including operations, programs, and major cost drivers, along with the challenges facing these areas, including supporting a culture of

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409 D.16-08-018, Interim Decision Directing Utilities to Take Steps Toward a More Uniform Risk Management Framework, at 35-36 (discussing requirements in D.14-12-025).

410 D.22-12-027 at 26.

411 *Id*. at 24-25 (In their discussion of refining the RDF, SED maintains language from the original Settlement Agreement that upholds the limitations of RSEs and CBRs and notes their lack of being a singular decision-making point.).

412 SoCalGas's Asset Management expenditures are presented in Ex. SCG-05 (Rawls) and addressed in Section 11.

413 *See* Ex. SCG-27-2R-E (Master); Ex. SCG-27-WP-R-E (Master); Ex. SCG-227 (Master); Ex. SDG&E-31-R-E (Deremer); Ex. SDG&E-31-WP-R-E (Deremer); Ex. SDG&E-31-CWP-E (Deremer); Ex. SDG&E-231 (Deremer).

learning and continuous improvement, increased regulatory requirements, and maintaining and strengthening a well-informed and knowledgeable workforce. The activities described in these testimonies help to maintain the delivery of safe, reliable, resilient, and efficient service to the Companies' customers.

The RAMP activities represented and supported as part of these testimonies are Incident Involving an Employee,[414] Incident Involving a Contractor,[415] Emergency Preparedness and Response and Pandemic, Safety Management System,[416] Asset Management, and Foundational Tech Systems,[417] as further detailed in Section III of Ms. Master's testimony and Section II of and Mr. Deremer's testimony.[418] The incremental funding request supports the ongoing management of these risks that could pose significant safety, reliability, and financial consequences to the public and employees. The anticipated risk reduction benefits that may be achieved by authorizing the funding to implement these RAMP activities are summarized in Ms. Master's and Mr. Deremer's direct testimonies.[419]

Intervenors' summary positions are compared to SoCalGas and SDG&E's in the tables below:

Summary of SoCalGas O&M Request and Intervenor Proposals

TOTAL NON-SHARED + SHARED SERVICES O&M - Constant 2021 ($000)		
	Test Year 2024	**Variance[420]**
SoCalGas	23,635[421]	--
Cal Advocates	20,408	(3,227)

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414 SCG-Risk-5 Incident Involving an Employee.

415 SCG-Risk-7 Incident Involving a Contractor; SDG&E-Risk-4 Incident Involving a Contractor.

416 SCG-CFF-3 Emergency Preparedness and Response and Pandemic; SCG-CFF-6 Safety Management System.

417 SDG&E-CFF-1 Asset Management; SDG&E-CFF-4/SCG-SCG-CFF-4 Foundational Tech Systems.

418 Ex. SCG-27-2R-E (Master) at 11-19; Ex. SDG&E-31-R-E (Deremer) at 10-19.

419 Ex. SCG-27-2R-E (Master); Ex. SDG&E-31-R-E (Deremer).

420 Intervenor's forecast – Utility's forecast = Variance.

421 SoCalGas updated its forecast to no longer seek recovery of short-term rental costs for the TY 2024, reflecting a downward adjustment. Ex. SCG-401/SDG&E-401 (Taylor), Attachment I at I-3.

Summary of SDG&E O&M Request and Intervenor Proposals

TOTAL O&M - Constant 2021 ($000)		
	Test Year 2024	**Variance**
SDG&E	16,348	
Cal Advocates	14,835	(1,513)

Summary of SDG&E Capital Request and Intervenor Proposals

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance**
SDG&E	2,200	2,373	2,372	6,945	--
Cal Advocates	5,474	5,992	5,991	14,457	7,512

9.4.1 The Companies' Strong Safety Culture

Safety is deeply embedded in the culture at SoCalGas and SDG&E.[422] It is this profound belief in safety as a driver of decision-making that made integrating RAMP into the Companies' GRC a natural outgrowth of the way in which the Companies' historically make decisions. SoCalGas and SDG&E are committed to doing the right thing and doing it safely. The Companies are committed to being prudent and safe operators in the communities they serve. In addition, the Companies' goals are for each employee to arrive home safely after a day's work and for customers to trust the Companies' commitment to their family's safety. Many witnesses in this case testified about safety culture, generally in Section III of the direct testimonies, providing perspectives from the Companies' most senior executives, field operations, customer services, or human resources. For example, Maryam S. Brown, SoCalGas's President, explained SoCalGas's commitment to a strong safety culture as follows:

> Safety and reliability are cornerstones of SoCalGas's business and operations. Our GRC proposals will allow us to continue to invest in the reliability and safety of our energy system with a focus on relevant investments, including the Company's Gas Integrity Management Programs, pipeline operations (including the Control Center Modernization project), and cybersecurity. These investments, together with our Safety Management System, will mitigate risks that could impact our customers, energy system, and employees.[423]

Ms. Brown's sentiment is shared by Bruce A. Folkmann, SDG&E's President and Chief Financial Officer (CFO), who explained that:

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422 *See* Ex. SCG-27-2R-E (Master) at 8; Ex. SDG&E-31-R-E (Deremer) at 2.

423 Ex. SCG-01-2R (Brown) at 2.

> Safety is SDG&E's most fundamental value. This value is embedded in all that SDG&E does and serves as the foundation for whom SDG&E is – from employee training to the design, installation, operation, and maintenance of SDG&E's utility infrastructure, to providing safe and reliable service to our customers. Keeping our employees, contractors, customers, the public, and Company systems safe is crucial, and we take great pride in our safety record.[424]

In addition, Ms. Master, on behalf of SoCalGas, explained that:

> SoCalGas's longstanding commitment to safety focuses on three primary areas – employee and contractor safety, customer and public safety, and the safety of the Company's gas system. This safety focus is foundational to the culture of SoCalGas from initial employee training to the installation, operation, and maintenance of SoCalGas's utility infrastructure, and to SoCalGas's commitment to provide safe and reliable service to its customers. SoCalGas strives to continuously improve and strengthen its safety performance by setting clear measurable goals with a strong focus on leading indicators, assessing safety performance, reviewing, and questioning approaches and assumptions.[425]

Mr. Deremer, on behalf of SDG&E, explained that SDG&E embraces a "safety-first culture [that] focuses on our employees, customers, and the public, and is embedded in every aspect of our work."[426] SDG&E's safety culture efforts include developing a trained workforce, safely operating and maintaining its electric and gas infrastructure, and providing safe and reliable gas and electric service. Both Companies emphasize and enshrine safety into their culture through employee programs like Behavior Based Safety Programs (intended to reduce at-risk behaviors), a Close Call/Near Miss Program (to identify potential weak signals for risks and enable action to reduce the potential for serious incidents), Safety Committees (creating forums for employee engagement on safety issues and co-creation of changes and improvements), promoting awareness of the Underground Service Alert (811, "call-before-you-dig"), and the myriad of safety training and safe driving programs.

Knowing that "what gets measured gets improved," both Companies conduct a bi-annual safety culture assessment through the National Safety Council Barometer Safety Culture Survey and an Employee Engagement Survey.[427] The Safety Barometer Survey assesses the overall health of the safety climate and identifies areas of opportunity to eliminate injuries and improve focus and commitment to safety. As discussed in the testimonies of Ms. Master and Mr. Deremer, the

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424 Ex. SDG&E-01-R (Folkmann) at 1-2.

425 Ex. SCG-27-2R-E (Master) at 3.

426 Ex. SDG&E-31-R-E (Deremer) at 2.

427 Ex. SCG-27-2R-E (Master) at 20; Ex. SDG&E-31-R-E (Deremer) at 76.

Companies have taken multiple, forward-thinking steps to address safety culture and associated safety policies and practices and routinely take a proactive and leading role in the Commission's efforts to address safety initiatives and risks.[428]

9.4.2 SoCalGas's Request

SoCalGas requests approval of a TY 2024 forecast of $23.635 million for Safety and Risk Management Systems O&M expenditures.[429] The forecast is composed of $21.250 million for non-shared service activities and $2.385 million for shared service activities. This forecast represents an increase of $8.066 million over 2021 adjusted-recorded costs (BY 2021) and includes $18.730 million in RAMP related costs.[430] SoCalGas reviewed historical spending levels and performed an analysis of each category to determine which forecasting method would be most appropriate and reasonable to apply. The forecast method used to project costs begins with the Base Year (BY) 2021 and adjusts for incremental changes as appropriate.[431] This methodology best represents the nature of these costs, as a significant portion of the programs outlined in Ms. Master's testimony will be new and/or will have new initiatives added by direction of the CPUC for utilities to develop and deploy data-driven and risk-informed approaches to improving employee, contractor, public, and infrastructure safety.[432]

Cal Advocates and TURN provided testimony on SoCalGas's Safety and Risk Management Systems forecast. Cal Advocates does not object to any specific initiative or activity, but recommends disallowances to a portion of the incremental O&M funding above 2021 recorded levels.[433] Cal Advocates recommended reductions should not be adopted. TURN recommends a forecast reduction of 100% related to the request for incremental vehicles.[434] TURN's recommendation should not be adopted.

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428 Ex. SCG-27-2R-E (Master); SDG&E-31-R-E (Deremer).

429 Ex. SCG-27-2R-E (Master) at iv; Ex. SCG-227 (Master) at 1 and 9.

430 Ex. SCG-27-2R-E (Master) at iv and C-4; Ex. SCG-227 (Master) at 1 and 9.

431 Ex. SCG-27-2R-E (Master) at iv.

432 *Id.*

433 Ex. CA-14-E (Amin) at 11-22.

434 March 17, 2023, TURN on Fleet Services and Compensation & Benefits, Ex. TURN-10 (Jones).

9.4.2.1 **Non-Shared Operations and Maintenance**

The TY 2024 forecast for non-shared O&M is $21.250 million; an increase of $7.589 million over BY 2021.[435] SoCalGas's forecast for non-shared O&M expenses includes the following cost categories: (1) Safety Management System, (2) Strategy, (3) Risk Management, (4) Continuous Improvement, (5) Safety Management, (6) Emergency Services and (7) Technology & Analytics.[436] Cal Advocates does not contest any of the forecasts for the following non-shared categories: Safety Management Systems, Strategy, and Risk Management. Cal Advocates does contest the following non-shared categories: Emergency Services, Continuous Improvement, Safety Management, and Technology & Analytics.[437] Cal Advocates recommends a reduction of 15.19% of the O&M non-shared operations, which amounts to a $3.227 million disallowance from SoCalGas's proposed funding request. Cal Advocates' recommendations are derived from an inconsistent forecasting method which varies by category, utilizing different base years (2020 and 2021) and "normalizes" SoCalGas's TY 2024 incremental forecast to account for unidentified embedded costs over the four-year cycle.[438] In addition, Cal Advocates recommends a reduction in Full-Time Equivalents (FTEs).[439] If adopted, Cal Advocates recommendations would be inadequate to fund these important areas, which promote the safety of SoCalGas, its infrastructure, its employees, its contractors, and the public.[440]

As an initial matter, some of the activities identified in Ms. Master's testimony help to mitigate RAMP-related risks. Cal Advocates is recommending reductions to mitigation activities in the form of a reduction to incremental resources needed to support those activities. Cal Advocates does so without proposing an alternative solution to help mitigate the identified risks.[441] Cal Advocates' analysis did not address these activities from a safety or risk reduction perspective. For example, Cal Advocates did not explain, with evidence and support, how or why the proposed

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435 Ex. SCG-27-2R-E (Master) at 21.

436 *Id.*

437 Ex. CA-14-E (Amin).

438 *Id.*

439 *Id.* Cal Advocates also recommended that historical expenses that are one time, non-recuring activities should not be included in the TY 2024 funding request. Cal Advocates did not identify such expenses, however, SoCalGas reviewed the 2021 adjusted recorded operating expenses, which formed the basis in determining its TY 2024 request, and removed one-time non-recurring costs, which resulted in an adjusted forecast. *See* Ex. SCG-227 (Master) at 12 to 13 and 17 to 20.

440 Ex. SCG-227 (Master) at 3-4.

441 *Id.* at 4.

RAMP activity or level of proposed funding is unreasonable and/or does not enhance safety or reduce the applicable safety risks identified. The requested funding by SoCalGas is necessary to adequately enhance and resource the activities described in Ms. Master's testimony.[442]

Second, Cal Advocates uses inconsistent forecasting methods across different workgroup categories without justifying why these various forecasting methods are most appropriate for each of the four categories in question. Cal Advocates uses a 2021 Base Year plus "normalized" rate for Emergency Services, Continuous Improvement, and Technology & Analytics, but uses a 2020 Base Year plus "normalized" rate for Safety Management.[443] As discussed, SoCalGas utilizes a Base Year (2021) plus Incremental Activities method across all categories. SoCalGas's chose this forecast methodology to best capture fluctuations in historical spending, implementation of new programs, and growth in existing activities.[444] The Base Year plus Incremental Activities method best accounts for expected changes driven by, for example, General Order (G.O.) 112-F, American Petroleum Institute Recommended Practice 1173, the Safety Model Assessment Proceeding (S-MAP), and other expanded CPUC activities, including the rulemaking to develop and adopt an ongoing safety culture assessment framework (R.21-10-001).[445]

Lastly, regarding Cal Advocates' claim that a "normalized" calculation is required to account for costs embedded in SoCalGas's rates for the same or similar activities, Cal Advocates does not identify such embedded costs and thus SoCalGas is unable to provide a detailed response. However, SoCalGas's incremental activities would not be embedded in its historical rates.[446] In addition, with regard to Safety Management and Emergency Services, the incremental activities are requested to assist SoCalGas's efforts in tackling the top safety risks and mitigation plans identified in its 2021 RAMP report.

The Commission should adopt SoCalGas's TY 2024 non-shared O&M forecast of $21.250 million.

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442 *Id.*

443 Ex. CA-14-E (Amin) at 21. Notably, in using a 2020 Base Year for Safety Management, Cal Advocates acknowledges that the 2020 adjusted recorded expense is the highest year recorded among the historical numbers provided (2017 to 2021) for that category. Cal Advocates does not provide an explanation as to why it is appropriate to use the highest adjusted recorded among for Safety Management and no other category.

444 Ex. SCG-227 (Master) at 6.

445 *Id.*

446 *Id.* at 12-13, 16-17, 19.

9.4.2.2 **Shared Operations and Maintenance**

The TY 2024 forecast for shared O&M totals $2.385 million; an increase of $477,000 over BY 2021.[447] SoCalGas's forecast for shared O&M expenses includes the following cost categories: (1) Pipeline Safety & Compliance, (2) Pipeline Safety Oversight, and (3) Compliance Assurance. Cal Advocates does not contest any of the forecasts for these cost categories. All of these cost categories included RAMP-related costs.[448] The base year methodology was chosen for these cost categories because it best represents the future expenses and because it captures the growth that these areas are expecting.[449] Where appropriate, certain incremental upward or downward adjustments have been identified and made to the forecasts.[450]

The Commission should adopt SoCalGas's TY 2024 shared O&M forecast of $2.385 million. SoCalGas has provided sufficient support and analysis for each cost category, taking into account historical data and the different cost drivers that affect each category.[451]

9.4.2.3 Capital Costs

Ms. Master's testimony also provides the business rationale for certain projects, although the costs are sponsored elsewhere.[452] The projects are information technology projects.[453] Each of these projects support Safety and Risk Management initiatives[454] and the associated funding should be approved.

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447 Ex. SCG-27-2R-E (Master) at 68.

448 *Id.* at 69 to 71, 73 to 75, and 78 to 79.

449 *Id.* at 72, 76, and 79.

450 *Id.*

451 *See Id.* at 68-80.

452 *Id.* at 80. The capital costs for forecast years 2022, 2023, and 2024 for capital projects that support Safety and Risk Management initiatives are sponsored in the following witness areas: Gas Transmission Operations & Construction: Rick Chiapa, Steve Hruby and Aaron Bell (adopted by Rene Garcia) (Ex. SCG-06-2R-E); Pipeline Safety Enhancement Plan (PSEP): Bill Kostelnik (Ex. SCG-08); Gas Distribution: Mario A. Aguirre (adopted by Shaena Walker and Cody Quezada) (Ex. SCG-04-R-E); Gas Integrity Management Programs: Amy Kitson (adopted by Avideh Razavi) and Travis Sera (Ex. SCG-09); and Information Technology: William J. Exon (Ex. SCG-21-R-E, Ch. 2)

453 Note that although Continuous Improvement (CI) and Quality Assurance is listed as one of the projects in Ms. Master's testimony, that project has not been included in SoCalGas's revenue request and thus, SoCalGas is no longer seeking funding for this project as part of its GRC application.

454 *Id.*

9.4.2.4 Incremental Vehicles

TURN opposes SoCalGas's Lease and Licensing forecasted costs related to incremental vehicles, proposing a reduction of approximately $16,000,000.[455] Although Ms. Master's testimonies supported the justification for those incremental vehicles, the associated costs are sponsored in SoCalGas's Fleet Testimony.[456] TURN did not otherwise contest SoCalGas's Safety & Risk Management Systems forecast. Ms. Master's testimony demonstrates the business justification for thirteen incremental vehicles forecasted to support the anticipated support service activities of the organization.[457] SoCalGas's Safety & Risk Management departments support the Company's Safe Driving Program, Crisis Communication Technology, and Quality Management activities.[458] The funding for these vehicles is necessary in order to perform the functions of the activities described. Specifically, SoCalGas is requesting vehicles to advance the development of its Safe Driving Program through behind the wheel instruction; to transport Mobile Command Trailers to various locations in support of emergency support functions; and so that Quality Management can visit active construction sites and other Company locations.[459]

9.4.3 SDG&E's Request

SDG&E requests approval of a TY 2024 forecast of $16.348 million for Safety Management System: Safety, Risk, & Asset Management O&M expenditures.[460] The forecast is composed of $15.109 million for non-shared service activities and $1.239 million for shared service activities. This forecast represents an increase of $3.254 million over 2021 adjusted-recorded costs (BY 2021) and includes $6.548 million in RAMP related costs.[461] SDG&E is also requesting the Commission adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 of $2.200 million, $2.373 million, and $2.372 million respectively, which are all RAMP related costs.[462] SDG&E reviewed historical spending levels and performed an analysis of each category to determine which forecasting method would be most appropriate and reasonable to

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455 Ex. TURN-10 (Jones) at 3-15.

456 *See* Ex. SCG-18-R-E (Franco).

457 Ex. SCG-27-2R-E (Master) at 53, 62, 84.

458 Ex. SCG-227 (Master) at 8.

459 *Id.*

460 Ex. SDG&E-31-R-E (Deremer) at i.

461 *Id.* at i,10-11, and B-3.

462 *Id.*

apply. Most of the forecasts rely upon a base year 2021 methodology and adjust for incremental changes as appropriate.[463] This methodology best represents the nature of these costs, as a significant portion of the programs outlined in Mr. Deremer's testimony are relatively new and/or still evolving in light of ongoing direction by the Commission for utilities to develop and deploy data-driven and risk-informed approaches to improving employee, public, and asset safety.[464]

Cal Advocates, TURN, and UCAN provided testimony on SDG&E's Safety Management System: Safety, Risk, and Asset Management forecast. Cal Advocates does not object to any specific initiative or activity requested, but recommends disallowances to a portion of the incremental O&M funding above 2021 recorded levels.[465] UCAN's testimony addresses SDG&E's Information Technology (IT) capital projects and recommends reducing the capital forecast in 2024 for identified IT projects.[466] TURN recommends a forecast reduction of 100% related to the request for incremental vehicles.[467] For the reasons discussed below, and in Mr. Deremer's rebuttal testimony,[468] the recommendations by Cal Advocates, UCAN, and TURN should not be adopted.

9.4.3.1 Non-Shared Operations and Maintenance

The TY 2024 forecast for non-shared O&M is $15.109 million; an increase of $3.035 million over BY 2021.[469] SDG&E's forecast for non-shared O&M expenses includes the following cost categories: (1) Safety Management, (2) Enterprise Risk Management, and (3) Asset Management.[470] Cal Advocates does not contest the forecast for Enterprise Risk Management. Cal Advocates does contest the forecast for Safety Management and Asset

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463 *Id.* at i.

464 *Id.* For the Contractor Field Safety Management Overhead Pool cost category, SDG&E utilized a zero-based forecast methodology because this is a new method for tracking and allocating contractor field safety oversight costs. *Id.* at 82.

465 Ex. CA-14-E (Amin) at 11-22.

466 Ex. UCAN-01-E (Woychick) at 279-281.

467 Ex. TURN-10 (Jones).

468 Ex. SDG&E-231 (Deremer).

469 Ex. SDG&E-31-R-E (Deremer) at 21.

470 *Id.*

Management.[471] Cal Advocates recommends a reduction of $254,000[472] for Safety Management and $1.273 million for Asset Management.[473] Cal Advocates' recommendations are derived from "normalizing" SDG&E's TY 2024 incremental forecast to account for unidentified embedded costs over the four-year cycle.[474] In addition, Cal Advocates recommends a reduction in Full-Time Equivalents (FTEs).[475] If adopted, Cal Advocates recommendations would be inadequate to fund these important areas, which promote the safety of SDG&E, its infrastructure, its employees, its contractors, and the public.

9.4.3.1.1 Safety Management

With regard to Safety Management, Cal Advocates' proposal introduces a forecast method which "normalizes' SDG&E's TY 2024 incremental forecast over the four-year cycle but does not provide justification for rejecting SDG&E's forecast methodology in lieu of its own. As discussed in Mr. Deremer's testimony, with regards to the Safety Management cost category, SDG&E discovered errors during the discovery process in its TY 2024 forecast and has since corrected those errors.[476] SDG&E's corrected forecast allocates technology and software development costs across the four-year cycle, and further "normalizing" of these costs would be duplicative and unwarranted.[477] Cal Advocates proposes disallowances in non-labor costs that are critical to completing and maintaining key elements of the Safety Management System (SMS), including training, process implementation, data analytics, benchmarking, evaluation, and continuous improvement.[478] Given SDG&E's de-centralized SMS organizational structure, technology resources are crucial to enable consistency in process implementation and information flow.[479] SDG&E's incremental request will further enhance and optimize existing safety programs by providing the tools to collectively manage across the organization. As discussed in Mr. Deremer's

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471 Ex. CA-14-E (Amin).

472 *Cal* Advocates' recommendation for SDG&E's TY O&M forecast as presented in its testimony is $1.4 million. However, SDG&E reduced its original TY 2024 forecast from $2.303 million to $1.654 million, which reduces the difference in SDG&E's forecast versus Cal Advocates to $254,000. *See* SDG&E-231 (Deremer) at 6.

473 Ex. CA-14-E (Amin).

474 *Id.*

475 *Id.*

476 Ex. SDG&E-31-R-E (Deremer) at 7-8.

477 *Id.*

478 *Id.* at 7.

479 *Id.*

testimony, SDG&E has not sought nor received funding for SMS in prior GRCs.[480] While SDG&E prioritized internal resources to develop its SMS beginning in 2020, additional technology and supporting resources are needed for effective and sustainable deployment to reduce employee, contractor, and public safety risk, and advance State and Commission safety culture objectives.[481]

9.4.3.1.2 Asset Management

With regard to Asset Management, Cal Advocates' proposed reduction ignores the critical need for SDG&E to advance and sustain its Asset Management System, which is focused on increasing integrity of asset data, deploying risk-informed asset investment decision-making, and providing data and reporting for risk spend accountability in compliance with recent and evolving regulatory requirements.[482] Specifically, Cal Advocates recommends disallowing all incremental costs (except for annualization of one FTE), without providing specific or reasonable explanations for the recommended disallowance. Instead, Cal Advocates claims that SDG&E has not adequately supported or justified its TY forecast and the requested increase in expense relative to historical expenses. SDG&E disagrees with that assertion and has provided extensive explanation on the evolution of the asset management program in terms of recent historical and future spending in both direct testimony and data responses.[483]

Cal Advocates also states that SDG&E's asset management activities are not new.[484] While technically not new, Asset Management as a distinct and integrated organization was launched in 2018 and continues to evolve.[485] In addition, there are certain functional areas that are new, having been recently added and will continue to be added considering new Commission directives regarding risk spend accountability reporting.[486]

Cal Advocates' proposed disallowance for Asset Management has the following breakdown to the functional areas:

- $362,000 -Asset Data Systems and Records Management
- $577,000-Asset Integrity Management Program

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480 *Id.*

481 *Id.*

482 *Id.* at 11-12.

483 *Id.*

484 Ex. CA-14-E (Armin) at 52.

485 Ex. SDG&E-31-R-E (Deremer) at 13.

486 *Id.*

- $334,000 - Asset Risk and Accountability Reporting[487]

The Asset Data Systems function consolidates and integrates asset data across disparate company systems, creates asset health and risk/impacts indices at an individual asset level, and develops dashboards for users to interact with the data.[488] In 2024, as this initiative continues to develop and include assets across the enterprise, resources will be needed to support building the asset data for additional lines of business (Clean Energy, Gas Distribution, Smart Meter, Facilities, and IT) and additional funding required for cloud computing.[489]

For the Asset Integrity Management function, the current investment prioritization tool lacks the capability to meet the more rigorous and complex regulatory reporting requirements mandated in the Commission's most recent Safety Model Assessment Proceeding (S-MAP) decisions.[490] These requirements include forecasting, tracking, and reporting of units and costs associated with risk activities that drive SDG&E's risk-informed decision-making process. The Commission is requesting more transparency and accountability in capital spending; therefore, replacing the current system with the Copperleaf Portfolio Tool will provide the necessary data driven, risk informed, transparent, and consistent value-based capital investment prioritization and support the Risk Assessment Mitigation Phase (RAMP), RSAR, and GRC reporting requirements.[491]

The Asset Risk and Accountability Reporting group was established in the third quarter of 2021 to improve efficiency of processes and systems used for SDG&E's RSAR, integration of RAMP and GRC filings, and providing greater visibility of risk-based decision-making attributes in SDG&E's various planning, accounting, and regulatory systems.[492] This work will enable more effective forecasting, tracking, and reporting of units and costs associated with risk activities, allowing SDG&E to manage business activities more efficiently in a risk-informed manner and meet the reporting requirements of several recent Commission's decisions.[493]

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[487] *Id.* at 4.

[488] *Id.* at 14.

[489] *Id.*

[490] *See* D.19-04-020, D.21-11-009, D.22-10-002, and D.22-12-027.

[491] Ex. SDG&E-31-R-E (Deremer) at 15-16.

[492] *Id.* at 16.

[493] *Id.*

The Commission should adopt SDG&E's TY 2024 non-shared O&M forecast of $15.109 million.

9.4.3.2 **Shared Operations and Maintenance**

The TY 2024 forecast for shared O&M totals $1.238 million; an increase of $216,000 over BY 2021.[494] SDG&E's forecast for shared O&M expenses includes the following cost category: Field Safety, which includes RAMP related costs.[495] Cal Advocates does not contest the forecast for this cost category. The base year methodology was chosen for this cost category because it best represents the future expenses and because it is indicative of the current organizational structure, current safety management programs, and planned initiatives.[496] Incremental labor increases from the base year are requested in order to complete additional initiatives.[497] The Commission should adopt SDG&E's TY 2024 shared O&M forecast of $1.238 million. SDG&E provided sufficient support and analysis, considering historical data and the different cost drivers that affect this category.[498]

9.4.3.3 Capital Costs

Mr. Dermer's testimony supports the TY 2024 forecasts for Capital costs associated with the Contractor Field Safety Management Overhead Pool.[499] SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 is $2.200 million, $2.373 million, and $2.372 million respectively, which are all RAMP related costs.[500] Cal Advocates supports SDG&E's proposal to establish a Contractor Field Safety Management Overhead Pool, but recommended a disallowance to SDG&E's original submitted forecast.[501] The revised forecast is accurate,[502] and no further reduction should be taken based on Cal Advocates' recommendations.

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494 *Id.* at 73.

495 *Id.* at 79-80.

496 *Id.* at 80.

497 *Id.*

498 *Id.* at 73-80.

499 *Id.* at 80-82.

500 *Id.*

501 Ex. SDG&E-231 (Deremer) at 18 to 19. SDG&E's original forecast included $6.300 million, $6.818 million, and $6.817 million for Capital costs associated with the Contractor Field Safety Management Overhead Pool in 2022, 2023, and TY 2024 respectively. Cal Advocates recommends a forecast of $5.474 million in 2022, $5.992 million in 2023, and $5.991 million in 2024.

502 *Id.* at 19.

In addition, Mr. Deremer's testimony provides the business rationale for certain projects, although the costs are sponsored elsewhere.[503] The projects are information technology projects and each of these projects support Safety and Risk Management initiatives.[504] UCAN proposed disallowances for five Information Technology (IT) projects that directly support the Asset Management organization, stating that the projects should be disallowed in at least some portion due to their lack of business justification and in failing to address technology obsolescence.[505] UCAN appears to have limited its review to the workpapers and to have not taken into account the business justification that was described in Mr. Deremer's testimony. SDG&E disagrees that the projects identified by UCAN lack business justification. SDG&E's capital investments enable employees to perform their jobs, and these technology investments are critical to supporting and enhancing public safety, service reliability, customer service, and advancing key Commission policy objectives in the spaces of climate change, mitigation, and clean energy.[506] The associated funding should be approved.

9.4.3.4 Incremental Vehicles

TURN opposes SDG&E's Lease and Licensing forecasted costs related to two incremental vehicles.[507] Although Mr. Deremer's testimonies supported the justification for those incremental vehicles, the associated costs are sponsored in SDG&E's Fleet Testimony.[508] TURN did not otherwise contest SDG&E's Safety & Risk Management Systems forecast. Mr. Deremer's testimony demonstrates the business justification for the two incremental vehicles, which have already been acquired.[509] SDG&E acquired the vehicles to support two transferred Safety Advisors who support 24/7 emergency response and safety operations. These two vehicles are utilized by SDG&E's internal Safety Advisors who travel to support various districts across SDG&E's entire service territory.[510]

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503 Ex. SDG&E-31-R-E (Deremer) at 83 to 84. The capital costs for forecast years 2022, 2023, and 2024 for capital projects that support Safety and Risk Management initiatives are sponsored in the following witness area: Information Technology: William J. Exon (Ex. SDG&E-25); and Wildfire Mitigation Program: Mr. Woldermariam (Ex. SDG&E-13).

504 *Id.*

505 Ex. UCAN-01-E (Woychik) at 298-304.

506 Ex. SDG&E-231 (Deremer) at 21.

507 Ex. TURN-10 (Jones) at 4.

508 Ex. SDG&E-22-R-E (Alvarez).

509 Ex. SDG&E-231 (Deremer) at 18.

510 *Id.*

9.4.4 Conclusion

The forecasts in SoCalGas's Safety & Risk Management Systems testimonies and workpapers and SDG&E's Safety Management System: Safety, Risk, & Asset Management testimonies and workpapers are necessary in order for the Companies to continue to build and enhance safety of their respective operations, strengthen safety culture, and improve overall safety performance. The Commission should adopt SoCalGas's TY 2024 forecast of $23.635 million for Safety and Risk Management Systems O&M expenses ($21.250 million for non-shared service activities and $2.385 million for shared service activities), and SDG&E's TY 2024 forecast of $16.348 million for Safety Management System: Safety, Risk and Asset Management O&M expenses ($15.109 for non-shared service activities and $1.239 million for shared service activities). The Commission should also adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 is $2.200 million, $2.373 million, and $2.372 million.

10. SoCalGas And SDG&E Gas Distribution

SoCalGas and SDG&E's Gas Distribution testimonies and workpapers, supported by witnesses Shaena Walker and Cody Quezada (SoCalGas) and L. Patrick Kinsella (SDG&E), describe and justify SoCalGas and SDG&E's forecasted Gas Distribution O&M and capital expenditures.[511] They provide a detailed and thorough examination of the Gas Distribution area, including operations, facilities, the major cost drivers, and the challenges facing Gas Distribution from system expansion, increased regulatory and environmental requirements, aging infrastructure, maintaining a skilled workforce, and economic conditions. SoCalGas and SDG&E's Gas Distribution is responsible for operating, maintaining, and constructing gas facilities to provide safe, clean, and reliable delivery of natural gas to its customers at a reasonable cost consistent with operational laws, codes, and standards established by local, state, and federal authorities.

Intervenors' summary positions are compared to SoCalGas and SDG&E's in the tables below:

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511 *See* Exs. SCG-04-R-E (Aguirre) (adopted by Walker and Quezada); SCG-04-WP-R-2E (Aguirre) (adopted by Walker and Quezada); SCG-04-CWP-R (Aguirre) (adopted by Walker and Quezada); SCG-204 (Walker and Quezada); SDG&E-04-R-E (Kinsella); SDG&E-04-WP-R (Kinsella); SDG&E-04-CWP-R (Kinsella); SDG&E-204 (Kinsella).

Summary of SoCalGas O&M Request and Intervenor Proposals

TOTAL NON-SHARED + SHARED SERVICES O&M[512] - Constant 2021 ($000)		
	Test Year 2024	**Variance[513]**
SoCalGas	168,096[514]	
Cal Advocates-02	166,783	(1,313)
Cal Advocates-23	165,114	(2,982)
TURN	162,282[515]	(5,814)

Summary of SoCalGas Capital Request and Intervenor Proposals

TOTAL CAPITAL [516] - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance**
SoCalGas	388,717	413,286	391,456	1,193,459	
Cal Advocates-02[517]	382,280	405,952	390,991	1,179,223	(14,236)
TURN[518]	388,414	412,971	391,129	1,192,514	(945)
CEJA[519]	388,786	413,355	382,102	1,184,243	(9,216)

512 For the purpose of these comparison tables, for areas that were not discussed by the parties, it is assumed that the parties accepted SoCalGas's forecasts.

513 Intervenor'*s* forecast – Utility's forecast = Variance.

514 Ex. SCG-204 at 1. (Table CQ/SW-1); SoCalGas updated its forecast to no longer seek recovery of short-term rental costs for the TY 2024, reflecting a downward adjustment of $194,000. Ex. SCG-401/SDG&E-401 (Taylor), Attachment I at I-3.

515 SoCalGas discovered what appear to be errors in TURN's Table 2 for the TY 2024 forecast. (*See* Ex. TURN-05-R-E1 (Walker) at 10, Table 2. The values included here reflect what SoCalGas believes is the correct amount based on its understanding of the proposal by TURN as stated in Exhibit TURN-05, at 12-14.

516 For the purpose of these comparison tables, for areas that were not discussed by the parties, it is assumed that the parties accepted SoCalGas's forecasts.

517 While compiling information, SoCalGas discovered what appear to be errors in Cal Advocates' Table 2-2 for the TY 2024 forecast. (*See* Ex. CA-02-E (Sierra), March 27, 2023, at 3, Table 2-2.) The values included here reflect what SoCalGas believes is the correct amount based on its understanding of the proposal by Cal Advocates as stated in Exhibit CA-02, at 10, Table 2-9.

518 TURN proposes reductions for various workpapers but does not specify the reduction amount for all workpapers. Therefore, this amount only includes TURN's specified proposed reductions. (*See* Ex. TURN-05-R-E1 (Walker), March 27, 2023, at 24-32.)

519 SoCalGas acknowledges D.22-09-026 will impact the collectible and the non-collectible amounts as further discussed below. It is unclear if CEJA is proposing a reduction to the forecast from the total SoCalGas Gas Distribution forecast or a further transfer from the non-collectible to the collectible portion. In either case, SoCalGas has reduced the non-collectible portion and accounted for D.22-09-026 as further discussed below.

Summary of SDG&E O&M Request and Intervenor Proposals

TOTAL O&M - Constant 2021 ($000)		
	Test Year 2024	**Variance**
SDG&E	41,843	---
CAL ADVOCATES	41,843	---
UCAN	29,290[520]	12,553

Summary of SDG&E Capital Request and Intervenor Proposals

TOTAL CAPITAL[521] - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance**
SDG&E	132,585	135,392	122,799	390,776	---
CAL ADVOCATE	132,585	135,392	122,799	390,776	---
UCAN[522]	132,585[523]	135,392	85,959[524]	353,936	(36,840)
CEJA	132,585[525]	135,392[526]	122,535[527]	390,512	(265)
CUE	132,585[528]	135,392	175,012[529]	442,989	52,213

520 This value includes the proposed 30% reduction to TY 2024 O&M forecast of $12.55 million. (*See* Ex. UCAN-01-E (Woychik) at 23, 331.

521 For the purpose of this comparison table, for areas that were not discussed by the parties (*e.g.*, TURN, EDF, FEA), it is assumed that they accepted SDG&E's Gas Distribution forecasts.

522 SDG&E has included the value found in UCAN's testimony; however, this appears to be in error, as UCAN in other places in its testimony recommends a 30% reduction for TY 2024. (*See* Ex. UCAN-01-E (Woychik) at 23, 331.) The corrected value for UCAN's 30% reduction in TY 2024 is $36.84 million.

523 UCAN did not discuss SDG&E's total forecast values for forecast years 2022 and 2023. Therefore, it is assumed that UCAN accepted SDG&E's Gas Distribution forecasts for 2022 and 2023.

524 Value calculated at 30% reduction as stated in Ex. UCAN-01-E (Woychick) at 331.

525 CEJA did not discuss SDG&E's total forecast value for 2022. It is assumed that CEJA accepted the SDG&E forecast value for 2022.

526 CEJA proposes to reduce 2023 and 2024 by an additional 10%. (*See* Ex. CEJA-01 (Vespa) at 19.) To clarify, SDG&E did not reduce its total New Business forecast, but reallocated dollars to its collectible portion (*i.e.*, non-ratepayer funded). SDG&E understands CEJA's proposal as taking a 10% reduction to the non-collectible forecast and adding it to the collectible portion of New Business forecast. Therefore, the table above reflects SDG&E Gas Distribution's forecast values for 2023 and 2024. It appears that CEJA requests to move $693,000 for 2023 to collectible and $386,000 for 2024 to collectible.

527 This value also includes CEJA's proposed reduction of Gas System Reinforcement – BC503 in TY2024. (*See* Ex. CEJA-01 (Vespa) at 8, 20).

528 CUE did not discuss SDG&E's total forecast values for forecast years 2022 and 2023. It is assumed that CUE accepted the SDG&E forecast values for 2022 and 2023.

529 This value includes CUE's proposed increase in Underperforming Steel Replacement Programs (BC19564, BC19565, BC514) in TY 2024. (See Ex. CUE (Earle) at 31-34.)

10.1 Risk-Informed Funding Requests (SoCalGas and SDG&E)

In developing SoCalGas and SDG&E's requests, priority was given to key safety risks identified in the Companies' RAMP Report to assess which risk mitigation activities Gas Distribution currently performs and what incremental efforts are needed to further mitigate these risks. As further detailed in Section II of Ms. Walker and Mr. Quezada's direct testimony and Section II of Mr. Kinsella's testimony,[530] SoCalGas and SDG&E's RAMP activities represented and supported as part of these testimonies include: Excavation Damage (Dig-In) on the Gas System,[531] Incident Related to the Medium Pressure System,[532] Incident Related to the High-Pressure System,[533] Incident Involving an Employee,[534] Asset Management,[535] Records Management,[536] and Asset and Records Management.[537]

The Companies' Gas Distribution testimonies and workpapers support their commitment to mitigate risks associated with hazards to customer/public and employee/contractor safety, infrastructure integrity, and system reliability.[538] Notably, SoCalGas's Gas Distribution GRC O&M request includes $72.047 million in RAMP related costs and its capital request includes $97.422 million, $96.877 million, and $93.908 million in RAMP related requests for 2022, 2023, and 2024 respectively.[539] SDG&E's Gas Distribution GRC O&M request includes $28.041 million in RAMP related costs and its capital request includes $50.635 million, $54.855 million, and $53.512 million in RAMP related requests for 2022, 2023, and 2024 respectively.[540]

The Companies' respective requests support the ongoing management of these risks that could pose significant safety, reliability, and financial consequences.[541] The anticipated risk

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530 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 10-17; SDG&E-04-R-E (Kinsella) at 11-19.

531 SCG-Risk-2-Excavation Damage (Dig-In) on the Gas System; SDG&E-Risk-7 Excavation Damage (Dig-In) on the Gas System.

532 SCG-Risk-3 Incident Related to the Medium Pressure System; SDG&E-Risk-9 Incident Related to the Medium Pressure System (Excluding Dig-In).

533 SDG&E-Risk-3 Incident Related to the High-Pressure System (Excluding Dig-in).

534 SCG-Risk-5 Incident Involving an Employee; SDG&E-Risk-8 Incident Involving an Employee.

535 SDG&E-CFF-1 Asset Management.

536 SDG&E-CFF-6 Records Management.

537 SCG-CFF-1 Asset and Records Management.

538 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at v; SDG&E-04-R-E (Kinsella) at vii-viii.

539 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at B-4 and B-9.

540 SDG&E-04-R-E (Kinsella), Appendix B at B-2 and B-5.

541 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 10-17; Ex. SDG&E-04-R-E (Kinsella) at 11-19.

reduction benefits that may be achieved by authorizing the funding to implement these RAMP activities are summarized in Ms. Walker and Mr. Quezada's and Mr. Kinsella's respective testimonies.[542]

10.2 Common Issues (SoCalGas and SDG&E)

10.2.1 Parties' Proposals to Decrease Funding Based on Anticipated Lower Gas Demand

Several parties recommend disallowances to both Companies' Gas Distribution request based on declining gas demand.[543] These recommended disallowances should not be adopted. While various decarbonization, efficiency, and other initiatives and policies may lead to an overall decline in gas demand, the immediate and direct impact of these activities within Gas Distribution is uncertain, speculative, and not fully quantifiable, thus, challenging to account for in the forecast for this GRC period.[544] The Companies' requests for Gas Distribution are still needed to support the activities described in Ms. Walker, Mr. Quezada, and Mr. Kinsella's direct and rebuttal testimonies.

Both companies have affirmed their support of a gas system planning process that is designed to drive the gas system transition forward to reach the State's decarbonization goals while preserving safety, reliability, and affordability.[545] As stated by EDF in its testimony: "Decarbonizing the natural gas system is not simply electrification; it can also occur with reduction in leaks, efficiency gains in natural gas use (either through demand response or energy efficiency), in conservation or via fuel substitution, such as responsibly procured biomethane," and a long-term plan is required.[546] The pace and penetration of electrification is highly uncertain, and promoting a safe and reliable gas system requires continued investment that cannot be abandoned.[547] Recent policies, identified by both EDF and CEJA,[548] such as the latest Title 24 building code requirements or local ordinances that require all-electric new construction, have

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542 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 10-17; SDG&E-04-R-E (Kinsella) at 11-19.

543 *See* discussion at Ex. SCG-204 (Walker/Quezada) at 8-11; Ex. SDG&E-204 (Kinsella) at 9-10.

544 Ex. SCG-204 (Walker/Quezada) at 8-11; Ex. SDG&E-204 (Kinsella) at 9-10.

545 *See, e.g.*, Rulemaking (R.) 20-01-007, Joint Reply Comments of SoCalGas and SDG&E on Staff Gas Infrastructure Decommissioning Proposal (March 16, 2023) at 1, available at https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M503/K824/503824399.PDF.

546 Ex. EDF-01 (Colvin/McCann/Seong) at 3.

547 Ex. SCG-204 (Walker/Quezada) at 8-11; Ex. SDG&E-204 (Kinsella) at 9-10.

548 Ex. EDF-01 (Colvin/McCann/Seong) at 20; Ex. CEJA-01 (Vespa) at 9.

taken effect only in the past two years or are effective starting in 2023. While these policies may impact the future number of new customers onto the gas distribution system, the data of how much and how soon of an impact is not yet available.

Further, it is important to note that gas demand is not the same as gas customer additions when evaluating the activities and projects related to the distribution system. The various policies that encourage the conversion of gas to electric equipment in both residential and nonresidential sectors may cause a decrease in gas demand on the distribution system but may have little or no impact on customer count or on the gas infrastructure in place. Meaning, throughput decline, and customer count are not linear.[549] As Ms. Walker, Mr. Quezada, and Mr. Kinsella all testify, unless a given distribution asset can feasibly be retired, continuing evaluation, maintenance, and, if necessary, replacement activities, are imperative.[550] As, Mr. Kinsella testified:

> [O]ur O&M [and] capital expenses are related to our infrastructure that is in service. . . . [A]s long as our infrastructure is still in place, we still have to comply with regulations in order to maintain that, and those are where our O&M [and] capital expenses come in. So we could have a decrease in customers or an increase in customers, and – you know, and a decrease in demand; as long as our infrastructure is in place, we still need to comply with those regulations and perform . . . those analyses . . . and mitigate risks relative to our system.[551]

For the above reasons, and contrary to the suggestion by EDF, a decrease in customer growth will not necessarily lead to a corresponding immediate decrease in distribution expenditures. As this long-term transition occurs and additional data is collected naturally and/or through supplemental pilot programs, the impact of these various policies and initiatives may become more available for analysis and impact the forecasts in future GRCs of Gas Distribution requirements. However, this rate case cycle covers the period of 2024 to 2027, and any dramatic changes to gas demand will take place over a significantly longer period of time, as Cal Advocates recognizes in its statement, "as natural gas building policy is slowly being integrated throughout California."[552] For this rate case cycle, the Companies' respective requests for Gas Distribution are still needed to support the activities described in testimony.

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549 *See also* Section 40.1.

550 Ex. SCG-204 (Walker/Quezada) at 8-11; Ex. SDG&E-204 (Kinsella) at 9-10.

551 Tr. V.9:1568:22-1569:9 (Kinsella).

552 Ex. CA-04 (Quam) at 15.

10.2.2 Regulatory Accounts

10.2.2.1 Locate and Mark Balancing Account (LMBA)

The Companies both request a balancing account for Locate and Mark activities to address potential uncertainty related to expenses. Locate and Mark is a process mandated by 49 CFR § 192[553] and California's "One-Call" Statute, which requires the owner of underground facilities to identify substructures at locations of planned excavations. The activities completed under this workgroup are preventative in nature and are required to avert damages caused by third-party excavators working near gas underground substructures. The work primarily comprises locating and marking SoCalGas and SDG&E's underground pipelines, conducting job observations, and performing depth checks.[554] These activities directly address the mitigating measures identified in the RAMP Report.[555]

As discussed by Ms. Walker, Mr. Quezada, and Mr. Kinsella, the extent of increased expenses for Locate and Mark activities are difficult to accurately predict, making the authorization of the Companies' respective proposed LMBA, a two-way balancing account, appropriate.[556] Cal Advocates, TURN, and FEA oppose the creation of the LMBA.[557]

Both Companies have seen an increase in USA tickets year over year and expect this trend to continue, especially given recent legislation[558] increasing penalties for the failure to notify a gas utility of the need to locate and mark, and both Companies push for increased public awareness of the need to call 811 before digging.[559] Based on this rapidly growing unit of work, the Companies believe that the post-test year mechanism does not adequately cover the expected expenses in the Locate and Mark workpapers.[560] The post-test year mechanism in previous GRCs has generally provided between three and four percent annual increases. For example, at SoCalGas, USA tickets have been increasing at approximately 9% per year, and the associated costs have historically

553 *See* Cal. Gov't Code §§ 4216, *et seq*.

554 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 30; SDG&E-04-R-E (Kinsella) at 31.

555 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 31; SDG&E-04-R-E (Kinsella) at 33.

556 Ex. SCG-204 (Walker and Quezada) at 11-14; Ex. SDG&E-204 (Kinsella) at 11-12.

557 Ex. CA-04 (Quam) at 2, 11; Ex. CA-02 (Sierra) at 9; Ex. TURN-05-R-E1 (Walker) at 36-38; Ex. FEA-01 (Smith) at 54.

558 *See*, *e.g.*, SB 661 (Dig Safe Act of 2016); SB 1198 (Wade Kilpatrick Gas Safety and Workplace Adequacy Act of 2021).

559 Ex. SCG-204 (Walker/Quezada) at 11-14; Ex. SDG&E-204 (Kinsella) at 11-12.

560 Ex. SCG-204 (Walker/Quezada) at 11-14; Ex. SDG&E-204 (Kinsella) at 11-12.

increased at approximately 5.4% annually.[561] Locate and Mark activities are mandated by federal and state regulations, and therefore, the Companies are required to perform them. If these activities continue on the same trend as recent history, the authorized expenditure based on the post-test year mechanism will be inadequate.[562] The two-way balancing account proposed by the Companies can provide certainty that any exponential growth that may occur within this activity will not adversely impact other important Distribution O&M activities.

10.2.2.2 Litigated Project Cost Memorandum Account (LPCMA)

The Companies have proposed to create a LPCMA to record capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers (*e.g.*, Contributions in Aid of Construction from a local governmental entity) instead of ratepayers, but later are deemed by a court to be non-collectible from third-party customers. Doing so would allow the Companies the opportunity to litigate whether the third-party customer should bear the cost at issue, while preserving the ability to later seek recovery of the incremental capital-related costs from ratepayers associated with the projects that can no longer be collected from a third-party customer if the litigation is unsuccessful. Establishing the LPCMA would also serve to avoid the prohibition against retro-active ratemaking. Cal Advocates objects to the LPCMA, arguing that these instances are "rare".[563] The Companies, however, have seen a trend in third parties aggressively pushing back on the Companies' position that ratepayers are not responsible for funding relocation of gas facilities to accommodate governmental transit projects.[564] Ultimately, the issue is how can the Companies properly track and recover operational costs that it expected to collect from a third-party entity but was legally prohibited from doing so. The opening of the LPCMA is designed to account for those situations in an open and transparent manner that avoids retroactive ratemaking. For all these reasons, the LPCMA should be approved.

10.2.3 Revised New Business Forecast

In light of D.22-09-026, which eliminated line extension allowances for new construction effective July 1, 2023, SoCalGas and SDG&E revised their New Business Forecast. SoCalGas

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561 Ex. SCG-204 (Walker/Quezada) at 11-14.

562 Ex. SCG-204 (Walker/Quezada) at 11-14; Ex. SDG&E-204 (Kinsella) at 11-12.

563 Ex. CA-06 (Wilson) at 13.

564 Ex. SCG-204 (Walker/Quezada) at 14-16; Ex. SDG&E-204 (Kinsella) at 12; Ex. SDG&E-11-R (Reyes) at 23.

decreased its non-collectible[565] capital new business forecast by $3.993 million in 2023 and $44.945 million in 2024 (total of $48.938 million less for the 2022-2024 period) and increased the collectible portion of new business by the same amount over the same period.[566] SDG&E decreased its non-collectible capital new business forecast by $1.720 million in 2023 and $4.639 million in 2024 (total of $6.358 million less for the 2022-2024 period) and increased the collectible portion of new business by the same amount over the same period.[567] CEJA takes issue with the revised forecast and recommends that SoCalGas and SDG&E reduce the forecast by an additional ten percent.[568] As discussed in the rebuttal testimony of Ms. Walker and Mr. Quezada, as well as the rebuttal testimony of Mr. Kinsella, the Companies believe that their revised forecast appropriately accounts for D.22-09-026 and should be adopted.[569]

The Companies reiterate that gas demand is not synonymous with new customer count as it pertains to the Gas Distribution witness area, and that the elimination of line extension allowances is intended to reduce the ratepayer contribution to New Business Construction activities but may not necessarily result in a decrease in new customer count.[570] In addition, D.22-09-026 became effective July 1, 2023. Thus, applications for projects received prior to that date are not impacted by the new treatment for LEAs as provided for in D.22-09-026. When a completed application is submitted, the duration it takes for that project to be put in service can take anywhere from 90 days to well over three (3) years. Therefore, the Companies anticipate that although the effective date for D.22-09-026 is July 1, 2023, the Companies will still incur line extension allowance costs past TY 2024 for projects where the application was accepted prior to 21 July 1, 2023.[571]

10.2.4 SB 1371 Expenditures

The Methane Leak Proceeding (R.15-01-008) was established to carry out the intent of SB 1371, which seeks to include environmental considerations as an important factor in the way natural gas delivery companies determine their strategies to minimize emissions. The Commission

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565 In this context, collectible costs are paid by the customer requesting the service extension. Non-collectible costs are included in rate base and paid by all customers.

566 Ex. SCG-204 (Walker and Quezada) at 31.

567 Ex. SDG&E-204 (Kinsella) at 21.

568 Ex. CEJA-01 (Vespa) at 1, 16-17.

569 Ex. SCG-204 (Walker and Quezada) at 31-34; Ex. SDG&E-204 (Kinsella) at 21-23.

570 Ex. SCG-204 (Walker and Quezada) at 31-34; Ex. SDG&E-204 (Kinsella) at 21-23.

571 Ex. SCG-204 (Walker/Quezada) at 31-34; Ex. SDG&E-204 (Kinsella) at 21-23.

initiated R.15-01-008 to adopt rules and procedures for Commission-regulated pipeline facilities to minimize natural gas leaks to advance greenhouse gas reduction goals.

TURN's testimony expresses concern over "crossover issues with SB 1371 expenditures" and Business as Usual (BAU) activities funded via the GRC.[572] As discussed in Ms. Walker and Mr. Quezada's testimony, TURN's concern is unfounded.[573] The leaks that are being repaired according to federal, state, and local safety ordinances are considered BAU, and the leaks that are repaired faster than required by safety ordinances in order to minimize emissions are considered a part of the R.15-01-008 program scope.[574] The Methane Leak Proceeding is in place to expedite the repair of leaks ahead of federal guidelines in order to reduce emissions. SoCalGas has reduced the base forecast for the Leakage and Main Maintenance workpapers to account for leak repairs and the associated work that it anticipates will be addressed through R.15-01-008 and not through BAU.[575] For SDG&E, no similar adjustments to GRC workpapers were necessary. The Leak Survey workpapers, for both Companies do not contain any request for funding related to SB 1371. Instead, the entirety of the request for the Leak Survey workpapers is related to federally mandated leak survey activities, which are also considered RAMP activities. In short, any costs incurred by SoCalGas or SDG&E related to SB 1371 for Leak Surveys are separate and in addition to the activities described in SoCalGas and SDG&E's respective testimony.

10.2.5 Mobilehome Park Utility Upgrade Program – Reasonableness Review

As part of its Gas Distribution testimony, SoCalGas and SDG&E also provided testimony establishing the reasonableness of O&M and capital expenditures incurred in executing the ongoing Mobilehome Park Utility Upgrade Program (MHP Program).[576] Specifically, costs associated with SoCalGas's MHP Program are $185.0 million ($180.4 million in capital expenditures and $4.6 million in O&M expenditures)[577] and costs associated with SDG&E's MHP

572 Ex. TURN-05-R-E1 (Walker) at 40.

573 Ex. SCG-204 (Walker and Quezada) at 16-21. Although TURN's testimony appears to primarily be directed at SoCalGas, it at times refers to both companies.

574 *Id.*

575 *Id.*

576 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 133-149; SDG&E-04-R-E (Kinsella) at 134-149.

577 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 133.

Program are $195.8 million ($192.2 million in capital expenditures and $3.5 million in O&M expenditures).[578] None of the parties to this proceeding have challenged these costs.

The MHP Program costs were incurred for activities related to the conversion of MHP Projects through 2021 pursuant to the MHP Program Decision (D.14-03-021). In accordance with the directive in D.14-03-021, these costs are being presented here in the Companies' GRC. These costs are reasonable and justified in that: (1) the activities are consistent with the Commission's approved MHP Program Decision and tariffs, applicable codes, and standards established by local, state, and federal authorities and SoCalGas and SDG&E standards; (2) the activities enhance the safety and reliability of Mobile home Park Communities; (3) the activities are conducted by qualified employees and contractors; and (4) the activities support the Companies' commitment to enhance public safety and system reliability.[579] In accordance with the reasonable manager standard, SoCalGas and SDG&E designed and executed the MHP Program to enhance the safety and reliability of utility service to the many MHP communities that have participated in the MHP Program while maintaining reasonable conversion costs through prudent planning and oversight.

10.3 SoCalGas's Request

SoCalGas requests that the Commission adopt SoCalGas's TY 2024 forecast of $168.096 million for Gas Distribution O&M, which is composed of $167.686 million for non-shared service activities and $410 million for shared service activities.[580] This forecast represents a decrease of 3.072 million over 2021 adjusted-recorded costs (BY 2021).[581] SoCalGas further requests the Commission adopt its forecast of $388.786 million, $413.355 million, and $391.525 million for capital expenditures in 2022, 2023, and 2024, respectively.[582] Cal Advocates, TURN, CEJA, and EDF provided testimony addressing SoCalGas's Gas Distribution forecast.

SoCalGas's O&M and capital requests are reasonable, fully justified, and support SoCalGas's aim to achieve operational excellence, while providing safe and reliable delivery of natural gas to customers at a reasonable cost. The Commission should find SoCalGas's forecast reasonable and fully justified in that the activities: (1) maintain and enhance the delivery of clean, safe, and reliable service to customers; (2) are consistent with operational laws, codes, and

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578 SDG&E-04-R-E (Kinsella) at 134.

579 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 133-149; SDG&E-04-R-E (Kinsella) at 134-149.

580 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at v.

581 *Id.*

582 *Id.*

standards established by local, state, and federal authorities; (3) support SoCalGas's commitment to mitigate risks associated with hazards to customer/public and employee/contractor safety, infrastructure integrity, and system reliability; (4) are reasonable in light of historical spending and anticipated work increases; (5) respond to operations, maintenance, and construction needs associated with the projected customer and system growth, and the demands of city, county, and state agencies under the Company's franchise agreements; (6) support the transition to clean energy; (7) maintain and strengthen a qualified workforce; and (8) support new field technologies.[583]

SoCalGas carefully and thoroughly evaluated the historical costs and the corresponding unit of measure within each of the workpapers to develop an appropriate forecast to maintain the safe and reliable operation of the distribution system.[584] These forecasts were developed based on an analysis of historical spending and prudent consideration of future work and economic growth that is reasonably expected. Most of the activities and projects within the Gas Distribution witness area have been and will continue to be performed on a regular basis, and thus, have robust and reliable historical data to leverage when forecasting the near future.[585] For workpapers where the recorded costs and/or unit of measure do not necessarily reflect the forecast, SoCalGas still evaluated the historical data and leveraged the applicable aspects, such as the unit cost or historical ratios of labor and non-labor costs, to derive the most appropriate forecast.[586] The data driven forecasts for the O&M and the capital costs are accurate and reliable, as evidenced by SoCalGas's report of the 2022 recorded costs provided on March 15, 2023, in which the O&M and the capital costs were lower than the forecasts by five percent and one percent, respectively.[587]

10.3.1 Non-Shared Operations and Maintenance

The TY 2024 forecast for non-shared O&M is $167.686 million; a decrease of $3.072 million over BY 2021.[588] Unique cost centers are used to record the cost of O&M activities performed within Gas Distribution operations. Collectively, approximately 184 cost centers are

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583 Ex. SCG-204 (Walker/Quezada) at 3; Ex. SCG-04-R (Aguirre) at v-vi.

584 Ex. SCG-204 (Walker/Quezada) at 3-4.

585 *Id.*

586 *Id.*

587 *Id.*; *see also* Ex. SCG-302 (Recorded O&M Expenses).

588 Ex. SCG-04-R (Aguirre/Walker/Quezada) at 22.

used in recording the costs presented within Ms. Walker and Mr. Quezada's testimony.[589] To facilitate the analysis of historical spending and to complete an evaluation of the projected expenditures, the cost centers are aggregated into "workgroups" representing similar functions and/or having similar cost drivers. These 184 cost centers are thus aggregated into 12 groups, which are reviewed within this testimony under the 4 following categories: (1) Field Operations and Maintenance; (2) Asset Management; (3) Operations and Management; and (4) Regional Public Affairs.[590] As discussed SoCalGas carefully and thoroughly evaluated the historical costs and the corresponding unit of measure within each of the workpapers to develop an appropriate forecast to maintain the safe and reliable operation of the distribution system.[591] The selected methods include forecasting based on the historical averages, simple linear trending of the historical data, and 2021 adjusted recorded base year spending.[592] In addition, incremental work above the historical spending levels to maintain the safe and reliable operation of the distribution system and to support the work processes were identified.[593]

Of the four identified cost categories above, Cal Advocates only presented recommendations for Locate and Mark, which is within the Field Operations and Maintenance cost category.[594] For Locate and Mark, Cal Advocates recommends $19.7 million compared to SoCalGas's request of $21.3 million for TY 2024.[595] TURN recommends disallowances compared to SoCalGas's request for Leak Survey and Main Maintenance, which are found in the Field Operations and Maintenance Cost Category.[596] For Leak Survey, TURN recommends $4.2 million compared to SoCalGas's request of $7.5 million. For Main Maintenance, TURN recommends $5.9 million compared to SoCalGas's $9.0 million. These recommendations should not be adopted and are addressed further below.

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589 *Id.*

590 *Id.*

591 Ex. SCG-204 (Walker/Quezada) at 3-4.

592 Ex. SCG-04-R (Aguirre/Walker/Quezada) at 22.

593 *Id.*

594 Ex. CA-02-E (Sierra) at 1-2. While Cal Advocates does not oppose SoCalGas Gas Distribution's RPA funding request in Ex. CA-02-E (Sierra), Cal Advocates does so in Ex. CA-23-E-R (Castello). For discussion of Mr. Castello's testimony please see Section 48.2.

595 *Id.* As discussed above, Cal Advocates also opposes SoCalGas's request for a two-way balancing account.

596 Ex. TURN-05-R-E1 (Walker) at 10-14.

10.3.1.1 Field Operations and Maintenance

Field Operations and Maintenance includes the activities and the associated O&M expenses to address the physical condition of the gas distribution system.[597] Gas distribution activities are performed from a regional organizational structure. Similar activities are completed at 52 operating bases located throughout the 24,000 square-mile service territory.[598] The activities completed at these operating bases form the essence of the Field Operations and Maintenance category. These activities can be described as preventative, corrective, or supportive in nature. Preventative work is generally completed on a scheduled basis. It includes the activities and associated costs presented within the workgroups of Leak Survey, Locate and Mark, and Measurement & Regulation.[599] Corrective work is generally reactive to a situation or a facility condition. This includes the activities and the associated costs presented in the workgroups of Main Maintenance, Service Maintenance, Leakage, and Cathodic Protection.[600] Finally, supportive elements are necessary to complete work assignments and include the activities and the associated costs presented in the workgroups of Field Support and Tools, Fittings, and Materials.[601]

10.3.1.1.1 Locate and Mark

As discussed, Locate and Mark is a process mandated by 49 C.F.R. § 192[602] and California's "One-Call" Statute, which requires the owner of underground facilities to identify substructures at locations of planned excavations. Once a notification is received from Underground Service Alert (USA) (the Underground Service Alert Region Notification Center), SoCalGas has two working days to respond and identify the location of SoCalGas pipelines within the identified parameter of a pending excavation project.[603] Properly locating and marking gas facilities, as well as performing job observations and depth checks, are activities completed to avert damage by third-party excavators that can interrupt gas service.[604] Furthermore, the

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597 Ex. SCG-04-R-E (Aguirre) (Aguirre/Walker/Quezada) at 23-24.

598 *Id.*

599 *Id.*

600 *Id.*

601 *Id.*

602 *See* Cal. Gov't Code §§ 4216, *et seq*.

603 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 28-33.

604 *Id.*

completion of this work provides important information to safeguard those working around gas facilities and to protect the integrity and reliability of the pipeline system.[605] These activities directly address the mitigating measures identified in the RAMP Report.[606]

For Locate and Mark, Cal Advocates states that SoCalGas's "adjusted forecast for 2022 captures the level of activity and procedures related to SB 661 and SB 1198, which were in effect in 2021" and for these reasons Cal Advocates proposed that the 2022 adjusted forecast be the forecast for TY 2024 at $19.7 million.[607] Although Cal Advocates is correct that SB 661 and SB 1198 were in effect in 2021, SoCalGas does not agree that the full effects of those pieces of legislation have yet been felt in regards to USA ticket volume.[608] In addition, in proposing its $1.6 million disallowance, Cal Advocates does not appear to take account another important component of the expected increase in USA ticket volume, which is the efforts on the part of SoCalGas to advertise the use of calling "one-call" before digging.[609] The average increase in USA tickets from 2017 to 2021 is approximately 9% per year, and the average increase in expenses over the same period is approximately 5.4% per year.[610] Accepting a reduction to $19.7 million, as recommended by Cal Advocates, would not provide adequate funding for the Locate and Mark workpaper.[611]

10.3.1.1.2 Leak Survey

Recorded to this workgroup are the labor and non-labor expenses associated with federal and state pipeline safety regulations,[612] which requires SoCalGas to survey its distribution system for leakage. SoCalGas pipelines are routinely leak surveyed at intervals of one or five years or multiple times per year. The frequency of this survey is determined by the pipe material involved (*i.e.*, plastic or steel), the operating pressure, the cathodic protection of the pipe, and the proximity of the pipe to various population densities.[613] The leak survey cost supports the safety and

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605 *Id.*

606 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 31.

607 Ex. CA-02-E (Sierra) at 8.

608 Ex. SCG-204 (Walker/Quezada) at 22-23.

609 *Id.*

610 *Id.*

611 *Id.*

612 49 CFR § 192.723 (Distribution systems: Leakage surveys); GO 112-F.

613 Ex. SCG-04-R-E (Aguirre) (adopted by Walker and Quezada) at 24-28. In addition to the routine leak surveys, the Company performs special leak surveys, as needed, and on more frequent cycles.

reliability of SoCalGas's system by performing the fundamental compliance safety process of leak surveying pipelines to monitor for leakage in the pipeline system.[614] Furthermore, this activity supports SoCalGas's commitment to Sustainability as identifying and fixing leaks on the pipeline system is an important part of SoCalGas's goal to achieve net zero carbon emissions by 2045.[615] This workgroup in its entirety, aligns with a RAMP activity.[616]

TURN disagrees with SoCalGas's forecast for Leak Survey O&M. TURN confusingly contends, "SoCalGas states that more work is necessary because the footage of pipe required to be surveyed has increased and will increase further in the future."[617] However, SoCalGas did not make any claims in its testimony related to Leak Survey that increased footages would increase leak survey work or that increased footages would take place in the future resulting in any future leak survey increases.[618]

TURN also recommends that the Company be disallowed the recovery of costs for 40 incremental leak survey technician FTEs.[619] TURN's recommendation should be rejected as it is based on false assumptions. SoCalGas has begun the process of hiring Leak Survey Technicians (LSTs); however, none of the expenses associated with the Leak Survey workpaper are increased as a result of this process.[620] The amount of work expected to be performed related to the Leak Survey workpaper is unchanged by the title of employee performing the work. Rather, the hiring of Leak Survey Technicians allows SoCalGas to reallocate other, higher paid and more versatile employees, to other tasks within the Gas Distribution department.[621]

SoCalGas used a base year forecast methodology as its base forecast and recommended reductions from the base forecast to account for expected efficiencies from improved scheduling procedures.[622] Any further reduction of expenses in this workpaper would make it impossible to fully fund this federally mandated and risk reducing activity.[623]

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614 *Id.*

615 *Id.*

616 *Id.*

617 Ex. TURN-05-R-E1 (Walker) at 35.

618 Ex. SCG-204 (Walker/Quezada) at 24-26.

619 Ex. TURN-05-R-E1 (Walker) at 36.

620 Ex. SCG-204 (Walker/Quezada) at 24-26.

621 *Id.*

622 *Id.*

623 *Id.*

10.3.1.1.3 Main Maintenance

The main maintenance work in this workgroup is designed to meet the federal (49 C.F.R. § 192) and state (GO 112-F) pipeline safety regulations and to extend the life of distribution main pipelines and related infrastructure.[624] Main maintenance work is generally corrective in nature and is required to keep the natural gas system operating safely and reliably.[625] Main maintenance work is primarily comprised of the following activities: (1) Franchise alterations; (2) Preventative Main Maintenance; and (3) Miscellaneous main maintenance.[626]

TURN disagrees with SoCalGas's forecast for Main Maintenance O&M and proposes that a 5-year historical average be applied instead of SoCalGas's base year forecast.[627] SoCalGas disagrees with TURN's alternate forecast and believes that its own proposed forecast best represents anticipated activities in this area. In developing its forecasts, including the forecast for Main Maintenance, SoCalGas carefully evaluated the historical cost, as well as the activities, and proposes the forecast that best represents the workpaper.[628] SoCalGas believes that the base year forecast methodology best represents the anticipated activity in this workpaper.[629] In addition, the activities discussed in this workpaper are largely compliance activities and include two RAMP activities.[630] TURN's alternate forecast and proposed reduction are not appropriate. TURN's proposal would reduce the request for this workpaper by more than 1/3. SoCalGas has already proposed reductions related to scheduling improvements and costs it anticipates will be covered by the Methane Leak Proceeding.[631] Any further reductions to this workpaper would likely not provide the necessary funding to cover the important compliance activities addressed in this workpaper.

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624 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 37-41.

625 *Id.*

626 *Id.*

627 Ex. TURN-05-R-E1 (Walker) at 38-39.

628 Ex. SCG-204 (Walker/Quezada) at 26-27.

629 *Id.*

630 *Id.*

631 *Id.*

10.3.1.2 Asset Management

The Asset Management cost category includes activities and associated O&M expenses incurred in the evaluation of the condition of the distribution system.[632] This includes maintaining many asset records, identification of corrective maintenance solutions, and coordinating with field personnel on completion and recording of operations and maintenance activities.[633] This cost category supports the safety and reliability of SoCalGas's system by evaluating the condition of the distribution pipeline system.[634] This includes maintaining many asset records, identifying corrective maintenance solutions, coordinating with field personnel to complete necessary work, and recording of operations and maintenance activities.[635]

As the level of maintenance work, general construction, municipality work and customer generated activity increases, so will the support provided by the departments that support the field operations.[636] The increase in construction and maintenance work requires additional planning, permitting, and processing of orders.[637] Given these incremental activities and a review of historical costs and underlying cost drivers, SoCalGas determined that a three-year (2019 through 2021) linear trend best reflects future requirements for this workgroup.[638]

10.3.1.3 Operations and Management

The Operations and Management cost category includes activities that serve as a critical component of managing the integrity of the pipeline system to prevent and reduce risks, and to provide customers with safe and reliable service.[639] This request advances SoCalGas's ability to maintain compliance with the requirement set forth in SB 705 to "[e]nsure an adequately sized, qualified, and properly trained gas corporation workforce."[640] The activities completed within this workgroup are categorized as Operations Leadership, Field Management, and Field Operations Supervisors. The review of the historical costs in this work category shows a generally consistent

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632 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 59-63.

633 *Id.*

634 *Id.*

635 *Id.*

636 *Id.*

637 *Id.*

638 *Id.*

639 *Id.* at 63-66.

640 Cal. Pub. Util. Code § 961(d)(10).

upward trend.[641] Therefore, SoCalGas used the four-year linear forecast method to account for the level of leadership and management necessary to maintain current operations.

10.3.1.4 Regional Public Affairs

Regional Public Affairs' (RPA) primary focus is supporting field operations through its work with regional and local governments and municipal districts on issues regarding permitting, proposed regulations, franchises, and emergency preparedness and response.[642] As testified by Ms. Walker, RPA is "a critical part of operating our distribution system by securing permits, supporting emergency response, and we cannot operate successfully without them.[643] RPA also informs county, city officials, and special districts about SoCalGas issues that could impact customers, such as leak repair activities.[644] To a lesser degree, RPA is also a point of contact in the communities SoCalGas serves, educating stakeholders about SoCalGas construction activities, customer programs and service offerings, responding to customer and media inquiries, and resolving customer complaints. These activities are crucial to mitigating operational costs that would otherwise put upward pressure on customer rates.[645] In addition, RPA plays a critical role in coordinating emergency planning and response activities between SoCalGas and cities and counties in SoCalGas's service territory.[646] The level of spending for this workgroup is primarily based on the salaries and the non-labor expenses of the current RPA workgroup. Therefore, a base year forecast method was used to forecast the base level of future expense for this workgroup. Added to this base are incremental work elements not reflected in the base forecast to adequately fund Regional Public Affairs activities in TY 2024.[647]

10.3.2 Shared Costs

The TY 2024 forecast for shared O&M is $410,000, the same as the adjusted recorded expenses for BY 2021.[648] The majority of expense requirements in direct support of SoCalGas's Gas Distribution operations are discussed within the Non-Shared Services portion of testimony.

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641 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 63-66.

642 *Id.* at 66-72.

643 Tr. V.5:1074:24-1075:25 (Walker).

644 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 63-66.

645 *Id.*

646 *Id.*

647 *Id.*

648 *Ex*. SCG-04-R-E (Aguirre/Walker/Quezada) at 72.

However, there is an activity in which expenditures are incurred on behalf of both SoCalGas and SDG&E, and therefore, this expense is considered Shared Services. This falls under the workgroup Field Services Leadership & Support. This activity is necessary for the Company to provide customers with clean, safe, and reliable service.[649]

10.3.3 Capital

SoCalGas further requests the Commission adopt its forecast of $388.717 million, $413.286 million, and $391.456 million for capital expenditures in 2022, 2023, and 2024, respectively.[650] The Capital Cost categories are provided below and discussed extensively in testimony.[651] Thus, this section focuses on the overall purpose of capital costs and discusses why disallowances recommended by intervenors should not be adopted.

GAS DISTRIBUTION (In 2021 $)				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
A. New Business	53,273	54,308	60,300	62,164
B. Pressure Betterments	18,845	18,846	18,846	18,846
C. Main Replacements	24,767	19,839	17,626	17,626
D. Service Replacements	49,472	45,229	42,597	42,597
E. Main and Service Abandonments	11,898	14,135	14,135	14,135
F. Regulator Stations	8,292	10,014	10,014	10,014
G. Control Center Modernization (CCM) Distribution Projects	15,046	23,506	26,403	21,534
H. Cathodic Protection Capital	5,096	6,993	6,527	6,527
I. Pipeline Relocations – Freeway	3,376	1,904	1,904	1,904
J. Pipeline Relocations – Franchise	18,050	20,289	20,289	20,289
K. Meter Protection	7,045	8,250	9,900	11,550
L. Other Distribution Capital Projects	10,419	13,367	26,313	9,045

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649 *Id.* at 73-74.

650 *Id.* at 74-76.

651 *Id.* at 74-97.

GAS DISTRIBUTION (In 2021 $)				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
M. Measurement and Regulation Devices	27,479	42,224	42,891	46,426
N. Capital Tools	24,971	14,635	14,635	14,635
O. Field Capital Support	100,336	93,301	99,654	92,912
P. Remote Meter Reading	2,159	1,877	1,252	1,252
Total	**380,524**	**388,717**	**413,286**	**391,456**

The driver behind SoCalGas's capital investments is its mission to provide clean, safe, and reliable delivery of natural gas to customers at reasonable rates. This commitment requires that SoCalGas invest in its infrastructure and support services to mitigate risks associated with the safety of the public/customers and employees/contractors, service reliability, and gas system integrity.[652] SoCalGas installs new pipeline mains, service lines, and MSAs to meet the needs of the growing population in the service territory. To maintain system reliability and safety, SoCalGas makes a variety of other capital improvements, including pressure betterment projects to improve areas of low pressure, pipeline renewals to replace deteriorated pipelines or obsolete equipment, anode and rectifier installations and replacements of cathodic protection systems, and electronic monitoring device purchases for pressure tracking and monitoring.[653]

In preparing the forecast for capital expenditures, SoCalGas reviewed the historical spending levels, including the associated work units, and developed an assessment of future requirements and associated risks. The forecasting methodologies varied depending on the type of activity and the expectation of future system needs. These methods included forecasts of future spending based on historical averages; historical growth and estimated future growth; identified projects or materials; and a combination of project-specific justification and analysis of historical spending.[654]

Of the capital cost categories, Cal Advocates only challenges the forecast for SoCalGas's Control Center Modernization (CCM) Distribution Project, recommending $17.0 million, $19.0 million, and $21.0 million compared to SoCalGas's request of $23.5 million, $26.4 million, and

[652] *Id.* 74-76

[653] *Id.*

[654] *Id.*

\$21.5 million for 2022, 2023, and 2024, respectively.[655] Cal Advocates' recommended disallowances for CCM should not be adopted for the reasons discussed further below. TURN has recommendations for the following cost categories: New Business Construction, Pressure Betterments, Regulatory Stations, Capital Tools, and Field Capital Support.[656] SoCalGas has addressed TURN's recommendations in its rebuttal testimony[657] and does not repeat them here. CEJA recommends disallowances for New Business Construction and Pressure Betterments.[658] SoCalGas has already addressed CEJA's recommended disallowance for New Business and why it should not be adopted above and addresses its proposed disallowance for Pressure Betterments below.

10.3.3.1 Pressure Betterments

Pressure Betterment projects are performed in areas where there is an anticipated insufficient capacity or pressure to meet the growth in load.[659] Pressure Betterment projects maintain reliable service to existing customers as new load is added to the gas distribution system. Once a pipeline system is designed and installed, the available capacity remains relatively fixed. However, as load increases due to population expansion and increased population density, as well as businesses coming online with added load, the existing pipeline pressure decreases, which reduces the available gas flow capacity.[660] If the diminishing pressure is not addressed, gas service to the customers could be interrupted.

CEJA also takes issue with the capital forecast for Pressure Betterments. CEJA states that "SoCalGas's Pressure Betterment costs be reduced by 50% to \$9.423 million for TY 2024."[661] CEJA's proposed reduction amount of 50% is arbitrary and baseless. SoCalGas has identified and considered numerous pressure betterment projects in planning that have the possibility to be executed at the time of the forecast, some of which are driven by new business projects that have been initiated prior to the line extension allowance elimination.[662] Also in Pressure Betterments

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655 Ex. CA-06 (Wilson).
656 Ex. TURN-10-R (Jones) at 6.
657 Ex. SCG-204 (Walker/Quezada).
658 Ex. CEJA-01 (Vespa).
659 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 82.
660 *Id.*
661 Ex. CEJA-01 (Vespa) at 18.
662 Ex. SCG-204 (Walker/Quezada) at 35-36.

are expenditures for projects performed on an ongoing basis to maintain system reliability and service to all customers.[663] For example, Pressure betterment projects are performed in areas where there is insufficient capacity or pressure to meet load due to unusual cold weather causing increasing demand on the existing infrastructure in areas where a strategic pipeline back-tie would be beneficial for system reliability.[664] These projects are necessary to maintain reliable service to existing customers. A reduction in the forecast for Pressure Betterment is unwarranted and risks jeopardizing SoCalGas's ability to provide sustainable, safe, and reliable service to its existing natural gas customers.

10.3.3.2 Control Center Modernization (CCM)

As part of the CCM Project, SoCalGas plans to enable Gas Control (GC) to remotely monitor and control the gas distribution system through two key functions; (1) the installation and integration of data from field assets on the distribution pipeline system to remotely control distribution regulator stations, and (2) provide GC expanded continuous monitoring of the system through enhanced control room operations technology.[665] This is a continuation of the "Distribution Operations Control Center" (DOCC) and the "Pipeline Infrastructure Monitoring System" (PIMS) funding requested by witness Michael Bermel in the TY 2019 GRC, which was fully authorized in D.19-09-051. Gas Distribution plans to continue activities for the CCM Project, and the project updated its deployment plan due to the team's identification of the need for further evaluation, testing, and analysis of assets and technology being used to accomplish the Company's goal of enhancing the safety and reliability of the gas distribution system before a larger scale deployment was initiated.[666]

Cal Advocates takes issue with SoCalGas's capital forecast for the Control Center Modernization (CCM) Project. Cal Advocates proposes a capital forecast of $17.0 million for 2022, a reduction of $6.51 million from SoCalGas's forecast of $23.51 million; a capital forecast of $19.0 million for 2023, a reduction of $7.4 million from SoCalGas's forecast of $26.40 million; and a forecast of $21.0 million for 2024, a reduction of $0.5 million from SoCalGas's forecast of $21.5 million.[667] SoCalGas disagrees with Cal Advocates' proposed forecast and finds Cal

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663 *Id.*

664 *Id.*

665 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 98.

666 *Id.*

667 Ex. CA-02-E (Sierra) at 10.

Advocates' spending recommendation to be arbitrary and unfounded. Cal Advocates cites a lack of sufficient information regarding the current project status. SoCalGas disagrees that the data provided to Cal Advocates was insufficient. SoCalGas provided Cal Advocates with a complete and detailed assessment of the status of the CCM project.[668] In addition, CCM Distribution project's 2022 actuals totaled $23.8 million, which is in line with the original forecasted amount of $23.506 million.[669] Cal Advocates' forecast for 2022 falls $6.8 million short of the 2022 recorded actual costs, further demonstrating the accuracy of SoCalGas's forecast as compared to Cal Advocates' forecast.

10.3.4 Incremental Fleet

TURN opposes SoCalGas Gas Distribution's request for 360 additional vehicles on the basis that SoCalGas did not provide sufficient support to justify the additions.[670] Although Ms. Walker and Mr. Quezada's testimonies supported the justification for those incremental vehicles, the associated costs are also sponsored in SoCalGas's Fleet Testimony.[671] As discussed in Ms. Walker and Mr. Quezada's rebuttal testimony, TURN's recommendation should be denied as these requested vehicles are necessary in order for Gas Distribution employees to be able to perform their job duties efficiently and effectively.[672] SoCalGas needs these vehicles in order to support its Leak Survey Technicians, the O&M activities in response to regulatory codes and standards, and O&M activities for support functions.[673] SoCalGas's for incremental vehicles is reasonable and should be approved.

10.4 SDG&E's Request

SDG&E requests that the Commission adopt SDG&E's TY 2024 forecast of $41.843 million for Gas Distribution O&M expenses. This forecast represents an increase of $5.298 million over 2021 adjusted-recorded costs (BY 2021).[674] SDG&E further requests the Commission adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 of

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668 Ex. SCG-204 (Walker/Quezada) at 38-39.

669 *Id.*; *see also* Ex. SCG-302 (Recorded O&M Expenses).

670 Ex. TURN-10-R (Jones) at 6.

671 Ex. SCG-18-R-E (Franco).

672 Ex. SCG-204 (Walker/Quezada) at 27-30.

673 *Id.*

674 SDG&E-04-R-E (Kinsella) at vii.

$132.585 million, $135.392 million, and $122.799 million, respectively.[675] Cal Advocates, TURN, CEJA, UCAN, EDF, and CUE provided testimony addressing SDG&E's Gas Distribution forecast.

SDG&E's O&M and capital requests are reasonable, fully justified, and support SDG&E's fundamental philosophy of maintaining operational excellence, while providing safe, reliable delivery of gas energy at a reasonable cost to customers. The Commission should find SDG&E's forecast reasonable and fully justified in that the activities: (1) maintain and enhance the delivery of sustainable, safe, and reliable service to customers; (2) are consistent with operational laws, codes, and standards established by local, state, and federal authorities; (3) support SDG&E's commitment to mitigate risks associated with hazards to customer/public and employee/contractor safety, infrastructure integrity, and system reliability; (4) respond to operations, maintenance, and construction needs associated with projected customer and system growth and the demands of city, county, and state agencies under the Company's franchise agreements; (5) maintain and strengthen a diverse and qualified workforce; (6) support new field technologies and GHG reductions through implementation of Renewable Natural Gas (RNG), Green Hydrogen (H2), and other sustainability opportunities; and (7) support SDG&E's commitment to adapt to more extreme climate fueled events and build a system that will be resilient in the face of these risks.[676]

SDG&E carefully and thoroughly evaluated the historical costs and the corresponding unit of measure within each of the workpapers to develop an appropriate forecast to maintain the safe and reliable operation of the distribution system.[677] These forecasts were developed based on an analysis of historical spending and prudent consideration of future work and economic growth that is reasonably expected. Most of the activities and projects within the Gas Distribution witness area have been and will continue to be performed on a regular basis, and thus, have robust and reliable historical data to leverage when forecasting the near future.[678] SDG&E faces challenges affecting both the physical operation of the pipeline system and cost management aspects of its business that contribute to the forecasts presented in Mr. Kinsella's testimony, which include: maintaining a

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675 *Id.*

676 *Id.* at viii-ix.

677 *Id.* at 150.

678 *Id.*

trained and qualified workforce, aging infrastructure, system expansion, customer and load demand, state and municipal agency construction requirements, and regulatory requirements.[679]

10.4.1 Non-Shared Operations and Maintenance

The TY 2024 forecast for non-shared O&M is $41.843 million; an increase of $5.298 million over BY 2021.[680] Unique cost centers are used to record the cost of O&M activities performed within Gas Distribution operations. Collectively, more than 45 cost centers are used in recording the costs presented within Mr. Kinsella's testimony.[681] To facilitate the analysis of historical spending and to complete an evaluation of the projected expenditures, these cost centers are aggregated into 11 "workgroups" representing similar functions and/or having similar cost drivers.[682]

GAS DISTRIBUTION (In 2021 $) - O&M Expense			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Other Services	69	90	21
B. Leak Survey	2,067	2,067	0
C. R-Locate & Mark	7,116	10,096	2,980
D. Main Maintenance	5,009	5,822	813
E. Service Maintenance	3,293	4,116	823
F. Tools	1,708	1,667	-41
G. Electric Support	514	495	-19
H. Measurement & Regulation	4,638	5,153	515
I. Cathodic Protection	2,050	1,834	-216
J. Asset Management	1,078	1,375	297
K. Operations Management, Supervision, & Training	9,003	9,128	125
Total Non-Shared Services	**36,545**	**41,843**	**5,298**

Gas distribution activities are performed from a regional organizational structure. Similar activities are completed at five operating bases located throughout the 1,400 square-mile service territory. These activities can be described as preventative, corrective, or supportive in nature. Preventative work is generally completed on a scheduled basis. It includes the activities and associated costs presented within the workgroups of Locate and Mark, Leak Survey, and M&R.

679 *Id.* at 5-8.

680 *Id.* at 25-26.

681 *Id.*

682 *Id.*

Corrective work is generally reactive to a situation or a facility condition. This includes the activities and the associated costs presented in the workgroups of Cathodic Protection, Main Maintenance, and Service Maintenance. Finally, supportive elements are necessary to complete work assignments and include the activities and the associated costs discussed in Operations Management and Training, Electric Support, Tools, Materials and Fittings, and other Services workgroups.[683]

As discussed, SDG&E reviewed historical spending levels, including units of work, and developed an assessment of future requirements and associated risks. Depending on future expectations for the underlying cost drivers, a primary forecast methodology was selected. Selected methodologies include forecasting based on historical averages, simple linear trending of historical data, and 2021 adjusted recorded base year spending.[684] In addition, work requirements that are incremental to levels of historical spending and necessary to maintain the safe and reliable operation of the distribution system and supporting work processes were identified.[685]

Cal Advocates does not take issue with and accepts SDG&E's O&M forecast.[686] UCAN recommends reducing SDG&E's TY 2024 forecast spend by 30% based on declining gas demand.[687] The eleven cost categories identified above are discussed extensively in Mr. Kinsella's testimony.[688] Thus, this section focuses on addressing the recommendation presented by UCAN.

UCAN's approach would result in a $12.552 million reduction in SDG&E's proposed TY 2024 O&M spend of $41.843 million. SDG&E disagrees with UCAN's recommendation for a blanket 30% reduction to SDG&E's Gas Distribution O&M. First, UCAN's proposal for a reduction is based on gas demand data that does not apply to SDG&E Gas Distribution.[689] As discussed in Mr. Kinsella's rebuttal testimony, UCAN pulled gas demand data from the 2022 California Gas Report, specifically from SoCal Gas Wholesale & International Electric Generation, Average Temperature Year, demand. UCAN uses the same 2022 California Gas Report demand data to claim that there is a declining gas customer forecast for SDG&E, which is

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683 *Id.*

684 *Id.*

685 *Id.*

686 Ex. CA-04 (Quam) at 2-3.

687 Ex. UCAN-01-E (Woychick) at 23.

688 Ex. SDG&E-04-R-E (Kinsella) at 74-97.

689 SDG&E-204 (Kinsella) at 13-14.

unsupported.[690] Further, and as discussed above, the assumption or assertion that gas demand correlates to gas customers (meters) or vice versa is also flawed. O&M Gas Distribution forecasts are not directly related to gas throughput in the pipeline. For this rate case cycle, SDG&E's request for Gas Distribution is still needed to support the activities described in Mr. Kinsella's testimonies.[691]

10.4.2 Capital

SDG&E further requests the Commission adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 of $132.585 million, $135.392 million, and $122.799 million, respectively.[692] The Capital Cost categories are provided below and discussed extensively in testimony.[693] Thus, this section focuses on the overall purpose of capital costs and discusses why disallowances recommended by intervenors should not be adopted.

GAS DISTRIBUTION (In 2021 $)				
Categories of Management	**2021 Adjusted-Recorded (000s)**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
A. New Business	8,613	19,658	13,042	9,928
B. System Minor Additions, Relocations, and Retirement	5,412	5,221	5,221	5,221
C. Gas Meters & Regulators	8,374	8,598	9,348	9,348
D. Gas System Reinforcement	1,609	529	529	529
E. Street & Highway Relocation	6,733	14,596	15,008	5,776
F. Tools & Equipment	3,659	5,006	4,006	3,936
G. Code Compliance	3,101	2,712	3,087	3,087
H. Leak Repair	10,082	11,935	12,973	14,010
I. Cathodic Protection Program	4,409	4,493	4,493	4,493
J. Cathodic Protection System Enhancements	2,919	1,996	1,996	1,996
K. System Reliability & Safety	645	1,956	3,456	1,956
L. Underperforming Steel Replacement Program – Threaded Main (Pre-1934 Vintage)	13,682	7,000	7,000	7,000

[690] *Id.*

[691] *Id.*

[692] SDG&E-04-R-E (Kinsella) at vii.

[693] *Id.* at 66-134.

GAS DISTRIBUTION (In 2021 $)				
Categories of Management	**2021 Adjusted-Recorded (000s)**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
M. Underperforming Steel Replacement Program (1934-1965 Vintage)	14,712	3,000	3,000	3,000
N. Underperforming Steel Replacement Program – Other (Post-1965 Vintage)	4,207	3,001	3,001	3,001
O. Early Vintage Program – Dresser Mechanical Coupling Removal	3,934	2,000	2,000	2,000
P. Early Vintage Program – Oil Drip Piping Removal	3,668	1,500	1,500	1,500
Q. Early Vintage Program – Removal of Closed Valves between High/Medium Pressure Zones	893	1,500	1,500	1,500
R. Piping in Vaults Replacement Program	2,925	1,500	1,500	1,500
T. Control Center Modernization (CCM) Project	0	449	3,235	4,080
U. Curb Valve Replacement	0	1,000	1,750	1,750
V. CNG Station Upgrades	0	137	137	137
W. Local Engineering Pool	23,764	22,990	25,112	24,574
X. Gas Distribution Overhead Pool	8,097	5,342	5,695	5,893
Y. Gas Distribution Contract Administration Pool	8,717	6,466	6,803	6,584
Total	**140,158**	**132,585**	**135,392**	**122,799**

The driving philosophy behind SDG&E's capital investment plan is to provide safe, reliable delivery of natural gas to customers at reasonable cost. This commitment requires that SDG&E invest in its infrastructure and support services to mitigate risks associated with the safety of the public and employees, service reliability, and gas system integrity. SDG&E installs new pipeline mains, service lines, and meter set assemblies (MSA) to meet the needs of the growing population in the service territory.[694] To maintain system reliability and safety, SDG&E makes a variety of other capital improvements, including pressure betterment projects to improve areas of

[694] *Id.* at 66-68.

low pressure, pipeline renewals to replace deteriorated pipelines or obsolete equipment, installation and replacement of Cathodic Protection (CP) systems, the purchase of electronic pressure monitoring devices for pressure tracking and monitoring, and proactively addresses risk mitigations identified in the 2021 RAMP report, and throughout Mr. Kinsella's testimony, including completing pipeline replacements/removals to reduce operational risks in the overall gas system.[695]

In preparing the forecast for capital expenditures, SDG&E Gas Distribution reviewed historical spending levels, including work units, and developed an assessment of future requirements and associated risks. This analysis considered underlying cost drivers to determine if historical patterns of spending should be expected to continue, as well as the degree of impact of associated RAMP risk mitigations. Additionally, where the capital improvement project was new without prior history, or a separate forecast calculation method was used, a zero-base methodology was chosen.[696]

As stated in Cal Advocates' testimony: "Cal Advocates finds SDG&E's 2022 capital forecast to be higher than historical project costs for New Business but does not oppose SDG&E's lower forecast for TY 2024, as natural gas building policy is slowly being integrated throughout California."[697] Therefore, Cal Advocates takes no issue with SDG&E's expense forecast for Capital of $132.585 million, $135.392 million, and $122.799 million for 2022, 2023 and 2024, respectively, as shown by its recommendation directly in the Capital table in its report.[698]

UCAN proposes a 30% reduction to SDG&E's Gas Distribution total capital forecast based on declining gas demand.[699] UCAN's approach would result in a $36.84 million reduction in SDG&E's TY 2024 spend of $122.799 million. For the reasons discussed above regarding UCAN's similar proposal for O&M, UCAN's recommendation should not be adopted.

CUE recommends higher funding in certain cost categories, which SDG&E's addresses further below.[700] CEJA recommends disallowances for New Business Construction and Gas

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695 *Id.*

696 *Id.*

697 Ex. CA-04 (Quam) at 15.

698 *Id.* at 14.

699 Ex. UCAN-01-E (Woychick) at 23.

700 Ex. CUE-01 (Earle) at 3-4.

System Reinforcement.[701] SDG&E has already addressed CEJA's recommended disallowance for New Business and why it should not be adopted above and addresses its proposed disallowance for Gas System Reinforcement below.

10.4.2.1 Higher Funding Recommendations

CUE's testimony contains the following recommendations:

- Recommends doubling the pace of removal of Pre-1934 threaded steel pipe by increasing TY 2024 by $34.553 million to $41.553 million.
- Recommends increasing the rate of underperforming 1934 to 1965 steel pipe replacement to 6.4 miles per year by increasing TY 2024 forecast by $15.050 million to $18.050 million.
- Recommends increasing underperforming Post-1965 steel pipe replacement for TY 2024 by $2.610 million to $5.611 million.[702]

SDG&E has fully justified its funding request for these three RAMP programs addressing the replacement of vintage, underperforming steel pipelines in three age groups – Pre-1934 Vintage Threaded Mains, 1964-1965 Vintage Steel Pipelines, and Post 1965 Vintage Steel Pipelines.[703] Detailed information on each of these programs including forecast rationale and replacement goals for each of the years 2022 through 2024 is provided in Mr. Kinsella's direct testimony and associated workpapers. In addition, these programs mitigate safety risks identified in the 2021 RAMP Report. Because SDG&E's forecasts endeavor to strike an appropriate balance between Gas Distribution's pipeline safety, risk reduction effectiveness, and the impact on ratepayer costs, the Commission should adopt SDG&E's forecasts for these three budget codes as reasonable expense levels.

10.4.2.2 Gas System Reinforcement (Pressure Betterment)

Pressure betterment projects are performed on an ongoing basis to maintain system reliability and service to all customers.[704] Gas System Reinforcement projects are performed in areas where there is insufficient capacity or pressure to meet load growth and in areas where a strategic pipeline backtie would be beneficial for system reliability. Gas System Reinforcement

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701 Ex. CEJA-01 (Vespa) at 20.

702 Ex. CUE-01 (Earle) at 3-4.

703 Ex. SDG&E-04-R-E (Kinsella) at 103, 105, and 107; *see also* Ex. SDG&E-204 (Kinsella) at 20.

704 Ex. SDG&E-04-R-E (Kinsella) at 80-82.

projects are necessary to maintain reliable service to existing customers as new gas load is added to the gas distribution system.[705]

CEJA takes issue with the SDG&E's historical average forecast for this area and proposes a 50% reduction in SDG&E's forecast for TY 2024.706 SDG&E disagrees with the arbitrary and unsupported selection of a 50% recommended reduction. CEJA does not provide any analysis or calculations to support its recommendation. The principal drivers for System Reinforcement expenses are system pressure impacts during cold-weather events, and reliability and resiliency of the gas system.707 Gas System Reinforcement projects are necessary to maintain reliable service to existing customers. Although New Business or growth can be a driver for costs in this area, it is not substantial and not the primary driver.708 Therefore, a reduction in the forecast is unwarranted and risks jeopardizing SDG&E's ability to provide sustainable, safe, and reliable service to its existing natural gas customers.

10.4.3 Incremental Fleet

TURN opposes SDG&E Gas Distribution's request for 30 additional vehicles on the basis that SDG&E did not provide sufficient support to justify the additions.[709] Although Mr. Kinsella's testimonies supported the justification for those incremental vehicles, the associated costs are sponsored in SDG&E's Fleet Testimony.[710] As discussed in Mr. Kinsella's rebuttal testimony, TURN's recommendation should be denied as these requested vehicles are necessary in order for Gas Distribution employees to be able to perform their job duties efficiently and effectively.[711] SDG&Es needs these vehicles in order to support its Capital Quality Assurance/Quality Control, inspections and oversight, Control Center Modernization, and field operations and maintenance work.[712] SDG&E's request for incremental vehicles is reasonable and should be approved.

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[705] *Id.*

[706] Ex. CEJA-01 (Vespa) at 20.

[707] Ex. SDG&E-204 (Kinsella) at 18-20.

[708] *Id.*

[709] Ex. TURN-10-R (Jones) at 6.

[710] Ex. SDG&E-22-R-E (Alvarez).

[711] Ex. SDG&E-204 (Kinsella) at 14-16.

[712] *Id.*

10.5 Conclusion

SoCalGas's Gas Distribution O&M and capital forecasts represent a reasonable level of funding for the activities and capital projects planned during this forecast period. The Commission should adopt SoCalGas's original TY 2024 forecast of $168.096 million for Gas Distribution O&M, which is composed of $167.686 million for non-shared service activities and $410,000 for shared service activities.[713] SoCalGas further requests the Commission adopt its forecast of $388.717 million, $413.286 million, and $391.456 million for capital expenditures in 2022, 2023, and 2024, respectively.

SDG&E's Gas Distribution O&M and capital forecasts represent a reasonable level of funding for the activities and capital projects planned during this forecast period. The Commission should adopt SDG&E's original TY 2024 forecast of $41.843 million for Gas Distribution O&M expenses. SDG&E further requests the Commission adopt SDG&E's forecast for capital expenditures in 2022, 2023, and 2024 of $132.585 million, $135.392 million, and $122.799 million, respectively.

11. Gas System Staff and Technology

SoCalGas and SDG&E's Gas System Staff and Technology testimonies and workpapers, supported by witness Wallace Rawls, describe and justify the Companies' forecasted Gas System Staff and Technology O&M expenditures.[714] Gas System Staff and Technology is responsible for a collection of key activities and programs that contribute to the ongoing vitality of gas operations and help achieve the Companies' overarching objectives to provide safe, clean, and reliable natural gas service at reasonable rates.[715] Gas System Staff and Technology works alongside the Gas Transmission, Gas Distribution, and Storage operations by creating and issuing policies and standards that establish and validate compliance with applicable laws, regulations, internal policies, and best practices.[716]

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713 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at v.

714 *See* Ex. SCG-05 (Rawls); Ex. SCG-05-WP-R (Rawls); Ex. SCG-205-E (Rawls); Ex. SDG&E-05 (Rawls); Ex. SDG&E-05-WP (Rawls).

715 Ex. SCG-05 (Rawls) at iv; Ex. SDG&E-05 (Rawls) at ii.

716 *Id*.

The RAMP activities represented and supported as part of these testimonies are Excavation Damage (Dig-In) on the Gas System[717] and Asset and Records Management[718] as further detailed in Section II of Mr. Rawls' direct testimony.[719] The incremental funding request supports the ongoing management of these risks that could pose significant safety, reliability, and financial consequences. The anticipated risk reduction benefits that may be achieved by authorizing the funding to implement these RAMP activities are summarized in Mr. Rawls' direct testimony.[720]

Intervenors' summary positions are compared to SoCalGas and SDG&E's in the tables below:

Summary of SoCalGas O&M Request and Intervenor Proposals

TOTAL NON-SHARED + SHARED SERVICES O&M Constant 2021 ($000)		
	Test Year 2024	**Variance[721]**
SoCalGas	23,585	
TURN	23,585	0
Cal Advocates	23,616	31[722]

Summary of SDG&E O&M Request and Intervenor Proposals

TOTAL NON-SHARED + SHARED SERVICES O&M Constant 2021 ($000)		
	Test Year 2024	**Variance**
SDG&E	901	
Cal Advocates	901	0

717 SCG-Risk-2 Excavation Damage (Dig-In) on the Gas System; SDG&E-Risk-7 Excavation Damage (Dig-In) on the Gas System.

718 SCG-CFF-1 Asset and Records Management.

719 *See* Ex. SCG-05 (Rawls) at 4-9; Ex. SDG&E-05 (Rawls) at 2-6.

720 *See* Ex. SCG-05 (Rawls) at 4-9, 14-15, 33-34, 40-41, 51, 59-60, 65-67; Ex. SDG&E-05 (Rawls) at 2-6, 13-17.

721 Intervenor's forecast – Utility's forecast = Variance.

722 Cal Advocates did not oppose SoCalGas's forecast. The variance shown is a result of SoCalGas's updated forecast. SoCalGas is no longer requesting recovery of short-term rental costs for the TY 2024, reflecting a downward adjustment of $31,000, as provided in Ex. SCG-401/SDG&E-401 (Taylor) Update Testimony (July 2023), Attachment I at I-3.

11.1 SoCalGas's Request

SoCalGas requests approval of a TY 2024 forecast of $23.585 million for Gas System Staff and Technology O&M.[723] The forecast is composed of $13.758 million for non-shared service activities and $9.827 million for shared service activities.[724] This forecast represents an increase of $7.928 million over 2021 adjusted-recorded costs (BY 2021) and includes $2.259 million in RAMP related costs.[725] Cal Advocates and TURN provided testimony on SoCalGas's Gas System Staff and Technology forecast. Cal Advocates accepts the Gas System Staff and Technology O&M expense request in its entirety for TY 2024.[726] TURN only had one recommended adjustment to SoCalGas's funding request. TURN recommended that to the extent short-term vehicle rental costs were included in non-labor cost adjustments in the GRC forecast, those costs should be removed.[727] After reviewing TURN's request and related discovery, SoCalGas agrees and has reflected in its Update Testimony the removal of the costs associated with short-term vehicle rental costs.[728]

11.1.1 Non-Shared Operations and Maintenance

The TY 2024 forecast for non-shared O&M is $13.758 million; an increase of $3.701 million over BY 2021.[729] SoCalGas's forecast for non-shared O&M expenses includes the following cost categories: (1) Gas Operations Training & Development, (2) Enterprise Asset Management, (3) Damage Prevention, (4) High Pressure Project Record Closeout, and (5) GIS Data Asset Integrity.[730]

SoCalGas reviewed historical spending levels and performed an analysis of each category to determine which forecasting method would be most appropriate and reasonable to apply.[731] Because of the expected growth of the activities in this area, most of the forecasts rely upon a base

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723 *See* Ex. SCG-05 (Rawls) at iv. SoCalGas updated its forecast to no longer seek recovery of short-term rental costs for the TY 2024, reflecting a downward adjustment of $31,000. Ex. SCG-401/SDG&E-401 (Taylor), Attachment I at I-3.

724 Ex. SCG-05 at v.

725 *Id*. at 1, Table WR-1 and 5, Table WR-2.

726 Ex. CA-02-E (Sierra) at 3.

727 Ex. TURN-10-R (Jones) at 11.

728 Ex. SCG-401/SDG&E-401 (Taylor), Attachment I at I-3.

729 Ex. SCG-205 (Rawls) at 11.

730 *Id*.

731 *Id*. at iv.

year 2021 methodology.[732] Many activities have changed in recent years and the base year is representative of SoCalGas's expectations for TY 2024. The base year methodology was chosen in most cases because it best represents the future expenses and because it captures the growth that this area is expecting.[733] Where appropriate, certain incremental upward or downward adjustments have been identified and made to the forecasts.[734] For example, Damage Prevention will be affected by fluctuations in USA tickets, an increase in public awareness activities and outreach, and the unpredictability of potential damage to pipelines and infrastructure.[735] As another example, cost drivers for the Enterprise Asset Management (EAM) organization include the creation of a data lake to capture asset data, which will compile source data to enhance SoCalGas's risk-based decision making.[736]

To appropriately balance between Gas System Staff and Technology's risk reduction effectiveness and impact on ratepayer costs, the Commission should adopt SoCalGas's TY 2024 non-shared O&M forecast of $13.758 million.

11.1.2 Shared Operations and Maintenance

The TY 2024 forecast for shared O&M totals $9.827 million; an increase of $4.227 million over BY 2021.[737] SoCalGas's forecast for shared O&M expenses includes the following cost categories: (1) Damage Prevention, (2) Pipeline Policy, (3) Operator Qualification, and (4) Gas System Staff.[738]

TURN made one recommendation with regards to SoCalGas's request for short-term vehicle rental costs.[739] However, TURN does not otherwise dispute SoCalGas's forecast for shared O&M costs. After reviewing TURN's request and related discovery, SoCalGas agrees and

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732 *Id*. at 15, 34, 42, and 46. For the High Pressure Project Record Closeout cost category, SoCalGas utilized a zero-based forecast methodology as this activity is new as of 2021 and there is no prior cost history. *Id*. at 45.

733 *Id*. at iv.

734 *Id*.

735 *Id*. at 42-43.

736 *Id*. at 20-23 and 35-36.

737 *Id*. at 47.

738 *Id*.

739 Ex. TURN-10 (Jones) at 13.

has reflected in its Update Testimony the removal of the costs associated with short-term vehicle rental costs.[740]

SoCalGas reviewed historical spending levels and performed an analysis of each category to determine which forecasting method would be most appropriate and reasonable to apply.[741] Because of the expected growth of the activities in this area, most of the forecasts rely upon a base year 2021 methodology.[742] Many activities have changed in recent years and the base year is representative of SoCalGas's expectations for TY 2024. The base year methodology was chosen in most cases because it best represents the future expenses and because it captures the growth that this area is expecting.[743] Where appropriate, certain incremental upward or downward adjustments have been identified and made to the forecasts.[744]

The Commission should adopt SoCalGas's TY 2024 shared O&M forecast of $9.827 million. SoCalGas provided sufficient support and analysis for each cost category, taking into account historical data and the different cost drivers that affect each category.[745]

11.2 SDG&E's Request

SDG&E requests approval of a TY 2024 forecast of $901,000 for Gas System Staff and Technology O&M, which includes $399,000 in RAMP-related costs.[746] The forecast is composed of $901,000 for non-shared service activities.[747] This forecast represents an increase of $806,000 over BY 2021.[748] No party disputed SDG&E's O&M forecast.

11.2.1 Non-Shared Operations and Maintenance

The TY 2024 forecast for non-shared O&M is $901,000; an increase of $806,000 over BY 2021.[749] This forecast is for the cost category of Damage Prevention, which will allow SDG&E to

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740 Ex. SCG-401/SDG&E-401 (Taylor), Attachment I at I-3

741 *Id*. at iv.

742 *Id*. at 48-50, 54 to 58, 60, and 67-68. For the Operator Qualification cost category, SoCalGas utilized a three-year average forecast methodology as there are many types of work being performed in this activity that individually consist of different labor rates, tools, and materials and the three-year average best accounts for the variability of Operator Qualification workload and costs. *Id*. at 52.

743 *Id*. at iv.

744 *Id*.

745 *See* Ex. SCG-05 (Rawls) at 48-68.

746 Ex. SDG&E-05 (Rawls) at 1-3.

747 *Id.* at 1.

748 *Id*.

749 *Id*.

mature its damage prevention capabilities and work to reduce the potential for excavation damages.[750]

SDG&E's Damage Prevention covers costs supporting SDG&E's Damage Prevention program, which seeks to mitigate threats to pipeline infrastructure and public safety.[751] Included within this cost category is SDG&E's Public Awareness campaign, which is federally mandated by 49 C.F.R. § 192-616 and SDG&E's Damage Prevention Strategies.[752] SDG&E reviewed historical spending levels and performed an analysis of each category to determine which forecasting method would be most appropriate and reasonable to apply.[753] Because of the expected growth of the activities in this area, the forecast relies upon a BY 2021 methodology.[754] The base year methodology was chosen because it best represents the future expenses and because it captures the growth that this area is expecting.[755] Where appropriate, certain incremental upward or downward adjustments have been identified and made to the forecasts.[756] Damage Prevention will be affected by fluctuations with USA tickets, an increase in public awareness activities and outreach, and the unpredictability of potential damage to pipelines and infrastructure.[757]

Accordingly, the Commission should adopt SDG&E's TY 2024 non-shared O&M forecast of $901,000.

11.3 Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA) Recovery

As part of its Gas System Staff and Technology testimony, SoCalGas and SDG&E also provide the business justification for the costs incurred for the program administration activities from July 17, 2017, through December 31, 2021.[758] The NGLAPMA records the incremental costs associated with program administration as part of the Natural Gas Leak Abatement Program (NGLAP) authorized by the Commission in D.17-06-015. Details of costs related to the NGLAPMA are determined in a separate Tier 3 advice letter in compliance with D.17-06-015.

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750 *Id*. at iii.
751 *Id*. at 9-18.
752 *Id*. at 9-13.
753 *Id*. at ii-iii.
754 *Id*. at 18.
755 *Id*. at ii-iii.
756 *Id*.
757 *Id*. at 19-20.
758 Ex. SCG-05 (Rawls) at 68-69; Ex. SDG&E-05 (Rawls) at 20-21.

The administrative costs recorded by SoCalGas and SDG&E, respectively, are in compliance with D.17-06-015, are reasonable, and should be approved by the Commission.[759]

11.4 Conclusion

The Companies' Gas System Integrity forecasts of O&M expenses balance compliance obligations, risk, as well as the cost to deliver natural gas safely and reliably. To enable SoCalGas and SDG&E to accomplish these safety efforts, the Commission should adopt SoCalGas's TY 2024 forecast of $23.585 million for Gas System Staff and Technology O&M expenses ($13.758 million for non-shared service activities and $9.827 million for shared service activities), and SDG&E's TY 2024 forecast of $$901,000 for Gas System Integrity O&M expenses.

12. Gas Transmission Operations

Key objectives of the SoCalGas and SDG&E Gas Transmission organizations are to safely operate the gas system, achieve compliance with applicable legal and regulatory requirements, provide customers with reliable natural gas service at a reasonable cost, maintain and strengthen a qualified workforce, and align with California's climate goals to support the state's transition to a net zero energy future.[760] This Section discusses SoCalGas and SDG&E's respective O&M and capital cost forecasts necessary for the safe and reliable operation of the SoCalGas and SDG&E gas transmission systems.

The organization provides a number of functions that are critical to the operation of the natural gas system. The O&M requests for the organization help it provide the day-to-day operations, maintenance, and construction needs for the transmission system, support SoCalGas's and SDG&E's commitments to mitigate risks associated with hazards to public and employee safety, infrastructure integrity, system reliability, and help align the Companies with California's climate goals and maintain a resilient gas grid through the energy transition. The capital projects presented are for gas transmission pipelines and appurtenances, as well as projects associated with compressor stations that help transport gas to support the larger gas transmission operations, and include pipeline replacements due to class location changes, freeway and franchise pipeline relocations, construction of new pipeline, improvements to compressor stations, cathodic protection improvements, measurement & regulation replacement and/or improvements, upgrading and/or replacing security and auxiliary equipment, Optical Pipeline Monitoring (OPM) stations

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759 *Id*.

760 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at vi-vii.

and High Consequence Area (HCA) methane sensors related to the Control Center Modernization, equipment to support the integration of alternative fuels such as hydrogen and renewable natural gas.

Proposed Gas Transmission costs are substantially costs related to risk mitigation and were included in the RAMP. The sponsored costs are associated with several key safety risks at the Companies, including: SCG-Risk-1 Incident Related to the High-Pressure System (Excluding Dig-in), SCG-Risk-2 Excavation Damage (Dig-in) on the Gas System, SCG-Risk-5 Incident Involving an Employee, SCG-CFF-1 Asset and Records Management, SCG-CFF-1 Physical Security, and SDG&E-Risk-3 Incident Related to the High-Pressure System. The risk related benefits of the work by this organization is discussed further in testimony.

Summary of RAMP O&M Costs

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)			
	BY2021 Embedded Base Costs	**TY2024 Estimated Total**	**TY2024 Estimated Incremental**
RAMP Risk Chapter:			
SCG-Risk-1 Incident Related to the High-Pressure System (Excluding Dig-in)	27,997	29,743	1,746
SCG-Risk-2 Excavation Damage (Dig-In) on the Gas System	3,591	3,591	0
Sub-total	31,588	33,334	1,746
RAMP Cross-Functional Factor (CFF) Chapter			
SCG-CFF-1 Asset and Records Management	200	200	0
Sub-total	200	200	0
Total RAMP O&M Costs	**31,788**	**33,534**	**1,746**

Summary of RAMP Capital Costs

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)				
	2022 Estimated RAMP Total	2023 Estimated RAMP Total	2024 Estimated RAMP Total	2022-2024 Estimated RAMP Total
RAMP Risk Chapter:				
SCG-Risk-1 Incident Related to the High-Pressure System (Excluding Dig-in)	151,528	108,951	97,458	357,937
SCG-Risk-2 Excavation Damage (Dig-In) on the Gas System	2,038	2,608	3,746	8,392
SCG-Risk-5 Incident Involving an Employee	81	81	81	243
Sub-total	153,647	111,640	101,285	366,572
RAMP Cross-Functional Factor (CFF) Chapter:				
SCG-CFF-5 Physical Security	2,218	2,218	2,218	6,654
Sub-total	2,218	2,218	2,218	6,654
Total RAMP Capital Costs	**155,865**	**113,858**	**103,503**	**373,226**

12.1 SoCalGas (O&M)

SoCalGas requests approval of a TY 2024 forecast of $51.954 million for O&M costs. The O&M forecast is composed of $38.651 million for non-shared service activities and $13.303 million for shared services activities. This forecast represents an increase of $4.831 million over BY 2021 adjusted-recorded costs.[761] The below table shows the total non-shared and shared services O&M SoCalGas estimates for TY 2024.

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)			
SoCalGas O&M	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
Total Non-Shared Services	38,218	38,651	433
Total Shared Services	9,008	13,303	4,295
Total O&M	**47,226**	**51,954**	**4,728**

761 *Id.* at 2.

Cal Advocates and TURN have separately proposed reductions for SoCalGas's O&M forecasts, discussed in more detail below. The below table compares SoCalGas's TY 2024 forecast against the gross proposed reductions from Cal Advocates and TURN.

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)			
O&M	**Cal Advocates**	**TURN**	**SoCalGas**
Total Non-Shared Services	38,754	38,754	38,651[762]
Total Shared Services	10,761	10,107	13,303
Total O&M	**49,515**	**48,861**	**51,954**

12.1.1 SoCalGas Non-Shared O&M Services

The following table summarizes SoCalGas's total non-shared O&M forecasts:

Southern California Gas Company
Non-Shared O&M Summary of Costs[763]

GAS TRANSMISSION CONSTRUCTION & OPERATIONS In 2021 $ (000s)			
Categories of Management	**BY 2021 Adjusted Recorded**	**TY 2024 Estimate**	**Change**
A. Pipeline & Instrumentation Operations	17,827	18,657	886
B. Compressor Station Operations	10,671	11,981	1,331
C. Cathodic Protection	1,352	1,338	0
D. Technical Services	7,519	5,362	-2,146
E. Storage Products Manager	158	164	6
F. Control Center Modernization	690	1,149	459
Total Non-Shared Services	**38,218**	**38,651**	**433**

No party disputed SoCalGas's non-shared O&M funding requests. SoCalGas requested O&M funding of $18.713 million for Pipeline & Instrumentation Operations, $12.003 million for Compressor Station Operations, $1.352 million for the Cathodic Protection, $5.373 million for Technical Services, $0.164 million for the Storage Products Manager, and $1.149 million for the

762 Numbers included reflect updates from SoCalGas's and SDG&E's Update testimony. Intervenor proposals were not modified.

763 *Id*. at 17.

Control Center Modernization cost category.[764] SoCalGas requests the Commission adopt these requests as reasonable.

12.1.2 Shared Services O&M

SoCalGas's Gas Transmission Operations and Construction Testimony (Exhibit SCG-SCG-06-2R) explains that SoCalGas personnel manage, in part, SDG&E's Gas Transmission Operations and that these shared services are billed to SoCalGas.[765] The testimony further explains why SoCalGas's Shared Services O&M forecast expenditures are reasonable.[766] The Table below shows SoCalGas's overall Shared Services O&M costs and forecasts broken out into cost centers within the Gas Transmission Operations and Gas Control & System Planning Operations.

Southern California Gas Company
Shared Services Total O&M Summary of Costs[767]

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)			
Gas Control System Planning	**BY 2021 Adjusted Recorded**	**TY 2024 Forecast**	**Change**
A. Director of Gas Transmission – 2200-0253	183	238	55
B. FOM East Transmission – 2200-0265	376	376	0
C. FOM Compressor Station Operations – 2200-2173	566	566	0
D. Governance & Compliance – 2200-0931	465	900	435
E. Transmission & Storage Strategy Manager – 2200-0330	906	906	0
F. Capacity Products Support – 2200-0328	686	686	0
G. Gas Scheduling –2200-2158	796	796	0
H. Gas Transmission Planning – 2200-2329	861	861	0
I. Gas Control – 2200-2289	2,983	6,683	3,700
J. SCADA Operations – 2200-0329	1,186	1,291	105
Total Shared O&M	**9,008**	**13,301**	**4,295**

764 *Id.* at 17.

765 *Id.* at 42.

766 *Id.*

767 *Id.* at 43.

Cal Advocates and TURN both recommend reductions to SoCalGas's Gas Control Shared services O&M forecast. No other shared services O&M forecast has been contested.

12.1.2.1 Gas Control – Cost Center 2200-2289

Cal Advocates and TURN both recommend reductions in SoCalGas's TY 2024 forecast for its Gas Control shared services O&M. The table below summarizes the differences between the three parties.

GAS CONTROL – 2200-2289 SHARED O&M In 2021 $ (000s)			
	BY 2021	**TY 2024 Forecast**	**Change**
SoCalGas	2,983	6,683	3,700
Cal Advocates	2,983	4,143[768]	1,160
TURN	2,983	3,489[769]	506

SoCalGas's Gas Control Room Monitoring and Operation activities consist of 24/7 operation of the transmission pipeline system in a real-time control room environment, which is necessary to provide a centralized and holistic view of system health.[770] The Control Room serves as the communication center between the various departments operating and conducting maintenance on the transmission pipeline system, upholding public safety, maintaining system reliability, developing a daily operating plan that includes demand forecasts and facility utilization, and also allows for preparation of contingencies for changes in system conditions.[771]

SoCalGas's requested incremental increase of $3.7 million for shared O&M expenses for Gas Control operations arises from the Control Center Modernization (CCM) project, which will require an increase in FTEs from 25.2 to 59.2, as shown in the table below. The increase in 34 FTEs is necessary to support Gas Control's expanded safety, reliability, sustainability, and operational roles under the CCM project.[772] SoCalGas's funding request would support the continuation of the CCM project the Commission previously approved in the 2019 GRC (where

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768 Ex. CA-02-E (Sierra) at 13, Table 2-10.

769 Ex. TURN-05-R-E1 (Walker) at 62, Table 7.

770 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 54.

771 *Id.*

772 *Id.*

the project was referred to as the "Distribution Operations Control Center") for meaningful safety, reliability, and risk reduction benefits.[773]

GAS CONTROL – SYSTEM PLANNING[774] In 2021 $ (000s)			
Gas Control FTEs	**BY 2021 Recorded**	**TY 2024 Estimate**	**Change**
Labor	2,825	6,340	3,515
Non-Labor	157	342	185
NSE Total	0	0	0
Total Non-Shared Services	2,983	6,683	3,700
FTE	**25.2**	**59.2**	**34**

Cal Advocates takes issue with SoCalGas's Gas Control TY 2024 estimate of $6.683 million asserting that SoCalGas has not provided supporting documentation justifying the incremental costs.[775] Cal Advocates proposes using the 2022 adjusted forecast of $4.143 million as the basis for a "reasonable funding level" in TY 2024.[776] Cal Advocates' proposed reduction of $2.54 million is based on the argument that CCM project's transmission field assets are not due to be completely deployed by 2028, which is after the new Gas Control Center facility will be completed as part of the CCM project.[777]

TURN also takes issue with SoCalGas's forecast, arguing for a TY 2024 disallowance of $3.194 million on the basis that SoCalGas should only be allotted an FTE increase of 20% beyond SoCalGas's BY 2021 FTEs.[778] TURN claims that SoCalGas's proposed increase of 34 FTEs in 2024 is unreasonable and that a 20% increase in FTEs should be sufficient to support Gas Control's expanded roles as part of the CCM project.[779] TURN bases its 120% of BY 2021 FTE

[773] D.19-09-051 at 130-131 ("[W]e find that the real-time information and monitoring of gas distribution pipelines that will be provided by the system as described in Exhibit 50 showing the features and other capabilities of the DOCC, provide meaningful safety benefits. Real-time monitoring and remote-control access to key points in the distribution system allows faster detection of abnormal changes in pressure and speeds up response times to address these issues. . . . The system also supports mitigation of a key risk identified during the RAMP process and we find that the real-time monitoring to be provided by the system supports our policy of reducing gas leaks more quickly."); *see also* D.14-08-032 (authorizing PG&E's Gas Distribution Control Center.).

[774] Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 54, Table CHB-30.

[775] Ex. CA-02-E (Sierra) at 14.

[776] *Id.*

[777] *Id.*

[778] Ex. TURN-05-R-E1 (Walker) at 63.

[779] *Id.*

proposal on the sole argument that SoCalGas's "efficiency claims" only justify a modest increase in FTEs.[780]

SoCalGas disagrees with Cal Advocates and TURN. SoCalGas's testimony (Exhibit SCG-06-2R) provides the justification for the requested incremental costs by detailing the FTEs and roles necessary for the CCM project, which will require additional personnel.[781] The CCM project will increase the scope of Gas Control's role by incorporating distribution field assets and new transmission field assets.[782] By the end of 2024, Gas Control plans to integrate data from an additional 7,514 field assets as part of the CCM project, which will require additional personnel to support several new processes and functions.[783] Additional FTEs will be required for regulator station monitoring and control functionality on the distribution system, OPM stations, and HCA methane sensors; routing and monitoring of distribution system electronic pressure monitors and customer meter data; alarm response, incident response, and maintenance activities related to field assets; coordination with distribution, dispatch, transmission, and emergency management organizations; and data analysis through new platforms introduced through the CCM technologies.[784] As such, the 34 FTEs requested by SoCalGas are needed to fulfill the safety and operational benefits to be found in the CCM project.

TURN's proposed FTE increase of 20% beyond BY 2021 is also inconsistent with TURN's proposed disallowance of $3.194 million because the shared O&M expenses with that disallowance would be less than SoCalGas's actual BY 2021 costs.[785] Moreover, TURN provides no reasoning or calculus for the Base Year plus 20% proposed forecast outside of allusions to "efficiency claims."[786] On the other hand, SoCalGas's TY forecast was developed by internal subject matter experts working in tandem with an experienced third-party contractor who has assisted 20 other utilities worldwide to modernize their control centers and define their resource requirements.[787] The CCM project objectives are driving the increased personnel requirements for

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780 *Id.* at 62.

781 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 54-58.

782 *Id.* at 55.

783 *Id.*; Ex. SCG-06-WP-R-E at 133; Ex. SCG-206 (Chiapa/Hruby/Garcia) at 4.

784 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 55.

785 Ex. TURN-05-R-E1 (Walker) at 62-63; Ex. SCG-206 (Chiapa/Hruby/Garcia) at 5.

786 Ex. TURN-05-R-E1 (Walker) at 62-63.

787 Ex. SCG-206 (Chiapa/Hruby/Garcia) at 5.

the Gas Control Room structure, as Gas Control must take on incremental tasks, activities, and responsibilities across both the transmission and the distribution pipeline networks to execute the CCM project.[788] Additionally, external factors such as federal regulations, *i.e.,* PHMSA-Control Room Management regulations, and the importance for the effective management of fatigue and operator alertness contribute to the organizational structure.[789]

Cal Advocate's contention that not all "transmission assets will be integrated by 2024"[790] misunderstands SoCalGas's CCM project and its relation to Gas Control. SoCalGas's CCM project is not simply integrating more transmission assets into Gas Control. As noted above, the CCM project will integrate 7,514 new and existing distribution and transmission field assets into Gas Control by the end of 2024, and even more in the years following.[791] This integration will expand Gas Control's current monitoring and control environment into the distribution system for the first time, a system that includes over 100,000 miles of pipeline, and is integral to serving SoCalGas's customers.[792] Without proper O&M funding, SoCalGas cannot effectively staff the Control Room to properly monitor the increasing amount of data to be received from the new and existing field assets to achieve the safety, reliability, and risk mitigations objectives of the CCM project.

Reducing SoCalGas's requested forecast would delay or impede the realization of the reliability and safety-related benefits associated with the increased digitalization of SoCalGas's pipeline system. Authorizing SoCalGas's proposed O&M forecast will allow Gas Control to safely and effectively oversee the distribution system, expand its oversight within the transmission system, and enable SoCalGas to begin maximizing the CCM-related safety and system reliability benefits. The Commission approved funding for the CCM project in the Companies' TY 2019 GRC decision and should do the same in this GRC.[793]

12.1.2.2 Undisputed Shared O&M Services

No party disputed SoCalGas's funding forecasts of $0.238 million for Director Gas Transmission, $0.376 million for FOM East Transmission, $0.566million for FOM Compressor

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788 *Id.* at 6.

789 *Id.*

790 Ex. CA-02-E (Sierra) at 14.

791 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at CHB-55; Ex. SCG-206 (Chiapa/Hruby/Garcia) at 4.

792 Ex. SCG-206 (Chiapa/Hruby/Garcia) at 4.

793 D.19-09-051 at 130-131.

Station Operations, $0.9 million for Governance & Compliance, $0.906 million for Transmission & Storage Strategy Manager, $0.686 million for Capacity Products Support, $0.796 million for Gas Scheduling, $0.861 million for Gas Transmission Planning, and $1.291 million for SCADA Operations. SoCalGas has met its burden justifying these shared services O&M forecasts and requests that the Commission adopt these forecasts as reasonable.[794]

12.2 SDG&E (O&M)

SDG&E respectfully requests that the Commission approve SDG&E's TY 2024 O&M expenditures of $5.103 million. These expenditures are entirely for non-shared services, as shown in the below table.[795]

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)			
SDG&E O&M	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
Non-Shared Services	5,163	5,501	338
Shared Services	0	0	0
Total O&M	5,163	5,501	338

No party opposed SDG&E's O&M expenditures forecast. SDG&E therefore requests that the Commission adopt and approve SDG&E's requested O&M expenditures as reasonable.[796]

12.3 Gas Transmission (Capital)

This section addresses the capital expenditures to support SoCalGas's and SDG&E's respective gas transmission operations.

12.3.1 SoCalGas (Capital)

SoCalGas requests the Commission to adopt its 2022, 2023, and 2024 updated forecast for capital expenditures of $181.997 million, $150.659 million, and $106.568 million, respectively, in furtherance of promoting the safe and reliable delivery of natural gas on its transmission system and delivering natural gas to its customers at reasonable rates. In addition to this, SoCalGas is committed to investing in the infrastructure and support services needed to transition to a net zero greenhouse gas emissions future in furtherance of the Commission's and State's climate goals.

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794 *See* Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 43-60 and associated workpapers.

795 Ex. SDG&E-06-E (Chiapa/Hruby) at 1; Ex. SCG-401/SDG&E-401, Appendix B at 17 (Table RH-17).

796 Ex. SDG&E-06-E (Chiapa/Hruby) at 12-21.

Cal Advocates and TURN have separately recommended reductions in SoCalGas's capital forecasts. SoCalGas's total capital forecast for 2022-2024 is $439.224million. Cal Advocates recommends a reduction of $1.615 million,[797] and TURN recommends a reduction of $7.698 million,[798] as shown in the below table.

SOCALGAS TOTAL CAPITAL – Constant 2021 $ (000s)					
	2022	**2023**	**2024**	**Total**	**Difference**
SoCalGas	181,997	150,659	106,568	439,224	---
Cal Advocates	182,494	150,172	104,943	437,609	1,615
TURN	179,028	146,020	106,478	431,526	7,698

The table below details SoCalGas's funding requests for its capital costs by category.

Southern California Gas Company
Summary of Capital Costs[799]

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021 $ (000s)				
	2021 Adjusted-Recorded	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
A. New Construction Pipeline	657	13,864	18,890	173
B. Pipeline Replacements	54,926	39,917	39,917	34,917
C. Pipeline Relocation - Freeway	25	1,701	201	201
D. Pipeline Relocation-Franchise/Private/ROW	11,006	10,950	10,007	10,007
E. Compressor Stations	25,741	13,000	13,000	10,000
F. Cathodic Protection	12,496	8,000	8,000	7,000
G. Measurement & Regulation Stations	73,504	47,631	52,774	35,632
H. Security & Auxiliary Equipment	10,802	4,000	3,000	3,000
I. Buildings & Improvements	2,487	1,000	1,000	1,000
J. Capital Tools	1,205	892	892	892
K. Blythe Compressor Station Modernization	57,810	39,004	370	0
L. Control Center Modernization	253	2,038	2,608	3,746
Total	**250,912**	**181,997**	**150,659**	**106,568**

In addition, Capital costs for the forecast years 2022, 2023, and 2024 for two ENVOY® information technology systems that support Gas System Control operations are addressed in the

797 Ex. CA-02-E (Sierra) at 5.

798 Ex. TURN-05-R-E1 (Walker) at 7-8, 13-14.

799 Ex. SCG-06-2R-E at 76.

IT section of this brief.[800] The proposals for systems were uncontested, and should be approved by the Commission.[801]

TURN contests SoCalGas's New Construction Pipeline and Pipeline Replacements capital forecasts. Cal Advocates contests SoCalGas's Control Center Modernization capital forecast. The remaining capital forecasts are uncontested.

12.3.1.1 New Construction Pipeline Capital Forecast

TURN proposes a total reduction of $8.362 million, consisting of a 25% reduction to SoCalGas's 2022 and 2023 estimates and a zeroing of the $0.173 million request for 2024,[802] as shown in the below table:

NEW CONSTRUCTION PIPELINE TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SoCalGas	13,864	18,890	173	32,927	---
TURN	10,398	14,167	0	24,565	8,362

The New Construction Pipeline costs arise from SoCalGas's need to install new pipeline, at the request of an end user, referred to as the Lakewood Project.[803] TURN argues that its proposed $8.362 million reduction is reasonable because the Lakewood Project only benefits a single customer.[804] TURN's argument is inapt because the Lakewood Project is a collectible project, and SoCalGas did not include the collectible costs into the New Construction Pipeline capital forecast because they are not properly included in the rate base.[805]

SoCalGas Pipeline Replacements capital forecasts support the ongoing safe and reliable operation of SoCalGas's vast transmission system, ranging from the Colorado River in the East to the Pacific in the West, and from Tulare County in the North to San Diego in the South.[806] SoCalGas monitors the transmission pipelines for any necessary repairs or replacements through continuous pipeline patrols, leak surveys, in-line inspections, and external assessments.[807] When SoCalGas discovers deteriorated conditions, it will make an engineering determination as to

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800 *See* Section 27, Information Technology.

801 *See* Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 87-90.

802 Ex. TURN-05-R-E1 (Walker) at 49.

803 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 65-66.

804 Ex. TURN-05-R-E1 (Walker) at 47-48.

805 Ex. SCG-206 (Chiapa/Hruby/Garcia) at 7-8.

806 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 66.

807 *Id.*

whether the pipeline needs replacement or repair to reduce risk.[808] Pipeline conditions that may necessitate repair or replacement include corrosion, damage, and leakage.[809] In addition, external and environmental factors, such as changes in class location due to expanding development, insufficient soil cover due to erosion, and other hazards, like subsidence and landslides, can lead to necessary pipeline replacements.[810]

TURN argues that the Commission should "ignore the 2022 Adjusted-Recorded expenditures when considering the reasonableness of the Transmission Pipeline Replacement forecast" because SoCalGas "did not provide any details as to the reason" that the adjusted-recorded expenditures exceeded the 2022 forecast. TURN did provide a specific monetary reduction. TURN's argument lacks merit. SoCalGas's adjusted recorded expenditures reflect actual and reasonable costs that SoCalGas spent for its transmission pipeline replacements in 2022. TURN's argument that these adjusted recorded costs should be ignored simply because they exceed the forecast lacks substance and fails to appreciate the safety and reliability imperatives underlying SoCalGas's 2022 adjusted recorded transmission pipeline replacement costs.

12.3.1.2 Control Center Modernization (CCM) Capital Forecast

In addition to the O&M costs discussed in Section 13.1.3.1, implementing the CCM project requires the deployment of Optical Pipeline Monitoring (OPM) Stations and High Consequence Area (HCA) Methane Sensors.[811] These assets are necessary to realize the safety, reliability, and risk reduction benefits to be achieved through the CCM project. The costs associated with the OPM Stations and HCA Methane Sensors are a part of SoCalGas's RAMP.[812] Adding real-time pipeline right-of-way HCA Methane detection sensors near buildings that are high occupancy, pose evacuation challenges, or are near large transmission pipelines allows fast identification of, response to, and remediation of potential leaks on the transmission system, 24 hours a day and seven days a week.[813]

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808 *Id.*

809 *Id.*

810 *Id.*

811 *Id.* at 83-87.

812 *Id.* at 85.

813 *Id* at 85-86.

Cal Advocates does not appear to dispute the value of these sensors. Cal Advocates recommends a total reduction of $2.278 million to SoCalGas's capital forecast for the CCM project, as shown in the below table.

Control Center Modernization (CCM) Capital Forecast In 2021 (in $000s)				
	BY 2021	**2022**	**2023**	**TY 2024**
SoCalGas	253	2,308	2,608	3,746
Cal Advocates[814]	253	2,038	2,038	2,038

Cal Advocates recommends using the BY 2022 forecast of $2.038 million in 2023 and 2024, which would result in a total reduction of $2.278 million of SoCalGas's capital forecast for the CCM project. Cal Advocates provides the following rationale for the proposed reductions: (1) the installation and integration of transmission field assets ahead of completion of the new Gas Control Center is unnecessary; (2) the Methane Sensors installation schedule has been extended 2028, so some costs are outside of this rate cycle; and (3) SoCalGas did not spend all of the CCM project authorized in the 2019 GRC.[815]

Cal Advocates does not provide analysis for these conclusory arguments. SoCalGas's proposed installation schedule for the CCM field assets allows for the safe and gradual ramp-up of data integration from transmission assets to the Gas Control Room.[816] The gradual ramp-up of deployment activities is a critical aspect to the measured integration of the staff with the new systems.[817] This deployment ramp-up ensures that the team is successfully trained and familiar with the new processes in order to fully realize the safety-related benefits of monitoring this data.[818]

SoCalGas did not spend the entirety of the CCM project money authorized from the 2019 GRC because the CCM project (referred to as the Distribution Operations Control Center project in the 2019 GRC) underwent a full scope reevaluation which impacted the schedule, resourcing needs, and costs.[819] The CCM project scope reevaluation is discussed extensively in the Gas

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814 Ex. CA-02-E (Sierra) at 15, Table 2-11.

815 *Id.* at 15.

816 Ex. SCG-206 (Chiapa/Hruby/Garcia) at 8-9.

817 *Id.* at 9.

818 *Id.*

819 *Id.*

Transmission Operations and Construction Testimony (Ex. SCG-06-2R-E).[820] Due to these reevaluations, the CCM project schedule has been refined and the final CCM project deployment completion date has been moved from 2024 to 2028 and system benefits will gradually accrue during this timeframe.[821] As noted in Section 13.1.3.1, discussing the need for additional personnel to implement the CCM project, the Commission previously approved the CCM project in the 2019 GRC, which included SoCalGas's capital requests related to the project.[822] The Commission should adopt SoCalGas's capital forecasts for the CCM project, consistent with its approval in 2019.

12.3.1.3 Undisputed Capital Expenses

No party opposed SoCalGas's total capital request of $169.926 million for Pipeline Replacements, $2.128 million for Pipeline Relocation – Freeway, $42.384 million for Pipeline Relocation – Franchise/Private/Row, $61.741 million for Compressor Stations, $35.496 million for Cathodic Protection, $209.532 million for Measurement and Regulation Stations, $20.802 million for Security & Auxiliary Equipment, $5.487 million for Buildings & Improvements, $3.881 million for Capital Tools, and $97.184 million for the Blythe Compressor Station Modernization. Therefore, SoCalGas requests that the Commission adopt these requests as reasonable.[823]

12.3.1.4 Future Gas Transmission Major Projects – Line 235 Project

SoCalGas's continued development and execution on the Line 235 Project is the Major Project for which SoCalGas seeks funding. SoCalGas's briefing on the Line 235 Project is located in the Gas Integrity Management Section (Section 15).

12.3.1.5 Core Balancing Project

SoCalGas is seeking a reasonableness review of $6.914 million ($6.065million in capital expenses and $0.849 million in O&M expenses, including ongoing O&M) incurred in the successful implementation of the Core Balancing Project which comprises the Advanced Metering Infrastructure Data Aggregation System (AMI DAS) and Scheduled Quantity Trading Automation (SQTA).[824] SoCalGas incurred these expenses building AMI DAS and SQTA pursuant to D.19-

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[820] Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 114-117 and Appendix D.

[821] *Id.* at 115.

[822] D.19-09-051 at 129-131 (approving the capital request for the CCM project, referred to as the DOCC in the 2019 GRC).

[823] *See* Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 60-89.

[824] *Id.* at 90.

08-002.[825] SoCalGas recorded these expenses in the Core Gas Balancing Memorandum Account and is requesting to recover these expenses in this GRC pursuant to Ordering Paragraph 8 of D.19-08-002.[826] The following table breaks out these expenses for reasonableness review.

Capital and O&M Costs through December 2021, and Ongoing O&M Support Expense ($000)			
Core Balancing Project	**DAS** (Data Aggregation System)	**SQTA** **(**Scheduled Quantity Trading Automation)	**Total**
Capital Investment	5,425	640	6,065
O&M Expenses	255	34	289
Ongoing O&M Support Expenses[18]	560	0	560
Total	6,240	674	6,914
Authorized Total CPUC Budget	(DAS) 7,000 +(SQTA) 1,700= **8,700**		
Difference Under Budge	8,700 - 6,914= **1,786**		

These costs are reasonable and have been fully explained in SoCalGas's Gas Transmission Operations and Construction Testimony (Ex. SCG-06-2R-E).[827] These costs have not been contested by any party and should be approved by the Commission as reasonable.

12.3.2 SDG&E (Capital)

SDG&E respectfully requests the Commission to adopt its 2022, 2023, and 2024 capital forecast of $28.826 million, $11.619 million, and $11.706 million, respectively, in furtherance of promoting the safety and reliability of delivering natural gas on its transmission system and delivering natural gas to its customers at reasonable rates.[828] Cal Advocates did not oppose SDG&E's Gas Transmission capital forecasts.[829] However, Cal Advocates did oppose inclusion of the Moreno Compressor Modernization (MCM) Project in SDG&E's Post Test Year. Given the timing of when the MCM project will go into service, the costs for the MCM are included in SDG&E's Post Test Year.[830] However, the justification for the project is discussed below.

825 *Id.*

826 *Id.* at 90-91; D.19-08-002 at 33 (OP 8).

827 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 90-98.

828 Ex. SDG&E-206 (Chiapa/Hruby) at RC-SH-1-2.

829 Ex. CA-04 (Chauncey/Quam) at 4-5, 21-23.

830 *See* Section 45.

The below table shows SDG&E and Cal Advocates' identical proposals for SDG&E's Gas Transmission capital.

GAS TRANSMISSION OPERATIONS & CONSTRUCTION In 2021$ (000s)				
Capital	**2022**	**2023**	**TY 2024**	**Total**
SDG&E	28,826	11,619	11,706	52,151
Cal Advocates	28,826	11,619	11,706	52,151

The costs for SDG&E's 2022, 2023, and 2024 capital forecasts are uncontested. As such, SDG&E requests that the Commission adopt and approve SDG&E's requested capital expenditures as reasonable.[831]

12.3.2.1 Moreno Compressor Modernization (MCM) Project

The MCM Project is divided into (1) the Principal component, and (2) the Advanced Renewable Energy (ARE) component. The Principal component of the MCM Project includes the installation of new compression equipment at the Moreno Compressor Station in order to comply with South Coast Air Quality Management District's (SCAQMD) RECLAIM sunset requirements.[832] It is therefore a compliance related project. The ARE component of the MCM Project includes the use of electrolyzers powered by Southern California Edison's Green Tariff program to produce green hydrogen onsite at the MCM Project for use in the compressor, to refuel vehicles, and to power a microgrid for administrative and auxiliary electrical needs.[833]

In its testimony, Cal Advocates does not specifically oppose any of the details, costs, or proposals relating to the Principal component or the ARE component of the MCM Project. Cal Advocates only has a passing statement that "Cal Advocates has the same concerns [as with SoCalGas's Honor Rancho Compressor Modernization][834] and recommendation regarding SDG&E's request for the Moreno Compressor Modernization."[835] The "concerns" identified were

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[831] Ex. SDG&E-06-E (Chiapa/Hruby) at 21-40; Ex. SDG&E-206 (Chiapa/Hruby) at 1-2

[832] South Coast Air Quality Management Rules South Coast AQMD Rule 1134 "Emissions of Oxides of Nitrogen from Stationary Gas Turbines" (amended in April 5, 2019), Rule 1110.2 "Emissions 14 from Gaseous and Liquid-Fueled Engines" (amended in November 1, 2019) and Rule 1100 "Implementation Schedule for NOx Facilities" (amended in January 10, 2020).

[833] Ex. SDG&E-06-E (Chiapa/Hruby) at 39.

[834] *See* Section 16.

[835] Ex. CA-20 (Hunter) at 22.

that (1) "[t]here is little support" for the project, and (2) given the project cost it should be required to file a separate application under General Order (GO) 177.[836]

This opposition appears misinformed. SDG&E's testimony includes extensive evidence on the MCM Project. In addition to the explanation of the MCM Project in the body of the Gas Transmission testimony, the testimony also includes a 30-page appendix extensively explaining scope, costs, schedule, execution, and a host of other details relating to the details and need for the Project.[837] The project has additional support in the PTY testimony,[838] and the MCM Project application to SCAQMD which is attached to rebuttal testimony.[839] There is substantial support for the MCM Project. As for the argument that the project requires a separate application under GO-177, the MCM Project is exempt from GO-177. Pursuant to Section IV(B), the separate filing requirement is not required for: "projects for which an application for approval has been submitted to an air quality management district for compliance with an environmental rule prior to the effective date of this General Order."[840] The application for approval to SCAQMD was submitted prior to the effective date of GO-177,[841] and the Commission was notified of this pursuant to D.22-12-021.[842]

Given the lack of any other specific opposition to the MCM Project, SDG&E respectfully requests the Commission approve the PTY costs for the Project and approve of the ARE component for the Project.

12.4 Litigated Project Cost Memorandum Account (LPCMA)

Both Companies have separately proposed to create a LPCMA to record capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers (*e.g.*, Contributions in Aid of Construction from a local governmental entity) instead of ratepayers, but later are deemed by a court to be non-collectible from third-party

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836 *Id.*

837 Ex. SDG&E-06-E (Chiapa/Hruby) at Appendix B.

838 Ex. SDG&E-45-R (Hancock).

839 Ex. SCG-206 (Chiapa/Hruby/Garcia) at Appendix B.

840 GO-177 at IV(B).

841 Ex. SCG-206 (Chiapa/Hruby/Garcia) at Appendix B.

842 D.22-12-023 at OP 13; Ex. SCG-206 (Chiapa/Hruby/Garcia) at 5.

customers.[843] Cal Advocates opposes the creation of the LPCMA. The need and appropriateness of the LPCMA is addressed in Section 10 (Gas Distribution).

13. Gas Engineering

The Gas Engineering testimony and workpapers, supported by witness Maria T. Martinez, describe and justify SoCalGas's and SDG&E's Test Year (TY) 2024 forecasts for operations and maintenance (O&M) costs and capital costs for 2022, 2023, 2024.[844] The purpose of Gas Engineering is (1) to establish and oversee the engineering aspects of the gas infrastructure for satisfying federal and state environmental and safety requirements; (2) to implement industry best practices; and (3) to optimize infrastructure and end-use equipment performance for SoCalGas and SDG&E.[845] Gas Engineering supports all groups within SoCalGas and SDG&E that need engineering support or guidance related to the gas infrastructure or end-use equipment including but not limited to the key operating groups such as Transmission, Distribution, Storage, and Customer Services.[846] Gas Engineering provides engineering programs, training, guidance, policies, designs, and data analytics focused on providing safe, compliant, reliable, resilient, and cost-effective energy infrastructure for both SoCalGas and SDG&E.[847]

13.1 SoCalGas

SoCalGas requests approval of its TY 2024 O&M and capital forecasts. For Gas Engineering O&M, SoCalGas requests a total of $32.910 million.[848] To best account for adjustments needed to support changes in state and federal regulation, increased safety activities, and development of new processes and procedures to improve safety, as well as reflecting changes in growth of certain teams in recent years, the Gas Engineering forecast generally relies upon an average, trending of historical cost, or base year methodology.[849] The Gas Engineering forecast

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843 Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 61-62; Ex. SCG-38-R (Yu) at 20-21; Ex. SDG&E-06-E (Chiapa/Hruby) at 22-23; Ex. SDG&E-43-R-E (Kupfersmid) at 23-24.

844 Ex. SCG-07-R (Martinez); Ex. SDG&E-07-R (Martinez); Ex. SCG-207-E (Martinez).

845 Ex. SCG-07-R (Martinez) at iv; Ex. SCG-207-E (Martinez) at 2.

846 Ex. SCG-07-R (Martinez) at iv; Ex. SDG&E-07-R (Martinez) at ii.

847 Ex. SCG-07-R (Martinez) at iv.; Ex. SDG&E-07-R (Martinez) at ii.

848 Ex. SCG-07-R (Martinez) at 2, Table MM-1 with update from SoCalGas and SDG&E's Update Testimony (Ex. SCG-401/SDG&E-401 (Hom) Update Testimony (July 2023), Attachment I at I-3. The updated Table provides an updated forecast due to no longer requesting recovery of short-term rental costs for the TY 2024, reflecting a downward adjustment of $131,000, as provided in (Ex. SCG-401/SDG&E-401 (Hom).

849 Ex. SCG-07-R (Martinez) at 1.

represents an increase of $2.745 million over BY 2021.[850] In total, SoCalGas requests the Commission adopt a TY 2024 forecast of $32.910 million for Gas Engineering O&M expenses, which is composed of $16.312 million for non-shared service activities and $16.596 million for shared service activities.[851] The tables below summarize SoCalGas's TY2024 O&M request.

Table 13.1 O&M Summary of Costs

GAS ENGINEERING (In 2021 $, in 000s)[852]			
	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	15,488	16,312	824
Total Shared Services (Incurred)	14,677	16,598	1,921
Total O&M	**30,165**	**32,910**	**2,745**

Table 13.2 Non-Shared O&M Summary of Costs

GAS ENGINEERING (In 2021 $, in 000s)[853]			
Categories of Management	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
Analysis, Testing, and Materials	**6,351**	**6,949**	**864**
Measurement and Regulation	**4,850**	**4,711**	**(139)**
Land and Right-of-Way	**3,689**	**3,931**	**242**
Research, Plastics, and Aviation	**598**	**721**	**123**
Total Non-Shared Services	**15,488**	**16,312**	**824**

850 *Id.* at 2.

851 *Id.*

852 Ex. SCG-07-R (Martinez) at 2 (Table MM-1) with update from Ex. SCG-401/SDG&E-401 (Hom), Attachment I at I-3).

853 Ex. SCG-07-R (Martinez) at 9.

Table 13.3 Shared O&M Summary of Costs

GAS ENGINEERING (In 2021 $, in 000s) Incurred Costs (100% Level)[854]			
Categories of Management	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
Analysis, Testing, and Materials	2,211	2,662	451
Measurement and Regulation	3,818	3,997	179
Research, Plastic Material, and Aviation	91	78	(13)
Engineering Design, and Management	5,951	6,218	267
Director of GE, VP GE/SI and Hydrogen	2,606	3,643	1,037
Total Shared Services (Incurred)	**14,677**	**16,598**	**1,921**

SoCalGas is also requesting approval of a 2022-2024 Gas Engineering capital forecast in the amount of $61.139 million.[855] The forecast is composed of a 2022 forecast of $18.953 million, 2023 forecast of $18.033 million, and 2024 forecast of $24.153 million for Gas Engineering capital projects.[856] The table below summarizes SoCalGas's capital request.

Table 13.4 Capital Summary of Costs

GAS ENGINEERING (In 2021 $, in 000s)[857]				
	2021 Adjusted-Recorded	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
Total CAPITAL	**21,179**	**18,953**	**18,033**	**24,153**

The funding requested is reasonable and represents the required O&M expense and capital investments for SoCalGas's Gas Engineering department to provide policies, guidance, and expertise to maintain compliance, safety, integrity, and effective operations of the Transmission, Distribution, Customer Service, and natural gas Storage systems; provide guidance and expertise to support many of the controls and mitigations included within the SoCalGas 2021 Risk Assessment and Mitigation Phase (RAMP) chapters;[858] respond timely to Operations to address

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854 *Id.* at 21.

855 *Id.* at 2.

856 *Id.*

857 Ex. *Id.* at 2 (Table MM-1).

858 A.21.05.014, *SoCalGas 2021 Risk Assessment and Mitigation Phase (RAMP), available at:* https://www.socalgas.com/regulatory/2021-ramp-report.

concerns related to operations, maintenance, and construction activities; develop a roadmap for hydrogen blending and identify policies and procedures that need to be updated or created to support a safe, reliable, and resilient system; and continue to advance processes and technology through Research, Development, and Design (RD&D) to increase safety.[859]

13.1.1 RAMP

While there is no direct RAMP-related cost for Gas Engineering, the critical role SoCalGas's Gas Engineering plays in completing the controls and mitigations that reduce system risk clearly increases the system's overall safety.[860] For example, as part of the Dig-in Chapter for RAMP, optical pipeline monitoring technology is listed as a control that potentially provides an early warning system to reduce the risk of damage or an incident on a pipeline by detecting unauthorized construction activity or encroachments on the pipeline.[861] The expertise and oversight for optical pipeline monitoring resides within the Measurement and Regulation group, providing a critical role in implementing the control.[862] Another tangible example is Odorization, a control listed within the Incident Related to the High-Pressure System RAMP Chapter. Odorization is required to provide natural gas a readily detectable smell, which is necessary to uphold public and environmental safety by providing a warning system should there be a gas leak.[863] The guidance and oversight for Odorization is provided by the Engineering Analysis Center, within the Gas Engineering department.[864] Gas Engineering is prominently interrelated with the mitigations and controls in the RAMP Chapters, as shown by the examples listed above and this holds true for other controls and mitigations.[865]

13.1.2 Sustainability

Sustainability at SoCalGas focuses on continuous improvement, innovation, and partnerships to advance California's climate objectives by incorporating holistic and sustainable business practices and approaches.[866] SoCalGas's sustainability strategy, ASPIRE 2045, integrates

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859 Ex. SCG-07-R (Martinez) at 1-2.

860 *Id*. at 8.

861 *Id.*

862 *Id.*

863 *Id.*

864 *Id.*

865 *Id.* at 8-9.

866 Ex. SCG-07-R (Martinez) at 6.

five key focus areas across the Company's operations to promote the public interest and the wellbeing of utility customers, employees, and other stakeholders.[867] This GRC is a continuation of SoCalGas's efforts to support climate initiatives and goals while maintaining a safe and reliable system, and the activities described in SoCalGas's Gas Engineering testimony advances SoCalGas's sustainability priorities.[868] For example, the next stage of evaluating hydrogen will continue to be supported by various departments, with the Hydrogen Blending Strategy team providing overall guidance and direction.[869] One of the goals of these efforts is to validate that the clean fuels we deliver meet our customers' requirement to maintain reliability.[870] Over the last few years, SoCalGas has participated in various research efforts to better understand the impact of clean fuels and validate reliability for customers.[871] These efforts have included participation with international consortiums focused on hydrogen blending, evaluating gas quality, impact to odorization, and appliance/equipment testing.[872] In addition, along with maintaining reliability for our customers, it is critical that SoCalGas maintains the safety of its employees, customers, environment, and the energy infrastructure, which translates to increased monitoring, modernizing of material specifications, and updating procedures and business workflows as SoCalGas continues to transition to cleaner fuels.[873]

13.1.3 SoCalGas - Operations and Maintenance (Non-Shared and Shared)

The Commission should adopt SoCalGas's request for Gas Engineering non-shared and shared operations and maintenance (O&M) expenses as reasonable. Cal Advocates, TURN, and PCF submitted testimony related to Gas Engineering's O&M request.[874] The testimonies submitted by Cal Advocates and TURN support and validate the costs for both shared and non-shared O&M.[875] Cal Advocates adopts SoCalGas's Gas Engineering forecast in its entirety for TY

867 Southern California Gas Company, ASPIRE 2045 Sustainability and Climate Commitment to Net Zero, (March 23, 2021), *available at:* https://www.socalgas.com/sites/default/files/2021-03/SoCalGas_Climate_Commitment.pdf.

868 Ex. SCG-07-R (Martinez) at 6-8.

869 *Id.* at 8.

870 *Id.*

871 *Id.*

872 *Id.*

873 *Id.*

874 Ex. SCG-207-E (Martinez) at 1-2.

875 *Id.* at 2.

2024.[876] In addition, TURN finds the methodologies, systems, and programs in place are generally reasonable.[877] PCF recommends a disallowance of $1.8 million for Gas Engineering's O&M expenses for shared and non-shared services related to hydrogen.[878] The table below summarizes SoCalGas's O&M forecast and compares it against the recommendations of Cal Advocates, TURN, and PCF

Table 13.5

TOTAL O&M - Constant 2021 ($000)[879]			
	Base Year 2021	**Test Year 2024**	**Change**
SOCALGAS	**$30,166**	**$32,910**	**$2,745**
CAL ADVOCATES	**$30,166**	**$33,043**	**$2,877**
TURN-05	**$30,166**	**$33,043**	**$2,877**
PCF	**$30,166**	**$31,242**	**$1,076**

13.1.3.1 Hydrogen-Related Programs

SoCalGas has demonstrated that its forecasting assumptions for Gas Engineering O&M hydrogen-related expenses are reasonable and justified.[880] Gas Engineering's costs related to hydrogen blending are found in spending categories for the Hydrogen Blending team in SoCalGas's direct testimony and are primarily focused on the efforts to implement operational readiness to prepare SoCalGas for the potential introduction of hydrogen into SoCalGas's existing gas system infrastructure.[881] PCF's recommended disallowance of $1.8 million for Gas Engineering's O&M expenses for shared and non-shared service related to hydrogen is not justified.[882] PCF's proposal is based on ideological opposition to hydrogen and a misunderstanding of the hydrogen activities attributable to Gas Engineering.[883] PCF's position is not consistent with Gas Engineering's activities that align with State policy supporting the use of

876 *See* Ex. CA-02-E (Sierra).
877 Ex. TURN-05-R-E1 (Walker) at 64.
878 Ex. PCF-01 (Powers) at 23.
879 Ex. SCG-207-E (Martinez) at 5 (Table MM-3).
880 *Id.* at 7.
881 *Id*. at 6-7.
882 *Id.* at 6.
883 *Id.* at 6.

hydrogen to combat regional air pollution and climate change.[884] As discussed more in Sections 8 and 18 of this brief, hydrogen is key to achieving net zero emissions by 2045 consistent with California's progress to reach its net zero emissions goal, which is set forth pursuant to SB 100, SB 32, SB 350, and related regulations.[885] PCF's position runs counter to State policy and is not supported.[886] Accordingly, similar to Cal Advocates and TURN, the Commission should find Gas Engineering's O&M request as reasonable.

13.1.3.2 Fleet Services

TURN finds SoCalGas's Gas Engineering O&M request as generally reasonable; however, TURN recommends removal of the Vehicle Additions forecast from the TY 2024 forecast, the costs for which are sponsored in the rebuttal testimony of Michael Franco regarding Fleet Services (Ex. SCG-218).[887] The Commission should adopt SoCalGas's Gas Engineering vehicle request as reasonable.[888] The direct testimony of Maria Martinez regarding Gas Engineering provides the business justification for the additional fleet related to Gas Engineering.[889] In support of O&M cost for both non-shared and shared service for SoCalGas, Gas Engineering requires vehicles for field support functions within the Aviation, Engineering Analysis Center, and Measurement of Regulations teams.[890] These vehicles are associated with the reasonable Gas Engineering forecast for TY 2024, which was adopted by Cal Advocates and found reasonable by TURN.[891] TURN ignores SoCalGas's demonstrated incremental vehicle resource requirements within SoCalGas's direct testimony and workpapers.[892] For example, the Aviation Technical Advisors utilize the vehicle to transport the drone and related equipment to the field.[893] Without the incremental vehicle, the team would be unable to deploy and respond to challenging situations requiring

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884 *Id.* at 7; *see also* Sections 8 and 18, discussing importance of hydrogen for meeting climate goals and government support for expanded use of hydrogen.

885 *Id.*

886 *Id.*

887 Ex. SCG-207-E (Martinez) at 1 (fn. 1).

888 *Id*. at 6.

889 *Id.*at 5.

890 *Id.* at 5.

891 Ex. SCG-207-E (Martinez) at 5-6.

892 *Id.* at 6.

893 *Id*. at 6.

assistance by Operations.[894] Therefore, the Commission should adopt SoCalGas Gas Engineering's vehicle request as reasonable.

13.1.4 SoCalGas – Capital

SoCalGas requests approval of a 2022-2024 capital forecast in the amount of $61.139 million.[895] The forecast is composed of a 2022 forecast in the amount of $18.953 million, 2023 forecast of $18.033 million, and 2024 forecast of $24.153 million.[896] The capital expenditures estimated for SoCalGas's Gas Engineering operations for transmission projects related to land rights, capital tools, laboratory equipment, and the overheads for the local Supervision and Engineering capital pool.[897] The driving philosophy behind SoCalGas's capital expenditure plan is to provide the safe, resilient, and reliable delivery of natural gas to customers at a reasonable cost.[898] These investments also enhance the efficiency and responsiveness of SoCalGas's gas operations and maintain compliance with applicable regulatory and environmental regulations.[899] The table below provides a summary of Gas Engineering's capital forecasts for 2022, 2023, and 2024.

Table 13.6 Summary of Capital Costs

GAS ENGINEERING (In 2021 $, in 000s)[900]				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
Engineering Tools and Equipment	1,517	1,693	1,773	2,193
Land Rights	199	1,361	361	3,061
Supervision and Engineering Overhead Pool	19,463	15,899	15,899	18,899
Total	**21,179**	**18,953**	**18,033**	**24,153**

894 Ex. SCG-207-E (Martinez) at 6. *See also* Ex. SCG-07-R at 37: "Gas Operations to conduct historically challenging inspections at areas that are remote, difficult to access, or hazardous to patrol and perform leak surveys or emergency response."

895 Ex. SCG-07-R (Martinez) at iv.; Ex. SCG-207-E (Martinez) at 1.

896 Ex. SCG-07-R (Martinez) at iv; Ex. SCG-207-E (Martinez) at 1.

897 Ex. SCG-07-R (Martinez) at 35.

898 *Id*.

899 *Id.*

900 Ex. SCG-07-R (Martinez) at 35 (Table MM-17).

Cal Advocates, TURN, and TURN-SCGC are the only parties that submitted testimony related to Gas Engineering's capital request.[901] For Supervision and Engineering Overhead Pool, Cal Advocates recommends $15.8 million for 2022, $15.8 million for 2023, and $15.8 million for TY 2024.[902] Cal Advocates does not oppose SCG's Engineering Tools and Equipment, and Land Rights for TY 2024.[903] TURN recommends a disallowance of $3.462 million for 2022, $2.225 million for 2023, and $1.137 million for TY 2024 for a total disallowance of $6.825 million.[904] TURN-SCGC requests reductions for Morongo Rights of Way Memorandum Account (MROWMA).[905] While the costs for MROWMA are sponsored in the Regulatory Accounts testimony and workpapers of Rae-Marie Yu,[906] the Gas Engineering testimony provides the business justification for MROWMA.[907] The table below summarizes SoCalGas's capital request and compares it against the recommendations of Cal Advocates, TURN, and TURN-SCGC.

Table 13.7 Comparison of Capital Costs

TOTAL CAPITAL - Constant 2021 ($000) - Gas Engineering[908]					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	**$18,953**	**$18,033**	**$24,153**	**$61,139**	**-**
CAL ADVOCATES	**$18,953**	**$18,033**	**$21,153**	**$58,139**	**$3,000**
TURN-05	**$15,491**	**$15,808**	**$23,016**	**$54,315**	**$6,824**
TURN-SCGC	**$18,953**	**$18,033**	**$24,153**	**$61,139**	**-**

13.1.4.1 Supervision and Engineering Overhead Pool

For Supervision and Engineering Overhead Pool, SoCalGas requested a 2022 forecast in the amount of $15.899 million, 2023 forecast in the amount of $15.899 million, and 2024 forecast in the amount of $18.899 million.[909] SoCalGas's request provides a pool for Supervision and Engineering charges to be made on a direct basis to this capital category that is then reassigned to the various budget categories on an indirect basis.[910]

901 Ex. SCG-207-E (Martinez) at 1-4.
902 Ex. CA-02 (Sierra) at 6.
903 Ex. SCG-207-E (Martinez) at 3.
904 Ex. TURN-05 (Walker) at 15.
905 Ex. TURN-SCGC-02 (Yap) at 1.
906 *See* Ex. SCG-38-R-E (Yu); Ex. SCG-238 (Yu).
907 *See* Ex. SCG-07-R (Martinez); Ex. SCG-207-E (Martinez).
908 Ex. SCG-207-E (Martinez) at 7 (Table MM-4).
909 Ex. SCG-07-R (Martinez) at 39.
910 *Id*. at 39.

13.1.4.1.1 Cal Advocates

Cal Advocates took issue with SoCalGas's capital forecast, claiming a lack of supporting documentation or calculations regarding the incremental amount for 2024.[911] Cal Advocates stated that SoCalGas failed to provide any type of calculation or document(s) related to the construction organization that began in 2020.[912] For Supervision and Engineering Overhead Pool, Cal Advocates recommends $15.8 million for 2022, $15.8 million for 2023, and $15.8 million for TY 2024,[913] which is a downward adjustment in the amount of $3 million for 2024.[914] SoCalGas disagreed with Cal Advocates and opposed its recommendation since SoCalGas provided adequate supporting documentation. In SoCalGas's response to a Cal Advocates' data request (PAO-SCG-099-MPS), SoCalGas explained the increase in 2021 to recorded costs for the Supervision and Engineering Overhead Pool was due to the Construction Organization settling to the overhead pool account.[915] In addition, as noted in the SoCalGas and SDG&E 2021 Risk Spending Accountability Report (RSAR), the report discusses the variance related to the Pipeline Safety Enhancement Plan Project Management Office (PSEP PMO) within the Construction Organization shifting costs to Supervision and Engineering Overhead Pool account.[916] SoCalGas has demonstrated that its forecasting assumptions are reasonable and justified. The Commission should adopt SoCalGas's request of $18.899 million for the Supervision and Engineering Overhead Pool as reasonable.

13.1.4.1.2 TURN

TURN recommends a disallowance of SoCalGas's Supervision and Engineering Overhead Pool capital category of $3.462 million for 2022, $2.225 for 2023, and $1.137 million for 2024 for a total disallowance of $6.825 million for 2022-2024. TURN disagreed with SoCalGas's three-year historical average capital forecast methodology.[917] In its place, TURN Advocates proposed a five-year historical average.[918] A five-year average is not supported and does not reflect the recent and significant changes experienced by the account or the organization's current and future

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911 Ex. SCG-207-E (Martinez) at 8.

912 *Id.*

913 *Id.* at 3.

914 *Id.* at 7.

915 *Id*. at 8.

916 *Id.* at 8.

917 Ex. SCG-207-E (Martinez) at 9.

918 *Id.*

needs.[919] A five-year average would fail to account for the changes experienced in the Engineering and Supervision Overhead Pool account within recent years and would be inappropriate to account for the large increase due to combining of the charges from the PSEP PMO construction organization.[920] Therefore, SoCalGas's three-year historical average forecast methodology more accurately and appropriately represents the Supervision and Engineering Overhead Pool capital forecast, and TURN's five-year average methodology should be rejected. SoCalGas has demonstrated that its forecasting assumptions are reasonable and justified. The Commission should adopt SoCalGas's request of $18.899 million for the Supervision and Engineering Overhead Pool as reasonable.

13.1.4.2 Morongo Rights of Way Memorandum Account

SoCalGas's Gas Engineering testimony supports the MROWMA which was established to record costs associated with the renewal of expiring Rights of Way (ROW) within the Morongo Reservation, as directed in D.19-09-051.[921] The costs for the MROWMA are sponsored in the Regulatory Accounts testimony and workpapers of Rae-Marie Yu.[922] Cal Advocates did not oppose SoCalGas's MROWMA.[923] Moreover, Cal Advocates performed a financial examination of the costs recorded to the MROWMA and, upon completion of its audit, Cal Advocates provided that it had no recommended adjustments.[924]

TURN-SCGC recommended SoCalGas only be allowed to recover Morongo expenditures in the amount of $101.2 million, which includes the direct costs and overhead incurred during the TY 2019 GRC period and associated Allowance for Funds Used During Construction (AFUDC).[925] TURN-SCGC recommended the request be reduced by $4.6 million, arguing that the costs were associated with the Morongo ROW negotiations prior to 2019 and therefore should be excluded.[926] TURN-SCGC argued that the Commission determined in D.19-09-051, which

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919 *Id.*

920 Ex. SCG-207-E at 8-9, 10.

921 Ex. SCG-07-R (Martinez) at 15.

922 Ex. SCG-38-R-E (Yu); Ex. SCG-238 (Yu).

923 Ex. SCG-207-E (Martinez) at 3.

924 *Id.* at 10.

925 *Id.* at 4.

926 Ex. SCG-207-E (Martinez) at 4; $4.6 million is made up of: (1) $3.9 million O&M and overhead costs that SoCalGas capitalized from 2012 to 2018 that were included as part of the revenue requirements authorized for the Test Year 2012 and 2016 GRCs and (2) $0.7 million that SoCalGas added in accrued AFUDC.

established the MROWMA, that the capital expenditures were already recovered by SoCalGas through its authorized revenue requirement during the periods, 2012-2015 and 2016-2018.[927] TURN-SCGC claimed the Commission intended to exclude costs prior to 2019 from recovery.[928]

SoCalGas opposed TURN-SCGC's recommendation because TURN-SCGC mistakenly relied on D.18-04-012, which is irrelevant to the scope of SoCalGas's current TY 2024 GRC request.[929] The main issue in dispute in A.16-12-011 was whether *pre-construction costs relating to the possible relocation of the pipelines* bypassing the Reservation that the memorandum would track were deemed included in SoCalGas's 2016 GRC revenue requirement or whether they were excluded because SoCalGas specifically excluded these costs from its 2016 GRC forecasts.[930] D.18-04-012 concluded that the specific construction costs were already included in SoCalGas's 2016 GRC and denied SoCalGas's request to establish the proposed memorandum account in that proceeding. TURN-SCGC's recommendation failed to recognize D.18-04-012 was specific to the TY 2016 GRC cycle period and related to pre-construction expenses for relocation.[931]

SoCalGas is seeking recovery of costs in the MROWMA based on authorization in D.19-09-051.[932] SoCalGas excluded costs associated with removal of equipment within the Morongo reservation from the MROWMA in recognition of D.18-04-012.[933] This resulted in the exclusion of $397,456.11 from the account since these costs were recovered during the 2016 GRC cycle. These costs were incurred to isolate and remove portions of Line 2000 within the Morongo Reservation.[934] However, the $4.6 million of pre-2019 expenses TURN-SCGC took issue with relate to *obtaining the rights-of-way* and were appropriately recorded in the MROWMA consistent with D.19-09-051.[935] Moreover, per Code of Federal Regulations (CFR) Part 201, Section Gas Plant Instructions #7I for Land Rights, labor and expenses in connection with securing rights of way, where performed by company employees and company agents can be capitalized as part of obtaining the land rights. Therefore, the Commission should reject TURN-SCGC's

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927 Ex. *Id.*

928 *Id.*

929 Ex. SCG-207-E (Martinez) at 9-10.

930 D.18-04-012 at 10.

931 *See* D.18-04-012.

932 Ex. TURN-400, Response to Data Request TURN-SCGC-SCG-36 at 1.

933 Ex. SCG-207-E (Martinez) at 10.

934 Ex. TURN-400, Response to Data Request TURN-SCGC-SCG-36 at 1.

935 Ex. SCG-207-E (Martinez) at 10.

recommendation as unsupported. The Commission should adopt SoCalGas's request for the recovery of the MROWMA balance, as of December 31, 2023.

13.2 SDG&E

SDG&E requests approval of a 2022-2024 capital forecast in the amount of $885,000.[936] The forecast is composed of a 2022 forecast in the amount of $295,000, 2023 forecast in the amount of $295,000, and 2024 forecast in the amount of $295,000.[937] The table below provides a summary of Gas Engineering's capital forecasts for 2022, 2023, and 2024.

Table 13.8 Summary of Capital Costs

GAS ENGINEERING (In 2021 $)[938]				
	2021 Adjusted-Recorded (000s)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)
Total CAPITAL	329	295	295	295

13.2.1 RAMP

Although there are no RAMP-related costs for Gas Engineering, the critical role SDG&E's Gas Engineering plays in completing the controls and mitigations to reduce system risk and increase safety is evident.[939] For example, as part of the Dig-in Chapter for RAMP,[940] optical pipeline monitoring technology is listed as a control with the potential to provide an early warning system to reduce the risk of damage or an incident on the pipeline by detecting unauthorized construction activity or encroachments on the pipeline.[941] The expertise and oversight for optical pipeline monitoring resides within the Gas Engineering department, providing a critical role in the implementation of the control.[942] Another tangible example is Odorization, a control listed within

936 Ex. SDG&E-07-R (Martinez) at 1.

937 *Id.*

938 *Id.*

939 Ex. SDGE-07-R (Martinez) at 3-4.

940 (A.) 21-05-011, *SDG&E 2021 Risk Assessment and Mitigation Phase (RAMP) Report, SDG&E-Risk-7, Excavation Damage (Dig-In) on the Gas System*, *available at:* https://www.sdge.com/sites/default/files/regulatory/SDGE%20RAMP%20Risk-7%20Excavation%20Damage%20%28Dig-in%29%20on%20the%20Gas%20System%205-17-21_.pdf

941 Ex. SDGE-07-R (Martinez) at 4.

942 *Id.*

the Incident Related to the High-Pressure System RAMP Chapter.[943] Odorization is required to provide natural gas a readily detectable smell.[944] This activity is needed to uphold public safety by providing a warning system should there be a gas leak.[945] The guidance and oversight for gas odorization is provided by the Engineering Analysis Center within the Gas Engineering department.[946] The interrelation of Gas Engineering within the mitigations and controls with the RAMP Chapters can be seen in the examples listed above but is a prominent theme for other controls and mitigations.[947]

13.2.2 Sustainability

Sustainability, safety and reliability are the cornerstones of SDG&E's core business operations and are central to SDG&E's GRC presentation. SDG&E is committed to not only delivering clean, safe, and reliable electric and natural gas service, but to doing so in a manner that supports California's climate policy, adaptation, and mitigation efforts. In support of the legal and regulatory framework set by the State, SDG&E has set a goal to reach Net Zero greenhouse gas (GHG) emissions by 2045, adopted a Sustainability Strategy to facilitate the integration of GHG emission reduction strategies into SDG&E's day-to-day operations and long-term planning, and published a GHG Study that recommends a diverse approach for California leveraging clean electricity, clean fuels, and carbon removal to achieve the 2045 goals through the lens of reliability, affordability, and equity.[948] Many of the activities described in the SDG&E Gas Engineering testimony advance the State's climate goals and align with SDG&E's Sustainability Strategy.

13.2.3 SDG&E Capital (Uncontested)

SDG&E requests approval of a 2022-2024 capital forecast in the amount of $885,000.[949] The forecast is composed of a 2022 forecast in the amount of $295,000, 2023 forecast in the

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[943] A.21-05-011, *SDG&E 2021 RAMP Report*, (May 17, 2021) *available at:* https://www.sdge.com/proceedings/2021-sdge-ramp-report.

[944] Ex. SDGE-07-R (Martinez) at 4.

[945] *Id.*

[946] *Id.*

[947] *Id.*

[948] San Diego Gas & Electric Company, *The Path to Net Zero, A Decarbonization Roadmap for California*, (April 2022), *available at*: https://www.sdge.com/sites/default/files/documents/netzero2.pdf.

[949] Ex. SDG&E-07-R (Martinez) at 1.

amount of $295,000, and 2024 forecast in the amount of $295,000.[950] The SDG&E capital forecast relies principally on five-year averages.[951] These forecasts reflect sound judgment, such as representing the impact of increased regulatory requirements of recommendations issued over the last few years by PHMSA and the CPUC to enhance safety continually.[952] The table below provides a summary of Gas Engineering's capital forecasts for 2022, 2023, and 2024.

The driving philosophy behind this capital expenditure plan is to provide safe, resilient, and reliable delivery of natural gas to customers at a reasonable cost.[953] These investments also enhance the efficiency and responsiveness of our gas operations and maintain compliance with applicable and increasing regulatory and environmental regulations.[954] The capital request covers capital expenditures estimated for SDG&E's operations and Engineering capital investments related to supervision and engineering capital pool of overheads.[955] The table below provides a summary of costs by cost category.

Table 13.9 Summary of Capital Costs by Cost Category

GAS ENGINEERING (In 2021 $)[956]				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
A. Supervision and Engineering Overhead Pool	329	295	295	295
Total	**329**	**295**	**295**	**295**

SDG&E's Gas Engineering capital request was uncontested. Accordingly, the Commission should adopt the forecasted capital expenditures as reasonable.

950 *Id.*

951 *Id.* at 5.

952 Ex. SDG&E-07-R (Martinez) at 5-6.

953 *Id.* at 4.

954 *Id.*

955 *Id.*

956 Ex. SDG&E-07-R (Martinez) at 5.

14. SoCalGas And SDG&E Pipeline Safety Enhancement Plan (PSEP)

14.1 SoCalGas PSEP

14.1.1 SoCalGas PSEP Introduction

SoCalGas requests the Commission to adopt its forecasts of $54.214 million for O&M and $317.239 million for Capital in order to execute on projects in a portfolio of thirty-three projects in furtherance of continuing to implement the Commission-mandated and approved Pipeline Safety Enhancement Plan (PSEP). All of the requested funds are linked to mitigating a top safety risk that has been identified in the RAMP Report, namely SCG-Risk-1 Incident Related to the High-Pressure System (Excluding Dig-in).[957] The following table represents SoCalGas's PSEP O&M and Capital requests by year.

Table 14.1[958]
Total PSEP O&M Requests

PIPELINE SAFETY ENHANCEMENT PLAN (in 2021 $000's)			
O&M	2021 Adjusted-Recorded	TY2024 Estimated	Change
Total Non-Shared Services	64,082	54,214	(9,868)
Total Shared Services	-	-	-
Total O&M	64,082	54,214	(9,868)

Table 14.2[959]
Total PSEP Capital Request

PIPELINE SAFETY ENHANCEMENT PLAN (in 2021 $000's)				
Capital	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated TY 2024**
Total Non-Shared	191,212	141,509	101,920	73,810
Total Shared	-	-	-	-
Total Capital	**191,212**	**141,509**	**101,920**	**73,810**

SoCalGas is also requesting a reasonableness review for costs associated with PSEP projects that were completed primarily between December 2015 to December 2020; the purchase of Line 306 from PG&E; and other miscellaneous costs as shown in the following table:

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957 Ex. SCG-08 (Kostelnik) at 5-6; Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2, (Flores/Pearson) at 1-2.

958 Ex. SCG-08 (Kostelnik) at 1-2.

959 *Id*.

Table 14.3[960]
PSEP Reasonableness Review Requests (in 2021 Fully Loaded $000's)

	Capital	**O&M**
PSEP Reasonableness Review Projects	426,209	34,920
Line 306 Purchase	25,040	-
Miscellaneous Costs	2,517	10,093
Total	**453,766**	**45,013**

Lastly, SoCalGas is requesting a reasonableness review of SB 1383 Dairy Pilot Program capital costs, in compliance with D.17-12-004,[961] as shown in the following table.

Table 14.4[962]
Summary of SB 1383 (Dairy Pilot) Reasonableness Review (in 2021 Fully Loaded $000's)

	Authorized (2019)[963]	**Estimated Cost At Completion (EAC)**	**Variance**
SB 1383 Dairy Pilot Program	36,559	56,821	20,262

14.1.2 PSEP Background and Overview

The PSEP program, mandated by the Commission in D.14-06-007, supports SoCalGas's mission to become the cleanest, safest, most innovative utility company in North America. Since its inception, the four objectives of PSEP have been and continue to be: (1) enhance public safety; (2) comply with Commission directives; (3) minimize customer impacts; and (4) maximize the cost effectiveness of safety investments. SoCalGas's PSEP involves a risk-based prioritization methodology that prioritizes pipelines located in more populated areas ahead of pipelines located in less populated areas and further prioritizes pipelines operated at higher stress levels above those operated at lower stress levels. To implement this prioritization process, the PSEP is divided into two Phases, Phase 1 and Phase 2, with these two phases sub-divided into two parts, Phases 1A and 1B, and Phases 2A and 2B.[964]

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960 Ex. SCG-08 (Kostelnik) at 2; Ex. SCG-208 (Kostelnik) at 1.

961 D.17-12-004 at 22 (COL 11), Decision Establishing Implementation and Selection Framework to Implement the Dairy Biomethane Pilots Required by Senate Bill 1383 (December 18, 2017).

962 Ex. SCG-08 (Kostelnik) at 3; Ex. SCG-208 (Kostelnik) at 2.

963 Ex. SCG-08 (Kostelnik) at 3, n.2; Ex. SCG-208 (Kostelnik) at 2.

964 Ex. SCG-08 (Kostelnik) at 8:10-18.

14.1.2.1 PSEP Regulatory History

In response to the rupture and ignition of a 30-inch diameter natural gas transmission pipeline in San Bruno, California in 2010, the Commission issued R.11-02-019, "a forward-looking effort to establish a new model of natural gas pipeline safety regulation applicable to all California pipelines."[965] In a subsequent decision, the Commission found that "natural gas transmission pipelines in service in California must be brought into compliance with modern standards for safety," and ordered all California natural gas transmission pipeline operators "to prepare and file a comprehensive Implementation Plan to replace or pressure test all natural gas transmission pipeline in California that has not been tested or for which reliable records are not available."[966] These plans were to provide for testing or replacing all such pipelines "as soon as practicable."[967] The Commission also required that the plans "address retrofitting pipelines to allow for in-line inspection tools and, where appropriate, automated or remote controlled shut off valves"[968] and include "increased patrols and leak surveys, pressure reductions, prioritization of pressure testing for critical pipelines that must run at or near Maximum Allowable Operating Pressure (MAOP) values which result in hoop stress levels at or above 30% of Specified Minimum Yield Stress (SMYS), and other such measures that will enhance public safety during the implementation period."[969] The requirements of this decision were later codified at California Public Utilities Code sections 957 and 958.

Accordingly, SoCalGas and SDG&E filed an implementation plan which the Commission approved in June 2014. The implementation plan, which was termed the Pipeline Safety Enhancement Plan, proposed a Decision Tree that would guide decision-making on which segments should be hydrotested, replaced, or abandoned, and also includes a proposed valve enhancement plan, technology plan, and preliminary cost forecasts.[970] In approving the plan, the Commission "adopt[ed] the concepts embodied in the Decision Tree" to guide whether specific segments should be pressure tested, replaced, or abandoned; "adopt[ed] the intended scope of work

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965 R.11-02-019, Order Instituting Rulemaking (February 25, 2011) at 1.

966 D.11-06-017 at 18.

967 *Id*. at 19.

968 *Id*. at 21.

969 *Id*. at 31 (OP 5).

970 Ex. SCG-08 (Kostelnik) at 9.

as summarized by the Decision Tree;" and "adopt[ed] the Phase 1 analytical approach for Safety Enhancement… as embodied in the Decision Tree… and related descriptive testimony."[971]

The Commission initially ordered an after-the-fact review of the costs of implementing PSEP.[972] To enable this review, the Commission ordered SoCalGas and SDG&E to create certain balancing accounts to record Capital and O&M costs and to "file an application with testimony and work papers to demonstrate the reasonableness of the costs incurred which would justify rate recovery."[973] However, subsequently the Commission ordered PSEP to be brought within the GRC regulatory process.[974] Accordingly, SoCalGas and SDG&E filed its first reasonableness review application in 2014, in which the Commission approved the application finding that SoCalGas and SDG&E's actions and expenses were reasonable and consistent with the reasonable manager standard, with one exception related to insurance coverage.[975]

SoCalGas and SDG&E subsequently filed two additional stand-alone reasonableness review applications. In 2016, the Companies filed A.16-09-005, which concerned 26 pipeline projects, 15 valve projects, and miscellaneous costs for SoCalGas totaling $195.408 million.[976] The Commission excluded approximately $6.760 million in post-1955 disallowances acknowledged by SoCalGas and SDG&E,[977] reviewed $188.081 million of SoCalGas's costs, and determined $186.532 million of those costs to have been reasonably incurred.[978] Two years later, the Companies filed A.18-11-010, which concerned 44 pipeline projects and 39 bundled valve projects, and miscellaneous costs for SoCalGas totaling $940.740 million. After accounting for approximately $2.133 million in disallowances acknowledged by SoCalGas, the Commission

971 D.14-06-007 at 2, 22, 59.

972 D.14-06-007 at OP 5.

973 *Id*. at 39, 60.

974 D.16-08-003 at OP 5.

975 D.16-12-063 at 54, 61 (OP 5) (declining to authorize recovery of costs for PSEP-specific insurance, without prejudice, after determining that SoCalGas and SDG&E did not make a sufficient factual showing in the proceeding to support the reasonableness of costs).

976 Ex. SCG-08 (Kostelnik) at 10:8-12.

977 The Commission determined in D.14-06-007 and D.15-12-020 that certain PSEP costs should be disallowed, including costs of hydrotesting post-1955 vintage segments.

978 D.19-02-004 at OP 1-47. Of the approximately $1.5 million disallowed by the Commission, roughly $1.3 million was deemed recoverable under base business activity.

considered $938.607 million of SoCalGas's costs, and determined $934.6 million were reasonably incurred.[979]

In 2017, SoCalGas filed A.17-03-021, which forecasted $254.5 million in costs associated with nine Phase 1B and three Phase 2A pipeline projects. The Commission authorized recovery of the entire forecast, subject to one-way balancing and approved SoCalGas's Phase 2A decision tree.[980]

14.1.2.2 PSEP Folded Into GRC Process

In A.15-06-013, the Commission issued a ruling in 2016 requesting SoCalGas develop a plan to bring PSEP within the GRC regulatory process. SoCalGas and SDG&E also sought authority to proceed with Phase 2 of PSEP and establish a memorandum account.[981]

Pursuant to D.16-08-003, SoCalGas first integrated PSEP into a GRC with the filing of its TY 2019 GRC application, A.17-10-008, that included SoCalGas Phase 2A and Phase 1B PSEP pipeline projects and 284 valve projects, as well as miscellaneous costs associated with the continuing prudent implementation of PSEP. The total forecasted costs amounted to $901.0 million. In D.19-09-051, the Commission authorized the revenue requirement for all but three[982] of the 22 pipeline projects, the entirety of the submitted valve enhancement projects, and all of the requested miscellaneous costs. After accounting for the three excluded projects, which were ordered to be tracked separately for later cost recovery, the Commission authorized $680.0 million to be recovered in rates out of $734.0 million in forecasts.[983]

14.1.2.3 PSEP Scope

SoCalGas's PSEP scope has been divided into four sections within two phases. Phase 1A, encompasses pipelines located in Class 3 and 4 locations and Class 1 and 2 locations in high consequence areas (HCAs) that do not have sufficient documentation of a hydrotest to at least 1.25 times the MAOP.[984] SoCalGas has addressed approximately 97 miles of Phase 1A mileage, with

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979 D.20-08-034 at OP 4.

980 D.19-03-025 at OP 1-12.

981 D.16-08-003 at OP 5.

982 Recovery for those three projects was not denied. Because of complications with the Line 235 West Sections 1 and 2 hydrotests, and Supply Line 44-1008 replacement, the three projects were separately authorized to be tracked and recorded into a memorandum account for future review and cost recovery.

983 Ex. SCG-08 (Kostelnik) at 12.

984 Class Locations as defined in 49 CFR § 192.5.

roughly 2 miles of Phase 1A mileage remaining. The scope of Phase 1B is to replace non-piggable pipelines installed prior to 1946 with new pipe constructed using state-of-the-art methods and up to modern standards, including current hydrotest standards. SoCalGas anticipates that Phase 1B will be completed within this and the next GRC cycle. The scope of Phase 2A addresses the remaining transmission pipelines that do not have sufficient documentation of a hydrotest to at least 1.25 Maximum Authorized Operating Pressure (MAOP) and are located in Class 1 and 2 non-high consequence areas. Phase 2B covers pipelines that have documentation of a hydrotest that predates the adoption of federal hydrotesting regulations in 1970.[985] In the prior GRC, the Commission considered whether Phase 2B was properly within PSEP, determined it was, and ordered the development of a Phase 2B implementation plan with specific directives.[986]

SoCalGas's PSEP will continue to address Phase 1A, 1B, and 2A mileage which have been previously approved by the Commission in prior proceedings. As such, SoCalGas has proposed forecasts for Phases 1A, 1B, and 2A and seeks recovery therefor in this GRC proceeding. SoCalGas has not, however, included forecasts for Phase 2B within the PSEP chapter of this GRC because SoCalGas has proposed to include Phase 2B's scope into the Integrated Safety Enhancement Plan (ISEP), which is briefed in the Gas Integrity Management Section 15. This proposal arises from the Pipeline and Hazardous Materials Safety Administration's (PHMSA) promulgation of Gas Transmission Safety Rule (GTSR) Part 1, effective July 1, 2020, requires operators to reconfirm the MAOP of transmission pipelines in accordance with 49 CFR Section 192.624. Because SoCalGas must comply with the MAOP requirements in GTSR Part 1 as well as the Commission's Phase 2B specific directives from the prior GRC, SoCalGas proposes to merge these efforts into the ISEP rather than part of PSEP.

14.1.2.4 PSEP Valve Replacement Project History

SoCalGas submitted valve enhancement projects for review in its 2016 Reasonableness Review, 2018 Reasonableness Review, and TY 2019 GRC applications. As of the submittal of this Application, SoCalGas has initiated construction on approximately 55% of the installations presented in the 2019 GRC. In this GRC, SoCalGas is presenting a forecast associated with a small number of valve enhancement projects which are anticipated to be completed in 2025.[987]

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985 Ex. SCG-08 (Kostelnik) at 8:15-11:2; see also 49 CFR § 192.5.

986 D.19-09-051 at 221-222.

987 Ex. SCG-08 (Kostelnik) at 15:6-15.

14.1.3 PSEP Forecasting

SoCalGas's proposed O&M request includes funding for Phase 2A hydrotest projects, miscellaneous costs associated with management employee O&M labor (Construction labor costs), and a technology roadmap initiative known as Capital Delivery Technology. The proposed Capital request primarily represents Phase 1B and 2A pipeline replacements, valve projects, and capital elements of the hydrotests, including an allowance for test failures.[988]

SoCalGas used a zero-based forecasting method for the PSEP projects presented in this GRC. SoCalGas developed a project-specific cost estimate for each project based on preliminary engineering and project planning analyses. These project specific costs are presented in detail in workpapers. Rather than presenting a forecast that relies on the execution of specific projects in specific years, SoCalGas is instead requesting authorization to establish a revenue requirement based on an anticipated level of executable spending from a portfolio of 33 Phase 1B and 2A pipeline projects to be executed during the 2024 GRC cycle. This method is most appropriate because many of the projects within this portfolio are located on large-diameter transmission lines that support the overall reliability of SoCalGas's natural gas pipeline system and are thus can be subject to unpredictable delays or impediments to project execution. The portfolio revenue requirement approach provides SoCalGas with the flexibility to execute on the authorized projects without being confined to completing a defined subset of projects in a given year pursuant to a predetermined schedule that cannot account for delays or other impediments. This approach permits SoCalGas to quickly respond to project execution schedule changes by advancing projects from the overall 33-project portfolio into construction in place of those that are delayed, thereby maximizing SoCalGas's ability to execute PSEP "as soon as practicable" and in alignment with GRC-authorized spending levels.[989]

SoCalGas employs an estimating process as part of its forecasting. Since the inception of PSEP in 2011, SoCalGas has continuously improved its estimating process, including increasing the number of factors and inputs considered, inclusion of actual costs starting in 2013, and forming a dedicated estimating department. While SoCalGas's estimating process has improved and become more rigorous, each estimate is subject to foreseeable and unforeseeable conditions that may affect project costs. Furthermore, as projects mature and inevitable impacts to project

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988 *Id*. at 17:25-18:7.

989 Ex. SCG-08 (Kostelnik) at 19:3-20:11.

schedules arise due to the factors mentioned above, there is a time lag between completion of a project estimate and start of construction. During this time there may be changes in labor or material costs, applicable regulations, or other factors impacting what is a reasonable project costs estimate. More details of the estimating process are in the testimony of Mr. Kostelnik.[990]

14.1.4 PSEP O&M

SoCalGas's PSEP O&M forecasts include costs for hydrotest projects and miscellaneous expenses. SoCalGas has incorporated its capital costs associated with its hydrotesting projects in this briefing section for ease of consideration. Including these capital costs captures replacement costs necessary to complete the hydrotesting and provide an allowance for testing failures. The workpapers of Bill Kostelnik provide the full suite of hydrotest projects that are candidates for completion within the 2024 GRC period. As described above, the PSEP forecasting methodology seeks to maximize execution flexibility by establishing a revenue requirement based on an executable level of spending for selected projects from this overall project portfolio. As such, the aggregate amount of the O&M portfolio (excluding miscellaneous costs) presented in workpapers is approximately $295.0 million, which is more than is being requested in revenue requirement as SoCalGas does not anticipate that all of these hydrotest projects will be completed within this GRC period.[991]

The below table summarizes SoCalGas's GRC O&M forecast associated with the Phase 2A hydrotest projects described below, and O&M costs for two types of miscellaneous costs.

Table 14.5[992]
Summary of PSEP O&M Forecast Costs
(in 2021 $000's)

	2021 Adjusted-Recorded	TY2024 Estimated	Change
Hydrotest Projects	61,260	50,682	(10,578)
Miscellaneous Costs	2,822	3,532	710
Total O&M	**64,082**	**54,214**	**(9,868)**

Cal Advocates and TURN-SCGC contest certain elements of SoCalGas's PSEP O&M forecasts. Relative to Base Year 2021-recorded amounts, Cal Advocates' and TURN-SCGC's

990 Id. at 20:13-24:15.

991 *Id*. at 37:16-20.

992 *Id*. at 2.

recommended reductions reflect decreases of $10.723 million and $13.138 million, respectively, as shown in the below table. However, compared to SoCalGas's Test Year 2024 request of $54.214 million, the respective reductions proposed by Cal Advocates and TURN-SCGC amount to $0.855 million and $3.27 million. Briefly, Cal Advocates recommends a reduction associated with the normalization of Capital Delivery Technology costs. TURN-SCGC recommends a reduction because it contends that SoCalGas uses a contingency (a risk assessment cost component that is recommended in the construction industry) that is too high. Cal Advocates and TURN-SCGC's respective positions on SoCalGas's O&M forecasts, and SoCalGas's responses thereto, are discussed further in the below sections.

Table 14.6[993]
Summary of Difference for PSEP O&M Forecast Costs
(in 2021 $000's)

Total O&M	Base Year 2021	TY2024 Estimated	Change
SoCalGas	64,082	54,214	(9,868)
Cal Advocates	64,082	53,359	(10,723)
TURN-SCGC[994]	64,082	50,944	(13,138)

14.1.4.1 PSEP Hydrotest Projects O&M

The following table details the 14 Phase 2A hydrotest projects that are candidates for execution within this GRC period.

Table 14.7[995]
GRC PSEP Hydrotest Projects
(Direct Costs - in 2021 $000's)

Project	Phase	Location	Mileage	O&M Cost	Capital Cost	Total Cost
38-362	2A	Kern County	7.31	6,323	3,521	9,844
38-504	2A	Kern County	1.34	446	149	595
225 South	2A	Angeles National Forest	10.60	10,453	3,916	14,369

993 *Id*. at 1.

994 TURN-SCGC did not propose a definitive reduction to SoCalGas's total O&M request. Rather, TURN-SCGC has recommended that SoCalGas's "contingency factors" for proposed hydrotest projects and capital pipeline projects be capped at 10% per project. (*See* Ex. TURN-SCGC-03 (Yap).) SoCalGas has inferred that TURN-SCGC's proposed reduction for the hydrotest and capital pipeline projects equates to requested reduction of $3.270 million from SoCalGas's TY 2024 expenditure request.

995 Ex. SCG-08 (Kostelnik) at 38-44.

Project	Phase	Location	Mileage	O&M Cost	Capital Cost	Total Cost
235 East Section 1	2A	San Bernardino County	58.08	42,485	14,635	57,120
235 East Section 2	2A	San Bernardino County	56.33	34,911	13,088	47,999
Line 257	2A	Santa Barbara County	0.02	2,083	588	2,671
404 Section 12	2A	Ventura County	6.07	3,804	1,771	5,576
406	2A	Ventura County	14.32	24,126	9,973	34,099
1004	2A	Ventura County	0.43	2,511	1,163	3,674
1005	2A	Ventura County	15.20	13,794	5,321	19,115
3000 East	2A	San Bernardino County	115.15	75,751	39,350	115,100
4000	2A	San Bernardino County	45.85	72,506	33,930	106,435
36-9-09 North	2A	San Luis Obispo County	0.52	553	1,658	2,211
38-952	2A	Kern County	9.22	4,960	17,688	22,648
Total Hydrotest Project Costs			**340.4**	**294,706**	**146,751**	**441,457**

As noted above, these hydrotest projects are all candidates to be completed in this GRC cycle, but not all of them will be completed in the cycle. This explains why SoCalGas is seeking a lower O&M forecast cost recovery than the $441.457 million listed in the table for all 14 hydrotest projects.

14.1.4.1.1 TURN-SCGC's Hydrotest Disallowance

TURN-SCGC take issue with the "contingency factors" SoCalGas used in forecasting the total O&M and capital costs for each of the 14 hydrotest projects that are candidates for completion in this GRC cycle.[996] TURN-SCGC states that "if the Commission finds it reasonable to provide contingency factors for these projects, the Commission should authorize no more than a ten percent contingency per project."[997] "With this adjustment, the forecast of PSEP hydrotesting cost would be $412.973 million instead of SoCalGas's proposed $441.457 million."[998] This is a reduction of approximately $28.0 million for the entirety of the hydrotest project portfolio.

[996] Ex. TURN-SCGC-03 (Yap) at 5-8.

[997] *Id*. at 7.

[998] *Id*. at 8.

TURN-SCGC makes the exact same contingency factor disallowance argument for the nineteen separate PSEP capital pipeline projects, discussed in Section 14.1.5.1.

14.1.4.1.2 SoCalGas Response to TURN-SCGC

TURN-SCGC's recommendation to cap all contingency costs to 10% per project should be rejected because (1) it miscalculates the reduction based on the entire portfolio of projects and not requested costs, (2) the overall 16% proposed contingency is reasonable and at the bottom of the 15%-30% contingency range set by industry standards, and (3) SoCalGas has accounted for process and construction improvements and efficiencies over time.

TURN-SCGC's recommendation to cap all contingency costs to 10% per project misunderstands SoCalGas's TY 2024 O&M request, which is to establish a revenue requirement for the hydrotest projects based on an anticipated level of executable spending from a portfolio of the fourteen projects, which will be less than the total costs of the overall portfolio of projects because SoCalGas will not complete all of them in the GRC cycle.[999] SoCalGas is requesting a revenue requirement to complete PSEP hydrotest projects that is based on a TY 2024 O&M amount of $50.682 million, not the total hydrotest portfolio cost of $441.457 million presented in Table 3 of TURN-SCGC's testimony.[1000] However, TURN-SCGC instead proposes in testimony a contingency reduction amount based on the entire portfolio of projects. Since TURN-SCGC did not provide a disallowance recommendation based on SoCalGas's test year 2024 forecast, SoCalGas infers that TURN-SCGC recommends a reduction of 6.45%, equating to $3.270 million, to SoCalGas's O&M request for hydrotest projects.[1001]

Setting aside the incorrect calculation for the reduction, TURN-SCGC's proposed reduction should also be disregarded because the inclusion of the overall 16% contingency is appropriate and reasonable. TURN-SCGC, despite claiming that contingencies are looked at with "skepticism" by the Commission,[1002] acknowledge the appropriateness of contingencies for PSEP. TURN-SCGC's testimony correctly notes that SoCalGas's project specific cost estimates adhere to the Association for the Advancement of Cost Engineering (AACE) standards and contain "very

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999 Ex. SCG-08 (Kostelnik) at 37:17-20.

1000 Ex. TURN-SCGC-03 (Yap) at 7.

1001 Ex. SCG-208 (Kostelnik) at 6:16-7:8 (SoCalGas's inference is derived by dividing TURN-SCGC's total recommended reduction of $28.484 million by the total hydrotest project portfolio forecast of $441.457 million, which results in a 6.45 percent reduction.)

1002 Ex. TURN-SCGC-03 (Yap) at 2.

detailed cost projections."[1003] TURN-SCGC also acknowledges that the Commission has previously approved SoCalGas's use of contingencies for project forecasts.[1004] The Commission's ruling in the prior GRC indicates agreement with SoCalGas's estimating practices which follow industry standards and include contingencies to address "unforeseeable events that … lead to additional costs," and recognizes that "project managers have a tendency to underestimate the cost of a project."[1005]

Contingencies are consistent with AACE recommended practices, which state that a risk assessment component for a project estimate is necessary for all classes of estimates to accurately account for unforeseen events that will likely result in additional costs to the project within the defined scope.[1006] TURN-SCGC claims that any contingency beyond 15% of a project cost is "excessive."[1007] TURN-SCGC provides no analysis for any specific hydrotest project and why a contingency beyond 15% is unreasonable, yet nevertheless, TURN-SCGC notes that SoCalGas provided "very detailed cost projections" for each such project.[1008] SoCalGas's contingency methodology includes a risk assessment with specific amounts allocated to the various project cost categories, and reflects the unique characteristics of individual projects. Furthermore, the contingency amounts for the overall project portfolios presented in this application reveal that the contingency amounts for hydrotest projects average 16% (and capital pipeline projects average 15%).[1009] This figure is within one percent of the amount previously found reasonable by the Commission in D.19-09-051 and falls within the lower end of the range of expected contingency percentages (15-30%) published by AACE International.[1010] In stating that "The Commission

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1003 *Id*.

1004 *Id*. at 3; *see also* D.19-09-051 at 205 ("We agree with the addition of a risk assessment component in this instance to account for contingencies that may occur. The proposed projects are subject to many variables and projects have particular circumstances that add to the difficulty of making accurate cost estimates. The practice is also an industry-recommended practice that aims to increase the quality and accuracy of estimates, which we find appropriate for the proposed PSEP projects.")

1005 D.19-09-051 at 204.

1006 Ex. SCG-208 (Kostelnik) at Appendix B.

1007 Ex. TURN-SCGC-03 (Yap) at 2.

1008 *Id*.

1009 Ex. SCG-208 (Kostelnik) at 9:4-7.

1010 *Id*. at 9:7-10 (*citing* Rothwell, G. 2005 *Cost Contingency as the Standard Deviation of the Cost Estimate*. Cost Engineering, Vol. 47, No. 7, at 22-25, *available at*: https://www.researchgate.net/publication/237635336_Cost_Contingency_as_the_Standard_Deviation_of_the_Cost_Estimate_for_Cost_Engineering).

could reasonably reject any contingency factors for these projects, given SoCalGas's even greater experience with implementing PSEP [replacement] projects than in the TY2019 GRC,"[1011] TURN-SCGC errs in their apparent assumption that the passage of time and experience gained should alleviate the need for a contingency. SoCalGas has also narrowed its contingency amounts for PSEP projects over time and developed a higher confidence on contingency estimates, reflecting the exhaustive efforts of SoCalGas's estimators and project teams to better understand project specific risks and incorporate knowledge and experience gained over time.[1012] The narrow range of contingency estimates for the hydrotest projects in this GRC demonstrate the product of these efforts. Applying TURN-SCGC's arbitrary 10% cap to each hydrotest project would disregard the work SoCalGas undertakes to provide specific estimates for each project[1013] and Commission precedent permitting contingencies above 10%, as discussed above.

14.1.4.2 O&M Miscellaneous Costs – Construction

The following table represents the three cost categories comprising the PSEP O&M construction miscellaneous costs.

Table 14.8[1014]
Summary of PSEP O&M Forecast Costs
(Direct Costs - in 2021 $000's)

Cost Category	O&M	Capital	Total
Allowance for Hydrotest Test Failures	0	2,087[1015]	2,807
Construction Labor Costs	2,392	0	2,392
Capital Delivery Technology	1,140	0	1,140
Total O&M Miscellaneous Costs	**3,532**	**2,087**	**5,619**

14.1.4.2.1 Allowance for Hydrotest Test Failures

Costs associated with a test failure, which are characterized as capital due to the need to replace sections of pipe that are determined to have contributed to the test failure, may consist of the use of helium/nitrogen tracer gas or other methods to determine the source of a test failure, replacement of the affected pipe segment, costs incurred to achieve water containment (as needed),

1011 Ex. TURN-SCGC-03 (Yap) at 6.

1012 Ex. SCG-208 (Kostelnik) at 9:11-10:2.

1013 *See id*. at 20:5-6.

1014 Ex. SCG-08 (Kostelnik) at 44.

1015 SoCalGas incorporated these capital costs components into the capital hydrotest project costs reflected in Table 14.I, below.

and the costs of re-testing the segment. Recent hydrotest projects show SoCalGas has experienced eight test failures out of a total of 18 test projects, totaling 157 miles. The allowance is therefore based on a ratio of one test failure to approximately 20 miles of hydrotests, which has been extrapolated to the total forecasted miles of pipe to be hydrotested in the GRC period.[1016]

The O&M hydrotest project costs discussed in Section 14.1.4 do not include test failure costs because such failures are expected to be infrequent.[1017] Rather than forecasting infrequent costs in the hydrotest project forecasts, SoCalGas is requesting an allowance for the test failures as part of the capital forecast for PSEP in this GRC. The Commission approved a similar allowance for pipeline testing failures in SoCalGas's prior GRC, finding the costs to be reasonable.[1018] Furthermore, no party has contested these costs in this proceeding. Therefore, the Commission should approve the requested allowance of $2.087 million.

14.1.4.2.2 Construction Labor Costs

In 2019, the PSEP organization, along with other departments that execute major projects, were aligned into an overarching Construction Organization. SoCalGas envisioned this Organization creating a scalable and consistent framework for infrastructure project management and execution. Aligning these various departments into the Construction Organization having common leadership is designed to promote consistent project management and execution practices across SoCalGas's portfolio of major projects, which is achieved through a Capital Delivery Model (CDM) initially pioneered by the PSEP program (also known as the "stage-gate process").[1019]

The Construction Organization has a large and complex portfolio requiring appropriate management to achieve the goals of CDM. A wide variety of personnel within several departments, including the Program Management Office (PMO), Project Development and Management teams, Budgeting and Administration group, Construction Operations, and executive

[1016] Ex. SCG-08 (Kostelnik) at 45; see also Ex. SCG-08-WPS, Volume VI (Construction Miscellaneous Costs Supplemental Workpapers).

[1017] Ex. SCG-08 (Kostelnik) at 44:23-24.

[1018] D.19-09-051 at 207-209 (Commission authorized SoCalGas's capital request for $6.170 million for "Allowance for Pipeline Failure" as part of SoCalGas's Miscellaneous PSES Costs finding that "the costs can be forecast with a high degree of certainty based on the frequency of test failures that have occurred to date" and that "the estimate for test failure occurrences to be conservative and reasonable.")

[1019] Ex. SCG-08 (Kostelnik) at 45.

leadership must oversee this portfolio.[1020] As such, these personnel do not charge their time to individual projects but execute many crucial roles for the Construction Organization, for example oversight, policy development to promote standardization and accountability, budgeting, and creating reporting metrics for all construction projects.[1021] SoCalGas's PSEP O&M forecast for which it seeks recovery in this GRC incorporates the labor and non-labor costs associated with these individuals that have been identified within the organization to support these efforts, as PSEP constitutes the primary O&M spend within the Construction Organization.[1022] No party has contested SoCalGas's forecasted PSEP-related O&M costs associated with these personnel. As such, SoCalGas submits that the requested costs of $2.392 million are reasonable.

14.1.4.2.3 Capital Delivery Technology

The Construction organization established a technology roadmap which identified tools and technology that will drive process standardization and consistency to mitigate regulatory risk, achieve efficiency and better productivity, and provide visibility to data that is imperative to making informed business decisions. The Construction organization will implement these tools and technology identified in the roadmap during the GRC period.[1023]

The forecasted O&M costs include organizational change management, training, and data migration project costs that cannot be capitalized during the IT project implementation.[1024] In addition, costs also include incremental resources to support end user adoption, provide business support, optimize functions, enhance capabilities, and perform tool and database maintenance. These costs are composed of the necessary O&M support associated with the IT project technology enhancements.[1025] [1026]

1020 *Id*. at 46.

1021 *Id*.

1022 Ex. 12 SCG-08-WPS, Volume VI (describes derivation of these labor and non-labor O&M costs from the Construction Organization).

1023 Ex. SCG-08 (Kostelnik) at 46.

1024 *Id*.

1025 *Id*.

1026 Ex. 12 SCG-08-WPS Volume VI (Kostelnik) (describing derivation of these capital delivery technology O&M costs).

14.1.4.2.3.1 Cal Advocates' Capital Delivery Technology Position

Cal Advocates recommends that SoCalGas's PSEP Miscellaneous Cost components, Capital Delivery Technology, should be normalized over the 4-year GRC cycle, resulting in O&M costs of $0.3 million for 2024 and for each year of the years in this GRC cycle.[1027] The reason for Cal Advocates' recommendation is that the Capital Delivery Technology cost component is non-recurring. According to Cal Advocates, the "normalization of SCG's request results in an O&M amount of $0.285 million for 2024 and for each year of the years in this GRC. The normalization of the Capital Technology Costs leads to a reduction in SCG's Miscellaneous Cost from $3.532 million to $2.677 million which is an overall decrease of $0.855 million from SCG's 2024 request."[1028]

Cal Advocates does not oppose SoCalGas's Capital Delivery Technology funding request, only recommending a normalization of the costs. SoCalGas does not take issue with the normalization alternative. Based on the above, SoCalGas requests that the Commission find the Capital Delivery Technology funding request as reasonable and authorize recovery therefore either in TY 2024 or normalized across this GRC cycle.

14.1.4.2.4 Line 235 West

In this GRC, SoCalGas proposed alternatives to either replace or repair Line 235 West. Following a May 1, 2023 ruling in this proceeding,[1029] SoCalGas removed the replacement option, and addressed the revised request within its integrity management testimony. *See* Section 15 for further discussion.

14.1.5 PSEP Capital Forecast

14.1.5.1 Capital Pipeline Capital Costs

The following table illustrates the GRC PSEP capital forecasts:

1027 Ex. CA-03 (Phan) at 9.

1028 Ex. CA-03 (Phan) at 9.

1029 A.22-05-015, *Administrative Law Judge's Ruling Granting the Joint Motion Filed by The Utility Reform Network and The Southern California Generation Coalition* (May 1, 2023).

Table 14.9[1030]
PSEP Summary of Capital Forecast Costs
(in 2021 $000's)

	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated TY 2024
Hydrotest Projects	16,391	17,077	13,711	22,223
Replacement Projects[1031]	124,306	52,072	54,645	49,923
Valves	50,515	72,360	33,564	8,664
Total Capital Forecast	**191,219**	**141,509**	**101,902**	**73,810**

Notably, Cal Advocates concurs with SoCalGas's PSEP capital forecasts, and "Cal Advocates does not oppose SCG's capital expenditure requests for 2022-2024."[1032]

Table 14.6 lists the nineteen separate PSEP capital pipeline projects that are candidates for execution in this GRC cycle.

Table 14.10[1033]
GRC PSEP Capital Pipeline Projects
(Direct Costs - in 2021 $000's)

Project	Category	Location	Mileage	Phase	Capital
38-100	Replacement	Kern County	0.01	2A	1,525
38-539	Replacement	Tulare County	12.57	2A	61,131
44-707	Replacement	Santa Barbara County	0.01	2A	1,754
44-729	Replacement	Kern County	0.01	2A	2,249
85 North Lake Station to Grapevine Road	Replacement	Kern County	30.04	1B	176,265
159	Replacement	Santa Barbara County	0.13	2A	1,116
225 North Coles Levee	Replacement	Kern County	0.07	2A	6,838
235 East Kelso Station	Replacement	San Bernardino County	0.05	2A	3,905
1004 Section 2	Replacement	Ventura County	2.5	1B	25,754

1030 Ex. SCG-08 (Kostelnik) at 25.

1031 Also includes derate, abandonment, and retrofit projects but is characterized as "replacements" which are the predominant project type included in the capital portfolio.

1032 Ex. CA-03 (Phan) at 11.

1033 Ex. SCG-08 (Kostelnik) at 26-34.

Project	Category	Location	Mileage	Phase	Capital
Station Piping[1034]	Replacement	Various	0.10	2A	3,677
44-306/44-307	Retrofit	San Luis Obispo County	58.26	1B	98,326
41-6000-1	Abandonment	Imperial County	7.43	2A	9,528
38-101 Section 3	Derate	Kern County	8.21	1B	9,059
38-2101	Derate	Kern County	10.01	2A	2,835
133	Derate	Kern County	3.22	2A	4,646
38-143	Derate/Replace	Kern County	5.82	1B	5,871
Total Capital Pipeline Costs			**138.44**		**414,479**

14.1.5.1.1 TURN-SCGC Disallowance for "Contingency Factors"

As discussed, and addressed in Section 14.1.4.1.2, TURN-SCGC recommends that SoCalGas's forecast for these nineteen separate PSEP capital pipeline projects be reduced by $20.405 million because the Commission "should authorize no more than a ten percent contingency per project."[1035] TURN-SCGC's argument supporting the proposed 10% cap on contingencies for these capital pipeline projects mirrors the arguments TURN-SCGC used for the same cap for hydrotest projects.[1036]

14.1.5.1.2 SoCalGas's Response to TURN-SCGC's Disallowance

As discussed in Section 14.1.4.1.2, SoCalGas's contingency methodology for the capital pipeline projects includes a risk assessment with specific amounts allocated to the various project cost categories and reflects the unique characteristics of individual projects. The contingency amounts for the overall portfolio of capital pipeline projects presented in this application reveal that the contingency amounts average 15 percent.[1037] SoCalGas refers the Commission to Section 14.1.4.1.2, SoCalGas's briefing fully rebutting TURN-SCGC's contingency cap argument.

Specific to these capital pipeline projects, TURN-SCGC again misunderstands SoCalGas's portfolio approach to these projects, whereby SoCalGas maintains the flexibility to complete a subset of the proposed projects during the GRC cycle, which would is accommodated by

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1034 This project consists of four small projects that are combined into one workpaper due to similar scopes of work.

1035 Ex. TURN-SCGC 08 (Yap) at 5-6.

1036 *Id*. at 2-8.

1037 Ex. SCG-208 (Kostelnik) at 9.

SoCalGas's requested revenue requirement rather than a set schedule of work.[1038] Based on SoCalGas's robust forecasting methodology, SoCalGas is requesting a revenue requirement to complete PSEP capital pipeline projects that is based on a 2022-2024 capital forecast of $202.651 million,[1039] not the $412.196 million amount that is presented in Table 1 of TURN-SCGC's testimony.[1040] Since TURN-SCGC, again, did not provide a disallowance recommendation specific to the 2022-2024 forecast period, SoCalGas infers that TURN-SCGC has recommended a reduction of 4.95% to the aggregate capital amount requested for this period.

14.1.5.1.3 CalPA Disallowance Based on 2022 Actual Capital Costs

In a footnote in testimony, Cal Advocates notes that SoCalGas's request should be reduced based on "[t]he 2022 recorded adjusted capital expenditures were $108.970 million."[1041] Cal Advocates gave no explanation for this disallowance "[d]ue to timing."[1042]

14.1.5.1.4 SoCalGas's Response to CalPA's Requested Disallowance

As explained in testimony, the lower actual costs were due to project deferrals, something which is not uncommon with PSEP or other complex capital projects. An arbitrary reduction could have cascading impacts to the broader amount of work that SoCalGas would be able to perform throughout the GRC cycle. Moreover, because PSEP projects are not discretionary projects, but statutorily mandated work – reducing SoCalGas's request for the amount it needs to complete future PSEP projects would run counter to the Commission's mandate to complete projects "as soon as practicable."[1043]

14.1.5.1.5 Cal Advocates' Removal of Post-test year Costs from the Results of Operations Model

The RO Model provided by Cal Advocates has removed approximately $45 million in costs for the post-test years for PSEP Capital. It is unclear why Cal Advocates made this removal, and it

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[1038] *Id*. at 17-18.

[1039] This figure includes costs associated with capital pipeline projects, which reflect replacement, derate, and abandonment projects, and also includes the capital components of hydrotest projects. See Ex. SCG-208 (Kostelnik) at 18.

[1040] Ex. TURN-SCGC 08 (Yap) at 5.

[1041] Ex. CA-03 (Phan) at 10, n.18.

[1042] *Id*.

[1043] D.11-06-017 at 19.

is inconsistent with Cal Advocates' statement that it does not oppose SoCalGas's capital request for PSEP. The PSEP projects that had removed costs were included for the purpose of receiving the appropriate overhead loading.[1044] These are necessary and reasonable costs for these projects and should be approved.

14.1.5.2 Valve Enhancement Plan Capital Costs

In addition to the Capital Pipeline expenditures, SoCalGas will be continuing its PSEP Valve Enhancement Plan into this GRC cycle, as detailed in the below table.

Table 14.11[1045]
PSEP Valve Enhancement Plan Costs
(Direct Costs - in 2021 $000's)

Valve Enhancement Plan	Location	Number of Installations	Capital
	Various	18	8,339

These Valve Enhancement Plan Costs for the subject 18 installation projects of new backflow prevention devices, either with check valve installations or through modifications to existing regulator stations are to begin in 2024.[1046] These costs are based on SoCalGas's experience in the design, permitting, and construction of previously executed Valve Enhancement Plan projects.[1047] Based on this experience, SoCalGas anticipates that the completion of the Valve Enhancement Plan will occur by 2025.[1048] Completion of the Valve Enhancement Plan will achieve SoCalGas's objective of enabling the automatic or remote isolation of transmission pipeline in 30 minutes or less in the event of a pipeline rupture, thereby enhancing the safety of the entire SoCalGas pipeline system.[1049]

14.1.5.3 Line 306 (Supply Line 44-306/307)

Supply Line 44-1008 is a 51-mile, 10-inch diameter pipeline installed in 1937 and located within Kings, Kern, and San Luis Obispo Counties, extending from Atascadero in the south to

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1044 Ex. SCG-208 (Kostelnik) at Appendix C (Response to PAO-SCG-107-JOH-Q1). The RO Model also included another reduction that SoCalGas agreed with that was identified and explained in the data request response.

1045 Ex. SCG-08 (Kostelnik) at 34.

1046 *Id*. at 34-35.

1047 *Id*. at 34.

1048 *Id*.

1049 *Id*.

Avenal in the north.[1050] SoCalGas submitted a forecast of $153.0 million in direct costs for its replacement in SoCalGas's TY 2019 GRC (A.17-10-008). The Commission denied the requested forecast holding that "the environmental permitting process relating to the project may preclude SoCalGas from even initiating construction during this rate case cycle" and that "authorization for Line 44-1008 should be requested in SoCalGas's next GRC application."[1051]

As an alternative to replacing Supply Line 44-1008, SoCalGas purchased PG&E's Line 306 and corresponding interconnection on April 30, 2021.[1052] PG&E had sought approval to sell Line 306 to SoCalGas through an 851 Application to the Commission which was authorized in D.20-03-018. Line 306 is a 70-mile, 20-inch diameter pipeline installed in 1962 that roughly parallels Supply Line 44-1008 and continues further west to Morro Bay.[1053] Line 306 can provide service to customers in the region without incurring the substantial costs and environmental impacts of the Supply Line 44-1008 replacement.[1054] SoCalGas pursued the purchase of and improvements to Line 306 because this alternative would likely result in significant ratepayer savings relative to the Supply Line 44-1008 replacement.[1055]

In this GRC filing, SoCalGas is presenting for reasonableness review the $25.040 million for the purchase of Line 306. SoCalGas is also requesting in this GRC recovery of its retrofit costs to Line 306 on forecast basis in the approximate amount of $98.326 million. SoCalGas now refers to PG&E's Line 306 as Supply Line 44-306/307, following SoCalGas naming conventions.[1056] SoCalGas's PSEP-related improvements and retrofits to Line 44-306/307 include, but are not limited to, installing in-line inspection tools, replacing non-piggable valves and fittings, hydrotesting and/or replacing various pipeline sections, adding additional service extensions to existing customers, and improving cathodic protection capabilities on the pipeline.[1057] In addition to ratepayer savings, this alternative to replacing Supply Line 44-1008 comports with the PSEP

1050 *Id*. at 35.

1051 D.19-09-51 at 213.

1052 D.20-03-018 (approving sale of Line 306 to SoCalGas); A.19-04-003 (Application of PG&E for Commission Approval under Public Utilities Code Section 851 to Sell the Gas Local Transmission Line 306 to SoCalGas); Ex. SCG-08 (Kostelnik) at 35.

1053 Ex. SCG-08 (Kostelnik) at 35.

1054 *Id*. at 36.

1055 *Id*.

1056 *Id*.

1057 *Id*.

objectives to enhance public safety, comply with Commission directives, minimize customer and community impacts, and maximize the cost-effectiveness of safety investments.[1058]

The original estimated cost to replace Line 44-1008 presented in A.17-10-008 was approximately $153.164 million, whereas the estimated total cost for the purchase and retrofitting of Line 44-306/307 is approximately $123.366 million. SoCalGas's purchase and retrofit alternative to Line 44-1008 replacement is estimated to save ratepayers approximately $30 million. No party has opposed the purchase price or retrofit forecast costs, and as such, SoCalGas submits that these costs are reasonable and should be approved.

14.1.6 PSEP Reasonableness Review

SoCalGas has presented for reasonableness review activities and costs associated with PSEP projects completed primarily between December 2015 and December 2020, representing 21 pipeline and bundled valve projects encompassing approximately 80 miles of transmission pipeline and 116 valves.[1059] SoCalGas acted as a reasonable manager of PSEP by carefully considering information that was known at the time decisions were made, exercised experienced and professional judgment in its decision-making, and therefore, should be granted full recovery of the revenue requirements requested.[1060] Importantly, no party has objected to SoCalGas's PSEP O&M and capital requirements presented for reasonableness review in this GRC, demonstrating the reasonableness of those requirements and supporting their recovery. Below is a table showing the total O&M and Capital costs for SoCalGas's reasonableness review in this GRC.

Table 14.12[1061]
Total PSEP Reasonableness Review Costs

PSEP Reasonableness Review – Fully Loaded (in 2021 $000's)				
	Total O&M	**Difference**	**Total Capital**	**Difference**
SoCalGas	45,013	N/A	453,766	N/A
Cal Advocates[1062]	45,013	0	453,766	0
TURN-SCGC[1063]	45,013	0	453,766	0

1058 *Id*.

1059 *Id*. at 48.

1060 *Id*.

1061 *Id*. at 2.

1062 Ex. CA-03 (Phan) at 10.

1063 Ex. TURN-SCGC 08 (Yap).

SoCalGas is requesting the reasonableness review and approval of the $426.209 million in capital expenditures and $34.92 million in O&M expenditures incurred in executing the projects, the reasonableness of $25.04 million in expenditures for the purchase of Line 306, and the reasonableness of $12.61 million in expenditures for other costs incurred to execute PSEP. All of these cost components were incurred in accordance with the Commission-approved PSEP decision tree and are properly presented for recovery through the reasonableness review process.[1064] SoCalGas recorded these PSEP O&M and capital expenses in the approved balancing accounts and submits that the expenses were reasonably incurred, and the associated revenue requirements are justified for rate recovery.[1065] As discussed in Section 43, the amount requested reflects the 50% interim rate recovery subject to refund approved by the Commission in D.16-08-003.

SoCalGas has acted as a reasonable manager of PSEP by carefully considering information that was known at the time decisions were made and has exercised experienced and professional judgment in its decision-making. Detailed cost information for each project is included in the supporting project workpapers.[1066] As explained thoroughly in testimony, SoCalGas acted as a prudent program operator by: (1) overseeing PSEP with a Program Management Office (PMO) and Project Portfolio Team that develop standards and procedures for consistent management, identify and incorporate process improvements, and oversee compliance with applicable regulatory requirements; (2) employing a seven part Stage Gate Review Process to organize workflow and management review; (3) when evaluating whether to test or replace any particular pipeline segment, reviewing other considerations such as impacts to customers, incidental or accelerated mileage, and other means of service during construction; (4) collaborating with local stakeholders; (5) coordinating with other company projects; and (6) conducting design and construction consistent with SoCalGas's standards to promote compliance, safety, and efficiency.[1067]

14.1.6.1 Reasonableness Review Cost Components

The cost components comprising SoCalGas's reasonableness review are individual hydrotest, replacement, derate, or abandonment projects, as well as those overall PSEP

[1064] D.16-06-007 at 59 (OP 1-2).

[1065] Ex. SCG-08 (Kostelnik) at 49.

[1066] *See* Ex. SCG-08-WP-S, Volumes II-V.

[1067] Ex. SCG-08 (Kostelnik) at 57-61.

administrative costs that are not attributable to a specific project and other related indirect costs.[1068] Different projects have capital and/or O&M costs, and the below tables break out the project specific costs SoCalGas seeks to recover through the reasonableness review process.

14.1.6.1.1 Pipeline Replacement Projects

SoCalGas requests the Commission approve as reasonable the approximate amount of $246.063 million in expenses it prudently and responsibly spent for the pipeline replacement projects listed in the table below.

Table 14.13[1069]
Reasonableness Review - Pipeline Replacement Projects
(in Fully Loaded 2021 $000's)

Project	Capital	O&M	Total
30-18 Section 2 Replacement	10,906	--	10,906
33-120 Section 1 Replacement	12,477	--	12,477
36-1032 Replacement Section 4	6,106		6,106
36-9-09 North Section 5B-02 and 5C Replacement	13,746	--	13,746
36-9-09 North 6B Replacement	15,916	--	15,916
36-9-21 Replacement	6,796	--	6,796
37-18 K Replacement	16,813	--	16,813
38-101 Wheeler Ridge Replacement Project	14,443	--	14,443
41-6001-2 Replacement	723	--	723
43-121 North Replacement	22,642	--	22,642
45-120 Section 2 Replacement Project	92,044	--	92,044
404 Section 4A Replacement Project	18,672	--	18,672
404-406 Replacement Project Somis Station	9,388	--	9,388
2006-P1A Replacement Project	5,391	--	5,391
Total	**246,063**		**246,063**

1068 Ex. SCG-08 (Kostelnik) at 49 (PSEP organizational costs not attributable to a specific project, such as PSEP General Management and Administration costs, are allocated to hydrotest, replacement, abandonment, and valve projects. Indirect costs include certain company overhead costs are deemed incremental to PSEP and subject to recovery as they are associated with incremental PSEP activities. The applicable incremental overheads are included in the costs presented for reasonableness review.)

1069 Ex. SCG-08 (Kostelnik) at 50.

14.1.6.1.2 Hydrotest Projects

SoCalGas requests the Commission approve as reasonable the approximate amount of $42.535 million in expenses it prudently and responsibly spent for the hydrotest projects listed in the table below.

Table 14.14[1070]
Reasonableness Review - Hydrotest Projects
(in Fully Loaded 2021 $000's)

Project	Capital	O&M	Total
33-121 Hydrotest	--	4,589	4,589
2000-D Hydrotest Whitewater to Moreno	2,665	7,672	10,337
2001 West-C Desert Hydrotest	2,065	11,091	13,156
2001 West-D Whitewater Hydrotest	1,294	5,645	6,939
Storage - Goleta	1,597	5,917	7,514
Total	**7,621**	**34,914**	**42,535**

14.1.6.1.3 Abandonment and Derate Projects

SoCalGas requests the Commission approve as reasonable the approximate amount of $37.457 million in expenses it prudently and responsibly spent for the abandonment and derate projects listed in the table below.

Table 14.15[1071]
Reasonableness Review – Abandonment and Derate Projects
(in Fully Loaded 2021 $000's)

Project	Capital	O&M	Total
41-6000-2 Abandonment & Tie-Over	35,971	--	35,971
103-P1B-01 Derate Project	1,486	--	1,486
Total	**37,457**	**--**	**37,457**

14.1.6.1.4 Valve Bundle Projects

SoCalGas requests the Commission approve as reasonable the approximate amount of $135.073 million in expenses it prudently and responsibly spent for the valve bundle projects listed in the table below.

1070 *Id.*

1071 *Id.* at 51.

Table 14.16[1072]
Reasonableness Review - Valve Enhancement Projects
(in Fully Loaded 2021 $000's)

Project	Capital	O&M	Total
29 Palms Valve Enhancement Project Indian Canyon	1,497	--	1,497
29 Palms Valve Enhancement Project Mohawk Trail	980	--	980
29 Palms Valve Enhancement Project Sunburst Street	1,440		1,440
29 Palms Valve Enhancement Project Utah Trail	1,287	--	1,287
225 Valve Enhancement Project - Beartrap	1,262	--	1,262
225 Valve Enhancement Project - Quail Canal	1,260	--	1,260
404-406 Somis Yard Valve Enhancement Project	1,279	--	1,279
404-406 Valley Bundle Valve Enhancement Project	11,328	--	11,328
1014 Olympic Valve Enhancement Project	8,406	--	8,406
1018 Valve Enhancement Project - Alipaz Street	1,871	--	1,871
1018 Valve Enhancement Project - Avery Parkway	1,257	--	1,257
1018 Valve Enhancement Project - Burt Transmission	2,824	--	2,824
1018 Valve Enhancement Project - Camino Capistrano	4,374	--	4,374
1018 Valve Enhancement Project - El Toro Road	2,408	--	2,408
1018 Valve Enhancement Project - Harvard & Alton	3,103	--	3,103
2000 Beaumont Riverside 2016 Valve Enhancement Bundle	5,944	--	5,944
4000 Valve Enhancement Project - PowerRoad	1,402	--	1,402
4000-P1B Valve Enhancement Project - Camp Rock Road	1,340	--	1,340
4000-P1B Valve Enhancement Project - Desert View Road	1,953	--	1,953
4000-P1B Valve Enhancement Project - Devore Station	1,548	--	1,548
7000 Valve Enhancement Project - Road 68 & Avenue 232	2,000	--	2,000
7000 Valve Enhancement Project - Road 96 & Avenue 198	2,225	--	2,225
7000 Valve Enhancement Project - Beech & Highway 46	5,560	--	5,560

[1072] Ex. SCG-08 (Kostelnik) at 51-52.

Project	Capital	O&M	Total
7000 Valve Enhancement Project - Melcher & Elmo	3,831	--	3,831
7000 Valve Enhancement Project - Visalia Station	555	--	555
Adelanto Valve Enhancement Project MLV 4	735	--	735
Apple Valley Valve Enhancement Project - MLV 13	416	--	416
Apple Valley Valve Enhancement Project - MLV 2	1,402	--	1,402
Aviation & 104th Valve Enhancement Project	9,645	--	9,645
Banning 2001 Valve Enhancement Project - MLV 14.3	1,397	--	1,397
Banning 2001 Valve Enhancement Project - MLV 14A	1,241	--	1,241
Banning 2001 Valve Enhancement Project - MLV 16A	1,432	--	1,432
Banning 2001 Valve Enhancement Project - MLV 17A	1,930	--	1,930
Banning Airport Valve Enhancement Project	2,094	6	2,100
Blythe Valve Enhancement Project - Cactus City	1,828	--	1,828
Brea Valve Enhancement Project - Atwood Station	1,085	--	1,085
Brea Valve Enhancement Project - Chino Hill & Carbon Canyon	489	--	489
Brea Valve Enhancement Project - Gale & Azusa	454	--	454
Brea Valve Enhancement Project - Sapphire & Brea Canyon	1,361	--	1,361
Burbank Valve Enhancement Project - Riverside & Agnes	936	--	936
Carpinteria Valve Enhancement Project - Oxy & Rincon	1,237	--	1,237
Del Amo Station Valve Enhancement Project	1,542	--	1,542
Fontana 4002 Valve Enhancement Project - Benson & Chino & Tronkeel	1,566	--	1,566
Fontana 4002 Valve Enhancement Project - Etiwanda & 4th	1,266	--	1,266
Glendale Valve Enhancement Project	539	--	539
Indio Valve Enhancement Project - MLV 9	1,392	--	1,392
Indio Valve Enhancement Project - MLVs 10, 10A, & 10B	1,998	--	1,998
Indio Valve Enhancement Project - MLVs 8, 8A, & 8B	2,148	--	2,148
Pallowalla Valve Enhancement Project	2,192	--	2,192
Rainbow 2017 Valve Enhancement Project - Martin & Ramona	1,908	--	1,908

Project	Capital	O&M	Total
Rainbow Valve Enhancement Project - MLV 5	1,998	--	1,998
Rainbow Valve Enhancement Project - Newport & Briggs	514	--	514
Rainbow Valve Enhancement Project - Ramona & Lakeview	466	--	466
Rainbow Valve Enhancement Project - Scott & El Centro	515	--	515
Rainbow-P1B Valve Enhancement Project - Rainbow Valley	372	--	372
Santa Barbara Valve Enhancement Project - Lions	2,845	--	2,845
Spence Station Valve Enhancement Project	1,704	--	1,704
Supply Line 45-120 Valve Enhancement Project	1,091	--	1,091
Taft Valve Enhancement Project - 7th Standard	1,357	--	1,357
Taft Valve Enhancement Project - Buttonwillow	1,419	--	1,419
Taft Valve Enhancement Project - Hageman & Renfro	8,150	--	8,150
Taft Valve Enhancement Project - Sycamore	1,340	--	1,340
Victorville Valve Enhancement Project - MLV 11	309	--	309
Victorville Valve Enhancement Project - MLV 12	529	--	529
Western Del Rey Valve Enhancement Project - Mississippi & Armacost	495	--	495
Wilmington Valve Enhancement Project - Eubank Station	796	--	796
Total	**135,067**	**6**	**135,073**

14.1.6.1.5 L306 (Supply Line 44-306/307) Purchase in Lieu of Replacement

As discussed in Section 14.1.5.2, SoCalGas is requesting cost recovery for its purchase of PG&E's Line 306 for the approximate amount of $25.040 million. Prior to completing the purchase, SoCalGas conducted a thorough due diligence of Line 306, which included on-site inspections and review of over 2500 documents, and SoCalGas determined that Line 306 was in good condition for its vintage and appropriate for purchase.[1073] The Commission authorized SoCalGas to make this purchase[1074] and the cost has been booked into SoCalGas's PSEP Memorandum Account.[1075] For the same reasons the reasons the Commission initially approved

1073 Ex. SCG-08 (Kostelnik) at 53-54.

1074 D.20-03-018.

1075 Ex. SCG-08 (Kostelnik) at 53.

the sale in D.20.03-018, the Commission should find that SoCalGas's $25.04 million purchase price for Line 306 was reasonable and authorize SoCalGas to recover that amount.

14.1.6.2 Miscellaneous Recorded Costs

As discussed in Section 14.1.5.2, SoCalGas is seeking recovery of various miscellaneous costs including the capital and O&M costs already expended as part of PSEP execution. The below table breaks out the approximate $12.533 million in miscellaneous costs SoCalGas has already incurred.

Table 14.17[1076]
Reasonableness Review – Miscellaneous Costs
(in Fully Loaded 2021 $000's)

Cost Type	Capital	O&M	Total
Phase 2 Memorandum Account	--	4,544	4,544
Post-Completion Construction	2,517	1,179	3,697
Facilities Lease	--	2,470	2,470
Descoped Projects	--	713	713
Delcon Migrations Project	--	1,110	1,110
Total	**2,517**	**10,016**	**12,533**

14.1.6.2.1 Phase 2 Memorandum Account

The Commission authorized the creation of the PSEP-P2MA (PSEP-Phase 2 Memorandum Account) to record planning and engineering design costs associated with Phase 2A projects.[1077] SoCalGas did not include these costs in the prior GRC application (A.17-10-008), but is seeking recovery for approximately $4.544 million reasonably expended for execution of certain elements of PSEP Phase 2A.

14.1.6.2.2 Post Completion Construction

SoCalGas is seeking recovery of approximately $3.697 million associated with post-completion cost adjustments for pipeline projects that were originally presented for review in A.16-09-005.[1078] Post-completion adjustments occur when invoices or accounting adjustments are processed after the filing of an application for an after-the-fact reasonableness review. Despite the best efforts of SoCalGas to capture all items during the close-out process, post-completion

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1076 *Id*. at 51-52.

1077 D.16-08-003; Ex. SCG-08 (Kostelnik) at 54.

1078 Ex. SCG-08 (Kostelnik) at 55.

adjustments occur that may result in increased or decreased costs. For the costs presented herein, the primary categories of post-completion increase adjustments are contractor invoices, accrual reversals, company labor, and journal entry adjustments.[1079]

14.1.6.2.3 Facilities Lease

SoCalGas is seeking recovery of approximately $2.47 million in lease expenses incurred between May 2018 and March 2019 for the 22nd and 23rd floors at the Gas Company Tower located in downtown Los Angeles. These lease costs were necessary for PSEP operations during that time period, and PSEP was responsible for the lease for these two floors prior to them being incorporated into the overall Gas Tower lease effective with the 2019 GRC.[1080]

14.1.6.2.4 Descoped Projects

SoCalGas is seeking recovery of approximately $713.0 million for the cost of descoped projects. During the course of Phase 1A, planning work began on a number of projects that were later descoped or cancelled through either scope validation activities or the reduction of the MAOP to a level sufficient to bring the line outside the scope of PSEP. The requested amount is for recovery of costs associated with pipelines installed prior to 1956.[1081]

14.1.6.2.5 Delcon Migration Project

Delcon was the old document management system SoCalGas used to track and manage PSEP construction activities. SoCalGas replaced the system with Open Text in May 2019. SoCalGas is seeking recovery of approximately $1.110 million for the costs associated with migrating PSEP construction project from Delcon to Open Text. These migration costs include, for instance, costs to configure Delcon to prevent the loss of functionality during migration and developing software scripts for Open Text to properly ingest data from Delcon.[1082]

14.1.6.3 SB1381 Dairy Pilot Program Reasonableness Review

SoCalGas is seeking reasonableness review to recover approximately $20.262 million above the authorized amount of $36.559 million for the design, construction, and commissioning of four Dairy Biomethane Pilot Project (the Dairy Pilots).[1083] In response to California passing SB

[1079] *Id*.

[1080] *Id*.

[1081] *Id*.

[1082] *Id*. at 55-56.

[1083] *Id*. at 67:8-16.

1383, the Commission issued Rulemaking (R.) 17-06-015 to develop a framework which directed California's gas utilities to implement at least five Dairy Pilots – four of which would be located in SoCalGas's service territory[1084] – and to demonstrate interconnection efficacy with the gas pipeline system and to allow for recovery of reasonable infrastructure costs.[1085] In D.17-12-004, the Commission established the Dairy Pilots selection and implementation framework, which was to be overseen by the Selection Committee constituted by members from the Commission, the California Air Resources Board (CARB), and the California Department of Food and Agriculture (CDFA).[1086] Once a proposed Dairy Pilot was selected by the Selection Committee, SoCalGas was required to file a Tier 2 Advice Letter to "to establish a memorandum account and balancing account to record expenditures for eligible Dairy Biomethane Pilot Project costs."[1087]

On December 3, 2018, the Selection Committee identified the four Dairy Pilots located in the SoCalGas service territory: (1) CalBioGas Buttonwillow LLC, (2) CalBioGas North Visalia LLC, (3) CalBioGas South Tulare LLC, and (4) Lakeside Pipeline LLC, all of which are located in the San Joaquin Valley. SoCalGas submitted advice letters AL 5398 and 5398-A to establish balancing and memorandum accounts, which the Commission approved on February 14, 2019.[1088] SoCalGas's Diary Pilot costs in the Dairy Biomethane Project Memorandum Account (DBPMA) tracks costs associated with pipeline lateral, pipeline extension, and point of receipt. SoCalGas recovers its capital-related costs through its annual regulatory account balance update filing only for recovery up to authorized amounts.

Pursuant to D.17-12-004, the dollar amounts above those authorized through annual balancing update and recorded in the DBPMA are being addressed in this GRC under the reasonableness review process.[1089] A visual representation of the dairy biomethane process is included in testimony.[1090]

1084 *Id*. n.71 (CPUC Press Release identifying all Dairy Pilot projects, four of which are in SoCalGas territory, available at: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M246/K748/246748640.PDF).

1085 R.17-06-015, *Order Instituting Rulemaking to Implement Dairy Biomethane Pilot Projects to Demonstrate Interconnection To The Common Carrier Pipeline System In Compliance With Senate Bill 1383* (June 22, 2017).

1086 D.17-12-004 at 24 (OP 5).

1087 *Id*.

1088 Ex. SCG-08 (Kostelnik) at 68.

1089 D.17-12-004 at 12.

1090 Ex. SCG-08 (Kostelnik) at 69.

To develop the total cost of $36.6 million authorized by the Commission in its decision approving AL 5398,[1091] SoCalGas developed a Class 4 cost estimate consistent with AACE International (AACE) recommended practices for each Dairy Pilot site. SoCalGas utilized multiple sources of information to identify the preliminary scope in order to estimate the anticipated costs of the four Dairy Pilots.[1092] A detailed analysis of why the actual costs vary from the initial anticipated costs for the four Dairy Pilots is provided in testimony.[1093] The variance for each is presented in the table below:

Table 14.18[1094]
Summary of Cost Variances by Dairy Pilot
(in Fully Loaded 2021 $000's)

Dairy Project	Authorized (2019)	Estimated Cost At Completion (EAC)	Variance
North Visalia	8,318	11,920	3,602
South Tulare	9,094	13,890	4,794
Lakeside	10,843	18,503	7,660
Buttonwillow	8,304	12,508	4,204
Total	**36,559**	**56,821**	**20,262**

Six main cost categories have contributed to cost variances from the initial estimates: (1) Engineering; (2) Equipment and Materials; (3) Construction; (4) Company Labor; (5) Other Construction Management Costs; and (6) Indirect Costs.[1095] Engineering variance is primarily attributable to additional equipment and material needs, changes in equipment size, changes in scope of work, and additional engineering services.[1096] The Equipment and Materials variance is primarily attributable to increases in equipment and material costs as well as the necessary addition of equipment to the scope of work, such as air compressors, piping, and distribution centers.[1097] The Construction variance is primarily attributable to additional electrical, mechanical, and

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1091 SoCalGas Advice Letter No. 5398 (Approved on February 14, 2019), available at: https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5398.pdf.

1092 Ex. SCG-08 (Kostelnik) at 70.

1093 *Id*. at 70-76.

1094 *Id*. at 71.

1095 *Id*. at 71-76

1096 *Id*. at 72.

1097 *Id*. at 72-73.

civil/structural scope of work as well as additional inspection and company labor.[1098] The Company Labor variance is driven by the need for additional engineering, project management, and construction management required to support the scope of work changes.[1099] The Construction Management Costs variance is primarily attributable to additional third-party field engineering, inspection teams, third-party non-destructive examination (NDE), and NDE oversight required during construction.[1100] And, the Indirect Costs variance is due to additional SoCalGas overhead costs and increases in Allowance for Funds Used During Construction (AFUDC) and ad valorem taxes.[1101]

No party has contested the reasonableness of SoCalGas's approximate incremental costs of $20.262 million above the authorized amount of $36.559 million for the design, construction, and commissioning of the four Dairy Pilots. The additional $20.262 million was reasonably and prudently incurred in order to execute on the Commission-approved Dairy Pilots. As such, SoCal requests that the Commission find these costs reasonable and recoverable in rates.

14.2 SDG&E PSEP Introduction

SDG&E requests a reasonableness review of the costs SDG&E has associated with completed PSEP Phase 1A, valve enhancement bundle projects, and other miscellaneous costs that were incurred from August 2014 to July 2019.

Table 14.19
PSEP Reasonableness Review Costs
(In Fully Loaded 2021 $000s)

Testimony Area	Capital	O&M	Total
PSEP Reasonableness Review Projects	238,775	1,085	239,860
Miscellaneous Costs	401	128	529
Total	**239,176**	**1,213**	**240,389**

For SDG&E's PSEP, there are no forecasted costs in this GRC. Any costs associated with the implementation of PSEP Phase 2B are encompassed within the newly proposed Integrated Safety Enhancement Plan, discussed in Section 15. Other PSEP work, including the testing and replacement of Line 1600, is being addressed in other proceedings. Although the PSEP costs

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1098 *Id*. at 73.
1099 *Id*. at 74.
1100 *Id*. at 74-75.
1101 *Id*. at 75-76.

presented here are safety-related, because they are only presented for reasonableness review and not forecasted costs, they were not included in RAMP.

Consistent with the SoCalGas PSEP, the SDG&E PSEP program mandated by the Commission in D.14-06-007, has been governed by the four following objectives: (1) enhancing public safety, (2) complying with Commission directives, (3) minimizing customer impacts, and (4) maximizing the cost-effectiveness of safety investments.[1102] No party provided any testimony directly opposing the costs proposed for SDG&E's PSEP.

14.2.1 SDG&E PSEP Background

The background for SDG&E's PSEP is largely the same as for SoCalGas. Following the early proceedings and decisions establishing decision trees and allowing recovery of certain costs, SDG&E filed two reasonableness review applications. In A.16-09-005, filed September 2016, SDG&E included three pipeline projects and miscellaneous costs totaling approximately $15 million. Excluding approximately $31,000 in disallowances acknowledged by SDG&E in the filing, all SDG&E project costs were deemed reasonably incurred.[1103] In A.18-11-010, filed November 2018, SDG&E sought recovery for four pipeline projects and four bundled valve projects, and miscellaneous costs totaling approximately $130 million. The Commission's decision deemed more than 99% of the total costs presented to be reasonable, and allowed recovery accordingly.[1104]

14.2.2 SDG&E PSEP Reasonableness Review Cost Components

In this GRC, SDG&E requested the Commission deem reasonable the costs associated with seven PSEP pipeline and six valve bundle projects, amounting to approximately $238.775 million in capital expenditures and $1.085 million in O&M expenditures incurred in executing the projects, and an additional $0.529 million for other associated miscellaneous costs incurred to execute SDG&E's PSEP. As explained in Section 43, SDG&E estimates the ending balance as of December 31, 2023, associated with these assets being reviewed to be $52.1 million under-collected in revenue requirement. Costs for the projects and other related costs are set forth below.

As demonstrated in testimony and workpapers, these PSEP costs were reasonably incurred, and the associated revenue requirements are justified for rate recovery. SDG&E maintains the

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1102 Ex. SDG&E-08 (Kohls) at 1:14-17.

1103 D.19-02-004 at 104-109.

1104 D.20-08-034 at OP 4.

same structure and process as SoCalGas for oversight of the PSEP and has acted as a reasonable manager of PSEP by carefully considering information that was known at the time decisions were made, and exercising experienced and professional judgment in its decision-making. Detailed cost information for each project is included in the supporting project workpapers.[1105] As explained in detail in testimony, similar to SoCalGas, SDG&E acted as a prudent program operator by: (1) overseeing PSEP with a PMO and Project Portfolio Team that develops standards and procedures for consistent management, identifying and incorporating process improvements, and overseeing compliance with applicable regulatory requirements; (2) employing a seven part Stage Gate Review Process to organize workflow and management review; (3) when evaluating whether to test or replace any particular pipeline segment, SDG&E reviewed other considerations such as impacts to customers, incidental or accelerated mileage, and other means of service during construction; (4) collaborating with local stakeholders; (5) coordinating with other company projects; and (6) conducting design and construction consistent with SDG&E's standards to promote compliance, safety, and efficiency.[1106] SDG&E's prudent management of the PSEP mitigated obstacles, such as permitting, material availability, and unforeseen factors, to maximize efficiencies and complete construction as soon as practicable.[1107] SDG&E also managed costs through (1) scope validation to identify areas of cost avoidance; (2) sequencing PSEP projects to maximize efficiency; (3) prudent procurement; and (4) the Performance Partnership Program, a program that promoted competitive solicitations through the use of a risk/reward system for contractor cost-effectiveness.[1108] Given this prudent management of the PSEP program, the costs presented here for reasonableness review should be approved in this GRC.

14.2.2.1 Pipeline Replacement Projects

SDG&E requests the Commission approve as reasonable the approximate amount of $188.073 million in expenses it prudently and responsibly spent for the pipeline replacement projects listed in the table below.

1105 *See* Ex. SDG&E-08-WP-S, Volumes I-II; Ex. SDG&E-08-WP-S-C, Volumes I-II.

1106 Ex. SDG&E-08 (Kohls) at 19-24, Ex. SCG-08 (Kostelnik) at 57-61.

1107 Ex. SDG&E-08 (Kohls) at 24-27.

1108 *Id*. at 27-30.

Table 14.20
Replacement Projects
Summary of Capital and O&M Costs (in Fully Loaded 2021 $000s)

Project	Capital	O&M	Total
49-1 Replacement Project	64,340	-	64,340
49-17 East Replacement Project	72,364	-	72,364
49-17 West Replacement Project	37,512	-	37,512
49-32-L Replacement Project	8,297	-	8,297
La Mesa Gate Station Replacement Project	5,560	-	5,560
Total	**188,073**	**-**	**188,073**

14.2.2.2 Combination of Replacement and Pressure Test Projects

SDG&E requests the Commission approve as reasonable the approximate amount of $38,141,000 in expenses it prudently and responsibly spent for the projects listed below where a combination of replacement of certain pipeline segments and pressure testing of other segments was implemented. This was done because certain portions of the pipeline could not be taken out of service because certain critical non-core customers had to maintain uninterrupted service.[1109]

Table 14.21
Combination of Replacement and Pressure Test Projects
Summary of Capital and O&M Costs (in Fully Loaded 2021 $000s)

Project	Capital	O&M	Total
49-16 Replacement and Hydrotest Project	37,057	1,085	38,141
Total	**37,057**	**1,085**	**38,141**

14.2.2.3 Abandonment Projects

SDG&E requests the Commission approve as reasonable the approximate amount of $2.379 million in expenses it prudently and responsibly spent for the Supply Line 49-28 abandonment project listed below. This project represents the abandonment activities associated with the Supply Line 49-28 replacement project.[1110]

[1109] Ex. SDG&E-08-WP-S (Kohls) at 161-170.

[1110] Ex. SDG&E-08-WP-S at 7.

Table 14.22
Abandonment Projects
Summary of Capital and O&M Costs (in Fully Loaded 2021 $000s)

Project	Capital	O&M	Total
Line 49-28 Abandonment Project	2,379	-	2,379
Total	**2,379**	**-**	**2,379**

14.2.2.4 Valve Projects

SDG&E requests the Commission approve as reasonable the approximate amount of $11.266 million in expenses it prudently and responsibly spent for the valve projects listed below.

Table 14.23
Valve and Valve Bundle Projects
Summary of Capital and O&M Costs (in Fully Loaded 2021 $000s)

Project	Capital	O&M	Total
49-11 Valve Enhancement Project	2,145	-	2,145
49-16 Valve Enhancement Project	2,291	-	2,291
49-18 Mission Valley Valve Enhancement Project	867	-	867
49-23 Valve Enhancement Bundle	2,643	-	2,643
49-32 Valve Enhancement Project	2,497	-	2,497
1601 Valve Enhancement Project	823	-	823
Total	**11,266**	**-**	**11,266**

14.2.2.5 Miscellaneous Costs

The miscellaneous costs of approximately $0.529 million listed below include post-completion cost adjustments associated with lines that were presented for review in A.16-09-005, and also costs for a Line 1600 Records Audit.

Table 14.24
Summary of Miscellaneous Costs
(in Fully Loaded 2021 $000s)

Cost Type	Capital	O&M	Total
Facilities Lease Credit[1111]	-	(8)	(8)
Post-Completion Adjustments	401	-	401
L1600 Records Audit	-	136	136
Total	**401**	**128**	**529**

[1111] This amount is a facilities' rental fee adjustment after the PSEP office closed in 2016.

14.2.2.6 Post-Completion Adjustments

Post-Completion Adjustment costs are additional costs that occur when invoices or accounting adjustments are processed after the filing of an application for reasonableness review. Here, adjustments in the approximate amount of $0.401 million are included for such costs presented for review in A.16-09-005 and approved in D.19-02-004.[1112] Despite best efforts to capture all items during the close-out process, post-completion adjustments occur that may in increase or decrease costs. Here, the primary categories of such adjustments are trailing charges from contractor invoices, accrual reversals, company labor, and journal entry adjustments. Such costs are appropriate and have been recovered in other proceedings.[1113]

14.2.2.7 Line 1600 Records Audit Memorandum Account (L1600RAMA)

Pursuant to D.18-06-028, SDG&E was required to establish "a memorandum account to record costs associated with the audit of the Line 1600 records."[1114] The Commission directed SED to select the independent auditor to oversee the audit. SDG&E's role in this process was to administratively create the contract for SED's auditor, pay the contractors' fees, and record those costs in the memorandum account for later recovery. SDG&E is seeking the recovery of the $136,000 associated with Line 1600 records audit by that auditor to comply with the Commission's directive.[1115] Line 1600 is otherwise not part of this GRC or SDG&E's requests in this proceeding.

14.2.2.8 Other Matters

Pursuant to D.14-06-007, SDG&E was required to remove certain disallowed costs from recovery for its PSEP cost recovery. Those costs are listed in the table below.

[1112] D.19-02-004 at 104-109.

[1113] *See* D.19-02-004 and D.20-08-034.

[1114] D.18-06-028 at 129.

[1115] *Id.* at 99.

Summary of Disallowed Costs
(in Fully Loaded 2021 $000s)

Disallowance Type	Total
Post-1955 PSEP Costs	3,482
Undepreciated Book Balances	-
Executive Incentive Compensation	-
Records Search	-
Total	3,482

In addition, D.14-06-007 also required a reconciliation of the "as filed" mileage (*i.e.*, mileage contained in the workpapers for SDG&E's original PSEP filing, as amended)[1116] with the actual mileage that was pressure tested, replaced or abandoned. This is included in the table below.

Table 14.25
Pipeline Projects Mileage Summary

Line	As Filed (Miles)	Included in this Filing	
		(Miles)	(Feet)
Supply Line 49-16 Replacement	9.590	1.099	5,805
Supply Line 49-17 East Replacement	5.812	5.244	27,690
Supply Line 49-17 West Replacement	5.812	1.671	8,826
Supply Line 49-32-L Replacement	N/A	0.203	1,071
Total	21.214	8.217	43,392

SDG&E should be allowed to fully the costs presented in this Application excluding acknowledged disallowance discussed above. SDG&E has acted as a reasonable manager while incurring these costs in order to complete PSEP work in accordance with the Commission mandates and State law. In doing so, SDG&E has executed PSEP consistent with our overarching objectives are to enhance public safety, comply with the Commission's directives, minimize customer impacts and maximize the cost-effectiveness of safety investments. The Commission should find that SDG&E has executed PSEP prudently and has implemented and executed PSEP consistent with the requirements of D.14-06-007. The costs presented for review and recovery in this Application are reasonable and the associated revenue requirements submitted for recovery should be recovered in rates, which is emphasized by the fact that no party provided any testimony directly opposing the costs for SDG&E's PSEP.

[1116] *See* R.11-02-019, December 2, 2011, Amended Pipeline Safety Enhancement Plan of Southern California Gas Company and San Diego Gas & Electric Company Pursuant to D.11-06-017.

15. Gas Integrity Management Programs

SoCalGas and SDG&E's Gas Integrity Management Programs testimonies and workpapers, supported by Avideh Razavi and Travis Sera, describe and justify SoCalGas and SDG&E's forecasted Gas Integrity Management Programs O&M and capital expenditures.[1117] The Gas Integrity Management Programs are founded upon a commitment to provide safe, clean, and reliable service at reasonable rates through a process of continual safety enhancements by regularly identifying, evaluating and reducing integrity risks for the natural gas system.[1118] The Gas Integrity Management Programs maintain and enhance safety, are consistent with, or exceed, local, state, and federal regulatory and legislative requirements; maintain overall system integrity and reliability; and support SoCalGas and SDG&E's commitment to mitigate risks associated with hazards to safety, infrastructure integrity, and system reliability.[1119]

Through the Transmission Integrity Management Program (TIMP), SoCalGas and SDG&E comply with 49 CFR § 192, Subpart O which requires operators to continually identify threats to its pipelines in HCAs, determine the risk posed by these threats, schedule and track assessments to address threats, conduct an appropriate assessment in a prescribed timeline, collect information about the condition of the pipelines, take actions to minimize applicable threats and integrity concerns to reduce the risk of a pipeline failure, and report findings.[1120] Additionally, SoCalGas and SDG&E's TIMP also complies with 49 CFR § 192.710, which requires operators to assess pipeline segments outside of HCAs.[1121]

Through the Distribution Integrity Management Program (DIMP), SoCalGas and SDG&E comply with 49 CFR § 192, Subpart P, which requires operators to collect information about distribution pipelines, identify additional information needed and provide a plan for gaining that information over time, identify and assess applicable threats to its distribution system, evaluate and rank risks to the distribution system, determine and implement measures designed to reduce the risks from failure of its gas distribution pipeline and evaluate the effectiveness of those measures,

1117 Ex. SCG-09 (Kitson/Sera/Razavi); Ex. SDG&E-09-R (Kitson/Sera/Razavi).
1118 Ex. SCG-09 (Kitson/Sera/Razavi) at iv; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at iii.
1119 Ex. SCG-09 (Kitson/Sera/Razavi) at 1-2; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 1.
1120 Ex. SCG-09 (Kitson/Sera/Razavi) at 2; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 2.
1121 Ex. SCG-09 (Kitson/Sera/Razavi) at 3; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 2.

develop and implement a process for periodic review and refinement of the program, and report findings to regulators.[1122]

Through the Storage Integrity Management Program (SIMP), SoCalGas complies with California Geologic Energy Management Division (CalGEM) and PHMSA regulations.[1123] The SIMP is a comprehensive program developed to enhance the safety of SoCalGas's underground storage facilities through integrity management practices, fortifying the reliability of Southern California's natural gas infrastructure by providing a safe, dependable source of gas supply that mitigates the potential impact of gas supply-chain constraints.[1124] SoCalGas is required to have prescriptive Risk Management Plans, a records management plan, and an emergency response plan; maintain well construction and design standards and manage records; perform mechanical integrity testing, pressure testing, and other inspection, monitoring, and remediation activities; and submit regular reporting.[1125]

The Gas Safety Enhancement Programs (GSEP) consist of activities incremental to existing integrity management programs that were scoped to comply with federal regulations.[1126] The activities and forecasted costs are based on compliance with Part 1 and Part 2 of PHMSA's Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines rulemaking, as well as PHMSA's Valve Installation and Minimum Rupture Detection Standards rule (Valve Rule).[1127] In addition, GTSR Part 1 and D.19-09-051, which directed SoCalGas and SDG&E to propose a Pipeline Safety Enhancement Plan (PSEP) Phase 2B implementation plan, are driving the request to establish an Integrated Safety Enhancement Plan (ISEP) that will apply to transmission pipeline segments not currently authorized under the PSEP.[1128]

The Facilities Integrity Management Program (FIMP) is a newly proposed program modeled after existing integrity management programs.[1129] The purpose of the FIMP is to provide a comprehensive, systematic, and integrated approach for managing and enhancing the safety and

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1122 Ex. SCG-09 (Kitson/Sera/Razavi) at 3-4; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 2.

1123 14 CCR §1726; 49 C.F.R. § 192.12; Ex. SCG-09 (Kitson/Sera/Razavi) at v.

1124 *Id.* at 4-5.

1125 *Id.* at v.

1126 *Id.* vi; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at iv.

1127 Ex. SCG-09 (Kitson/Sera/Razavi) at vi; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at iv.

1128 Ex. SCG-09 (Kitson/Sera/Razavi) at vi; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at v.

1129 Ex. SCG-09 (Kitson/Sera/Razavi) at vi; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at v.

integrity of facilities and associated equipment,[1130] and is based on recommended practices published by the Pipeline Research Council International[1131] (PRCI) and Canadian Energy Pipeline Association[1132] (CEPA).[1133] The program's objective is to identify and mitigate potential risks to equipment within facilities, including transmission compressor stations, aboveground storage facilities, natural gas vehicle (NGV) fueling stations, SB 1383 renewable natural gas (RNG) compression facilities, and pressure limiting stations, through data gathering and analysis, integrity assessments, utilization of preventive and mitigative measures, and feedback-informed processes.[1134]

SoCalGas and SDG&E propose the continuance of two-way balancing for the Transmission Integrity Management Program Balancing Account (TIMPBA), Distribution Integrity Management Program Balancing Account (DIMPBA), and requests the addition of a Facilities Integrity Management Program Balancing Account (FIMPBA) and Gas Safety Enhancement Programs Balancing Account (GSEPBA).[1135] SoCalGas also requests continuance of two-way balancing for the Storage Integrity Management Program Balancing Account (SIMPBA).[1136] Due to the variability of activities and costs associated with the Gas Integrity Management Programs and the continuous evolution of federal and state regulations, the two-way balancing mechanism would continue to allow for reasonable recovery of SoCalGas and SDG&E's costs.[1137]

15.1 SoCalGas

SoCalGas requests approval of a TY 2024 forecast of $223.908 million for Gas Integrity Management Programs operations and maintenance (O&M) expenses, which is composed of $221.409 million for non-shared service activities and $2.499 million for shared service activities.[1138] This forecast represents an increase of $56.010 million over 2021 adjusted-recorded

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1130 Ex. SCG-09 (Kitson/Sera/Razavi) at vi-vii; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at v.

1131 PRCI, Facility Integrity Management Program Guidelines – PRCI IM-2-1, Release Date: December 23, 2013

1132 CEPA, Facilities Integrity Management Program Recommended Practice, 1st Edition, May 2013

1133 Ex. SCG-09 (Kitson/Sera/Razavi) at vii; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at v.

1134 Ex. SCG-09 (Kitson/Sera/Razavi) at vii; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at v.

1135 Ex. SCG-09 (Kitson/Sera/Razavi) at vii; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at vi.

1136 Ex. SCG-09 (Kitson/Sera/Razavi) at vii.

1137 *Id.* at vii; Ex. SDG&E-09-R (Kitson/Sera/Razavi) at vi.

1138 Ex. SCG-09 (Kitson/Sera/Razavi) at 1.

costs (BY 2021).[1139] SoCalGas also requests approval of its Gas Integrity Management Programs capital request of $426.537 million for 2022, $461.857 million for 2023, and $537.896 million for 2024.[1140]

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1141]			
	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	165,778	221,409	55,631
Total Shared Services (Incurred)	2,120	2,499	379
Total O&M	**167,898**	**223,908**	**56,010**

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1142]				
	2021 Adjusted-Recorded	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
Total CAPITAL	**412,794**	**426,537**	**461,857**	**537,896**

15.1.1 RAMP

Certain costs supported by the SoCalGas Gas Integrity Management Programs testimony are driven by activities described in SoCalGas and SDG&E's May 17, 2021 Risk Assessment Mitigation Phase (RAMP) Report (2021 RAMP Report).[1143] The following tables provide a summary of the RAMP-related costs supported in SoCalGas's Gas Integrity Management Programs testimony by RAMP risk.

Summary of RAMP O&M Costs In 2021 $ (000s)[1144]			
	BY2021 Embedded Base Costs	**TY2024 Estimated Total**	**TY2024 Estimated Incremental**
RAMP Risk Chapter:			
SCG-Risk-1 Incident Related to the High Pressure System (Excluding Dig-in)	105,152	142,674	37,522

1139 *Id.*

1140 *Id.*

1141 *Id.* at iv; *see* Ex. SCG-401/SDG&E-401 (Update Testimony).

1142 Ex. SCG-09 (Kitson/Sera/Razavi) at iv; see Ex. SCG-401/SDG&E-401 (Update Testimony).

1143 Ex. SCG-09 (Kitson/Sera/Razavi) at 9.

1144 Ex. SCG-09 (Kitson/Sera/Razavi) at 9-10.

Summary of RAMP O&M Costs In 2021 $ (000s)[1144]			
	BY2021 Embedded Base Costs	**TY2024 Estimated Total**	**TY2024 Estimated Incremental**
RAMP Risk Chapter:			
SCG-Risk-3 Incident Related to the Medium Pressure System (Excluding Dig-in)	45,945	53,952	8,007
SCG-Risk-4 Incident Related to the Storage System (Excluding Dig-in)	16,800	27,749	10,949
Sub-total	**167,897**	**224,375**	56,478
RAMP Cross-Functional Factor (CFF) Chapter:			
Sub-total	**0**	**0**	**0**
Total RAMP O&M Costs	**167,897**	**224,375**	**56,478**

Summary of RAMP Capital Costs In 2021 $ (000s)				
	2022 Estimated RAMP Total	**2023 Estimated RAMP Total**	**2024 Estimated RAMP Total**	**2022-2024 Estimated RAMP Total**
RAMP Risk Chapter				
SCG-Risk-1 Incident Related to the High Pressure System (Excluding Dig-in)	137,259	179,512	273,716	590,487
SCG-Risk-3 Incident Related to the Medium Pressure System (Excluding Dig-in)	231,052	231,744	232,119	694,915
SCG-Risk-4 Incident Related to the Storage System (Excluding Dig-in)	54,417	46,791	28,252	129,460
Sub-total	**422,728**	**458,047**	**534,087**	**1,414,862**
RAMP Cross-Functional Factor (CFF) Chapter				
SCG-CFF-1 Asset and Records Management	3,806	3,806	3,806	11,418
Sub-total	**3,806**	**3,806**	**3,806**	**11,418**
Total RAMP Capital Costs	**426,534**	**461,853**	**537,893**	**1,426,280**

15.1.2 Sustainability

SoCalGas's Gas Integrity Management Programs advance the state's climate goals and align with SoCalGas's sustainability priorities.[1145] Specifically, the Gas Integrity Management Programs and associated initiatives will drive progress in the areas of Protecting the Climate and Improving Air Quality in Our Communities and Achieving World-Class Safety.[1146] The Gas Integrity Management Programs increase safety and reduce emissions due to the activities required under those programs.[1147] These programs provide an opportunity to continually assess risk on the system and identify areas of improvement—integrity assessments, informed by continuous data gathering and analysis, are performed regularly and allow the Company to evaluate risks and identify conditions that require remediation.[1148] The resulting remediation of conditions mitigates the likelihood of leaks, ruptures, and other safety risks related to the system, which in turn reduces the likelihood of carbon emissions from the SoCalGas system.[1149]

15.1.3 Non-Shared O&M

SoCalGas requests approval of a TY 2024 forecast of $221.409 million for Gas Integrity Management Program non-shared O&M.[1150] This forecast represents an increase of $55,631 million over 2021 adjusted-recorded costs (BY 2021).[1151] The table below summarizes the total non-shared O&M forecasts by categories of management.

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1152]			
Categories of Management	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
A. TIMP	103,657	135,136	31,479
B. DIMP	45,321	53,005	7,684
C. SIMP	16,800	16,659	(141)
D. FIMP	0	14,953	14,953
E. GSEP	0	1,656	1,656
Total Non-Shared Services	**165,778**	**221,409**	**55,631**

1145 *Id.* at 24-26.
1146 *Id.* at 24.
1147 *Id.* at 25.
1148 *Id.* at 25.
1149 *Id.*
1150 *Id.* at 27; see Ex. SCG-401/SDG&E-401 (Update Testimony).
1151 Ex. SCG-09 (Kitson/Sera/Razavi) at 27.
1152 *Id.* at 27; see Ex. SCG-401/SDG&E-401 (Update Testimony).

The Commission should adopt SoCalGas's request for Gas Integrity Management Programs non-shared O&M as reasonable. Cal Advocates, TURN, TURN-SCGC, and EDF submitted testimony related to the Gas Integrity Management Programs non-shared O&M request.[1153] The table below summarizes SoCalGas's non-shared O&M forecast and compares it against the recommendations of Cal Advocates, TURN, and TURN-SCGC.

NON-SHARED O&M - Constant 2021 ($000)[1154]			
	Base Year 2021	**Test Year 2024**	**Change**
SoCalGas	165,778	221,409	55,631
Cal Advocates	165,778	160,896[1155]	(7,002)
TURN	165,778	200,294	32,396
TURN-SCGC	165,778	182,565	14,667

15.1.3.1 TIMP

15.1.3.1.1 Cal Advocates

Cal Advocates took issue with SoCalGas's non-shared O&M forecast for TIMP and recommends a reduction based on a comparison of the level of activity between Base Year and TY 2024.[1156] SoCalGas opposed Cal Advocates' recommendation given that historical spend alone is not an appropriate predictor of future costs.[1157] First, infrastructure continues to change and evolve (*e.g.*, aging, environmental changes such as earth movement or weather related outside forces, etc.). In addition, there is continuous improvement of assessments and results through on-going program modifications (*e.g*., technological and process improvements, new regulatory requirements, and resulting changes to threat identification and repair requirements).[1158] Given the variable nature of TIMP assessments, SoCalGas is requesting the continuation of the TIMPBA, which would allow for ratepayers returns if actual costs are less than forecasted.[1159] Cal Advocates also recommended a reduction based on its mistaken position that SoCalGas has already conducted non-HCA assessments and suggestion that new federal requirements do not introduce new scope

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1153 Ex. SCG-09 (Kitson/Sera/Razavi) at 27.

1154 Ex. SCG-209-E (Sera/Razavi) at 5.

1155 *See id.* at 1, n.1, regarding correction to Cal Advocates' recommendation.

1156 Ex. CA-03 (Phan) at 13.

1157 Ex. SCG-209-E (Sera/Razavi) at 7.

1158 *Id.* at 7.

1159 *Id.* at 8.

and costs.[1160] SoCalGas opposed Cal Advocates' recommendation since new federal requirements have increased the number of miles and segments currently included within the TIMP scope.[1161]

15.1.3.1.2 TURN-SCGC

TURN-SCGC recommends a decrease in non-shared O&M TIMP expenses, focusing reduction recommendations on assessment and remediation activities and program management, and that the TIMPBA be modified.[1162] SoCalGas opposed TURN-SCGC's recommendation for several reasons. First, cost forecasting by number of projects rather than miles is appropriate.[1163] Generally, the most significant cost driver in estimating the total cost of an assessment project is the number of direct examinations required.[1164] Since excavation requirements are a function of pipe characteristics and inspection findings, a longer pipeline may have fewer required examinations, and a shorter pipeline may have more required examinations.[1165] In addition, historical costs are not necessarily reflective of future costs and the primary driver increasing costs to comply with the requirements of TIMP is the additional inspection tools necessary to detect and characterize cracking defects.[1166] It is also important to note that the federal requirements for outside-of-HCA assessments did not drive the increases to the TY 2024 TIMP O&M activities and forecast.[1167] Lastly, the Commission first approved a two-way balancing account for the TIMP (*i.e.*, the TIMPBA) in D.13-05-010, in which it stated, "A two-way balancing account is appropriate due the costs of complying with Subpart O and possible changes in pipeline inspection requirements in the future."[1168] Most recently, the Commission approved the continuation of the TIMPBA as a two-way balancing account in D.19-09-051.[1169] Under TIMP, each project is distinct and driven by the dynamics of risk and threat conditions.[1170] This fundamental activity (*i.e.*, threat assessment and remediation) of the TIMP drives the need for a two-way balancing

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1160 Ex. CA-03 (Phan) at 17.

1161 Ex. SCG-209-E (Sera/Razavi) at 8.

1162 Ex. TURN-SCGC-04-E (Yap) at 2.

1163 Ex. SCG-209-E (Sera/Razavi) at 8-9.

1164 *Id.* at 8-9.

1165 *Id.* at 9.

1166 *Id.* at 10.

1167 *Id.* at 12.

1168 D.13-05-010 at 387.

1169 D.19-09-051 at 694-695.

1170 Ex. SCG-209-E (Sera/Razavi) at 14.

account, which the Commission has continually approved in recognition of the inherent variability in TIMP project work.[1171]

15.1.3.1.3 TURN

TURN acknowledged that "the activities themselves appear based on technical requirements, and there is no data demonstrating inappropriate handling or forecasting of these costs."[1172] SoCalGas maintains that the forecasts are appropriate and agrees with TURN that the activities are based on technical requirements.[1173] Accordingly, the Commission should find SoCalGas's TIMP forecast reasonable and authorize the continuation of the TIMPBA to track and recover actual costs.

15.1.3.2 DIMP

Cal Advocates recommended a reduction to SoCalGas's non-shared O&M forecast for the DIMP based on an opposition to SoCalGas's Distribution Riser Inspection Plan (DRIP) request.[1174] SoCalGas opposed Cal Advocates' recommendation since the increase in expenses is necessary to maintain the level of remediation described in the Gas Integrity Management Programs testimony.[1175] The increases in DRIP costs are driven by: (1) economic conditions (*e.g.*, previous agreements with DRIP vendors have shown to be non-competitive in the current market), and (2) the increasing number of non-standard remediations that require additional resources (*e.g.*, situations where anodeless risers are inaccessible due to concrete installed around the gas riser which involves complex mitigation).[1176] Cal Advocates' recommendation does not provide the necessary funding to support the DRIP, which mitigates the risk of failure of anodeless risers that are commonly located alongside residences.[1177] Accordingly, the Commission should adopt SoCalGas's proposed TY 2024 DIMP O&M forecast as reasonable.

[1171] *Id.* at 15.
[1172] Ex. TURN-05-R-E1 (Walker) at 101.
[1173] Ex. SCG-209-E (Sera/Razavi) at 16.
[1174] Ex. CA-03 (Phan) at 19-20.
[1175] Ex. SCG-09 (Kitson/Sera/Razavi) at 39.
[1176] Ex. SCG-209-E (Sera/Razavi) at 17.
[1177] *Id.* at 18.

15.1.3.3 SIMP

Parties did not take issue with SoCalGas's forecast for the SIMP non-shared O&M expenses.[1178] Accordingly, the Commission should find SoCalGas's SIMP forecast reasonable and authorize the continuation of the SIMPBA to record authorized and actual revenue requirement.

15.1.3.4 FIMP

Cal Advocates recommends no funding for the FIMP; however, if the Commission authorizes the FIMP and a two-way balancing account (FIMPBA), Cal Advocates recommends a Tier 3 advice letter filing for recovery of account balances above authorized levels.[1179] TURN argued that the Commission should disallow FIMP and that FIMP activities should be reallocated to other programs.[1180] SoCalGas opposed the recommendations of Cal Advocates and TURN for several reasons.[1181] First, the FIMP is not duplicating a request for existing inspections; rather, it is proposing a comprehensive inspection process beyond existing routine maintenance to systematically address the integrity of equipment located at its facilities.[1182] Second, a robust, comprehensive, systematic, and integrated FIMP is essential to confirming that equipment integrity is addressed across multiple departments and would enhance the safety of SoCalGas's transmission, storage, and NGV facilities.[1183] Applying integrity management principles to facilities would enable effective allocation of resources for prevention, detection, and mitigation activities; in the absence of a centralized program management approach, there is an increased risk of inconsistency and inefficiency.[1184] Third, SoCalGas has provided detailed cost breakdowns of the activities included in the program by work description, unit quantity and unit cost.[1185] Accordingly, the Commission should find SoCalGas's FIMP forecast reasonable and authorize the FIMPBA.

1178 Ex. SCG-209-E (Sera/Razavi) at 18.
1179 Ex. CA-03 (Phan) at 24.
1180 Ex. TURN-05-R-E1 (Walker) at 17.
1181 Ex. SCG-209-E (Sera/Razavi) at 18-22.
1182 *Id.* at 19.
1183 *Id.* at 21.
1184 *Id.* at 21.
1185 *Id.* at 22.

15.1.3.5 GSEP

Cal Advocates did not take issue with SoCalGas's non-shared O&M forecast for the GSEP.[1186] Cal Advocates' recommendation, that the recovery mechanism for the GSEPBA mirror that of the TIMPBA, was consistent with SoCalGas's original request.[1187] Accordingly, the Commission should find SoCalGas's non-shared GSEP O&M forecast as reasonable. TURN-SCGC's recommendations related to the ISEP scope and GSEPBA[1188] are focused on capital related costs and discussed in Section 15.1.5.5 below.

15.1.4 Shared O&M

SoCalGas requests approval of a TY 2024 forecast of $2.499 million for Gas Integrity Management Program shared O&M.[1189] This forecast represents an increase of $379,000 over 2021 adjusted-recorded costs (BY 2021).[1190] The table below summarizes the total shared O&M forecasts by categories of management.

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1191]			
Incurred Costs (100% Level)			
Categories of Management	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Variance**
A. TIMP	1,496	1,591	95
B. DIMP	624	794	170
C. FIMP	0	100	100
D. GSEP	0	14	14
Total Shared Services (Incurred)	**2,120**	**2,499**	**379**

Most parties did not take issue with SoCalGas's request for shared O&M.[1192] The table below summarizes SoCalGas's shared O&M request against the recommendations of Cal Advocates, TURN-SCGC, and TURN.

1186 Ex. CA-03 (Phan) at 25.

1187 Ex. SCG-209-E (Sera/Razavi) at 24.

1188 Ex. TURN-SCGC-04-E (Yap) at 27-33.

1189 Ex. SCG-09 (Kitson/Sera/Razavi) at 69.

1190 *Id.* at 69.

1191 *Id.*

1192 *Id.* at 25.

SHARED O&M - Constant 2021 ($000)[1193]			
	Base Year 2021	**Test Year 2024**	**Variance**
SoCalGas	2,120	2,499	379
CAL ADVOCATES	2,120	2,499	379
TURN-SCGC	2,120	2,499	379
TURN	2,120	2,399	279

TURN recommended the disallowance of the FIMP and any associated O&M, which includes $0.1 million in shared services.[1194] SoCalGas opposed TURN's recommendation related to the FIMP for the reasons discussed in Section 15.1.3.4. SoCalGas's shared O&M forecasts are supported, reasonable, and should be adopted by the Commission in their entirety.

15.1.5 Capital

SoCalGas requests approval of a 2022 forecast in the amount of $426.537 million, 2023 forecast in the amount of $461.587 million, and 2024 forecast in the amount of $537.896 million.[1195] The table below summarizes the total capital forecasts for 2022, 2023 and 2024.

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1196]				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
A. TIMP	112,637	134,132	134,982	167,841
B. DIMP	212,813	231,052	231,744	232,119
C. SIMP	87,231	54,417	46,791	26,982
D. FIMP	0	0	0	2,366
E. GSEP	113	6,936	48,340	108,588
Total	**412,794**	**426,537**	**461,857**	**537,896**

The table below summarizes SoCalGas's capital request and compares it against the recommendations of Cal Advocates, TURN-SCGC, and TURN.

TOTAL CAPITAL - Constant 2021 ($000)[1197]					
	2022	**2023**	**2024**	**Total**	**Variance**
SOCALGAS	426,537	461,857	537,896	1,426,290	0

1193 *Id.* at 25.

1194 *Id.*

1195 Ex. SCG-09 (Kitson/Sera/Razavi) at 74; see Ex. SCG-401 / SDG&E-401 (Update Testimony).

1196 *Id.*

1197 Ex. SCG-209-E (Sera/Razavi) at 25; see Ex. SCG-401 / SDG&E-401 (Update Testimony).

TOTAL CAPITAL - Constant 2021 ($000)[1197]					
	2022	**2023**	**2024**	**Total**	**Variance**
CAL ADVOCATES[1198]	426,537	461,857	537,896	1,426,290	0
TURN-SCGC	305,439	319,102	344,988	969,529	456,752
TURN	424,241	447,423	511,652	1,383,315	42,966

15.1.5.1 TIMP

Parties did not take issue with SoCalGas's capital forecast for the TIMP.[1199] Accordingly, the Commission find SoCalGas's TIMP forecast reasonable and authorize the continuation of the TIMPBA.

15.1.5.2 DIMP

TURN generally opposed SoCalGas's forecast for VIPP activities, which proposed to replace vintage plastics that were manufactured by Dupont under the moniker Aldyl-A and installed from 1969 to 1985.[1200] SoCalGas opposed TURN's recommended disallowance of the VIPP because it eliminates a necessary safety-driven integrity management activity and TURN's recommendations would not adequately address those segments that exceed SoCalGas's established risk thresholds.[1201] SoCalGas's VIPP capital request is based on those pipe segments that exceed the established safety risk threshold, as well as the need to address the projected long-term risks of aging assets.[1202]

15.1.5.3 SIMP

Parties did not take issue with SoCalGas's capital forecast for the SIMP.[1203] The Commission should also find SoCalGas's SIMP forecast reasonable and authorize the continuation of the SIMPBA.

15.1.5.4 FIMP

Cal Advocates and TURN disagree with SoCalGas's FIMP capital request.[1204] SoCalGas opposed Cal Advocates and TURN's recommendation for the reasons described in Section

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1198 Ex. CA-03 (Phan) at 4. Cal Advocates did not take issue with SoCalGas's Gas Integrity Management Programs capital forecast.

1199 Ex. SCG-209-E (Sera/Razavi) at 25.

1200 Ex. TURN-05-R-E1 (Walker) at 67.

1201 Ex. SCG-209-E (Sera/Razavi) at 28.

1202 *Id.*

1203 *Id.* at 29.

1204 Ex. CA-03 (Phan) at 21-25; Ex. TURN-05-R-E1 (Walker) at 17-18.

15.1.3.4. Accordingly, the Commission should find SoCalGas's FIMP forecast reasonable and authorize the FIMPBA.

15.1.5.5 GSEP

Cal Advocates did not object to SoCalGas's capital forecast for the GSEP.[1205] Cal Advocates also did not take issue with SoCalGas's request for a two-way balancing account (*i.e.*, GSEPBA), although Cal Advocates recommended that the recovery mechanism for the GSEPBA mirror that of the TIMPA.[1206] TURN-SCGC disputed SoCalGas's TY 2022-2024 capital forecasts for the GSEP, contending that SoCalGas's scope is incorrect and disputing the need for a GSEPBA.[1207]

As described in the Gas Integrity Management Programs testimony, SoCalGas is proposing to manage both federal regulation requirements (GTSR Part 1, specifically MAOP reconfirmation) and PUC § 958 (PSEP Phase 2B) under an overarching ISEP to more efficiently plan, manage, and execute projects for safety, compliance, and reliability.[1208] SoCalGas's ISEP scoping process was developed in part to address Ordering Paragraph 15 of D.19-09-051, in which the Commission ordered SoCalGas and SDG&E to propose a revised plan for Phase 2B pipeline segments.[1209] The ISEP scoping process drives an evaluation of each transmission (*i.e.*, DOT-T) pipeline segment in its High-Pressure Pipeline Database (HPPD) and excludes segments that are addressed through the existing PSEP (PSEP Phases 1A, 1B, and 2A).[1210] Contrary to TURN-SCGC's claim that SoCalGas's ISEP forecast is based on a plan to complete all of the identified pipeline segments subject to both state and federal regulations by 2035, the forecast was developed based on a compliance plan for segments that are subject to 49 CFR § 192.624.[1211] While the portion of the ISEP scope subject to PUC § 958 must be completed "as soon as practicable", the portion subject to 49 CFR § 192.624 specifies a maximum deadline of July 2, 2035 or "as soon as practicable, but

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1205 Ex. CA-03 (Phan) at 25.

1206 Ex. SCG-209-E (Sera/Razavi) at 24.

1207 Ex. TURN-SCGC-04-E (Yap) at 28, 31-32.

1208 Ex. SCG-09 (Kitson/Sera/Razavi) at 90.

1209 Ordering Paragraph 15 of D.19-09-051 ordered SoCalGas and SDG&E to file a re-testing implementation plan in the 2019 RAMP filing; however, on November 14, 2019, Executive Director Alice Stebbins granted SoCalGas and SDG&E an extension to the date of the next GRC filing.

1210 Ex. SCG-209-E (Sera/Razavi) at 30.

1211 *Id.* at 30.

not to exceed 4 years after the pipeline segment first meets the condition of § 192.624(a) … whichever is later" and also establishes a midterm July 3, 2028 deadline that must also be met.[1212]

Due to the high variability of year-to-year project planning to both comply with federal deadlines and balance system planning constraints to support gas system reliability, as well as the potential for reconfirmation methodologies to change for selected ISEP projects, SoCalGas requested authorization of a two-way balancing account (*i.e.*, GSEPBA).[1213] A two-way balancing account would provide protection to ratepayers while also providing SoCalGas with the ability to recover costs that are necessarily incurred to comply with federal regulations.[1214] The Commission should find SoCalGas's GSEP forecast reasonable and authorize a two-way GSEPBA.

15.1.6 Post-Test Year Forecasts

In support of the revenue requirement requested by SoCalGas (Ex. SCG-40), SoCalGas prepared capital cost forecasts for each of the programs for the years of 2025-2027.[1215] These cost forecasts were developed leveraging the information and assumptions explained in the Gas Integrity Management Programs testimony and are reflective of the anticipated levels of activity in these post-test years.[1216]

15.1.7 Line 235

In accordance with Administrative Law Judge Manisha Lakhanpal's ruling,[1217] SoCalGas is no longer seeking review and approval of the longer-term remediation option of replacing Line 235 in this general rate case.[1218] Rather, SoCalGas will plan for the repair of Line 235 West to comply with PHMSA regulations.[1219] As stated in the Gas Integrity Management Programs testimony, actions beyond the interim repairs planned for 2023-2024 will be necessary to comprehensively address safety and compliance since conditions discovered on the pipeline

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[1212] 49 C.F.R. § 192.624.

[1213] Ex. SCG-09 (Kitson/Sera/Razavi) at 91.

[1214] Ex. SCG-209-E (Sera/Razavi) at 32.

[1215] Ex. SCG-09 (Kitson/Sera/Razavi) at 95.

[1216] *Id.*

[1217] A.22-05-015, Administrative Law Judge's Ruling Granting The Joint Motion Filed By The Utility Reform Network And The Southern California Generation Coalition (May 1, 2023) *available at:* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M507/K388/507388191.PDF.

[1218] Ex. SCG-209-E (Sera/Razavi) at 38.

[1219] *Id.*

demonstrate the need for longer-term cathodic protection system improvements.[1220] SoCalGas intends to record future safety and compliance costs that are required under 49 CFR Part 192, Subpart O to the TIMPBA, including the costs associated with Line 235 West repairs that are anticipated during the post-test years. SoCalGas will reassess Line 235 West during this GRC cycle in accordance with regulations and also plans to perform a corrosion reliability assessment consistent with Canadian Standards Association (CSA) Section Z662, Annex O[1221] to determine repair requirements to comply with regulations.[1222] Both the timing of costs and actual costs incurred are likely to vary based on assessment findings, actual pipeline conditions, the physical repair locations, and operational constraints (*i.e.*, system capacity planning).[1223] SoCalGas strongly recommends that the Commission authorize the continuation of the two-way TIMPBA due to the variability of Line 235 and other TIMP safety and compliance activities.[1224]

15.2 SDG&E

SDG&E requests approval of a TY 2024 forecast of $12.768 million for Gas Integrity Management Programs non-shared services operations and maintenance (O&M) expenses.[1225] This forecast represents an increase of $1.742 million over 2021 adjusted-recorded costs (BY 2021).[1226] SDG&E also requests approval of its Gas Integrity Management Programs capital request of $81.707 million for 2022, $86.876 million for 2023, and $107.125 million for 2024.[1227]

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1228]			
	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	11,026	12,768	1,742
Total Shared Services (Incurred)	0	0	0
Total O&M	**11,026**	**12,768**	**1,742**

1220 Ex. SCG-09 (Kitson/Sera/Razavi) at 79.

1221 *Id.*

1222 Ex. SCG-209-E (Sera/Razavi) at 38.

1223 *Id.*

1224 *Id.*

1225 Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 1.

1226 *Id.*

1227 *Id.*

1228 *Id.*

GAS INTEGRITY MANAGEMENT PROGRAMS In 2021 $ (000s)[1229]				
	2021 Adjusted-Recorded	Estimated 2022	Estimated 2023	Estimated 2024
Total CAPITAL	**60,547**	**81,707**	**86,876**	**107,125**

15.2.1 RAMP

Certain costs supported in our testimony are driven by activities described in SoCalGas and SDG&E's May 17, 2021 Risk Assessment Mitigation Phase (RAMP) Report (2021 RAMP Report).[1230] The following tables provide a summary of the RAMP-related costs supported in SDG&E's Gas Integrity Management Programs testimony by RAMP risk.

Summary of RAMP O&M Costs In 2021 $ (000s)[1231]			
	BY2021 Embedded Base Costs	TY2024 Estimated Total	TY2024 Estimated Incremental
RAMP Risk Chapter:			
SDG&E-Risk-3 Incident Related to the High Pressure System (Excluding Dig-in)	8,772	9,902	1,130
SDG&E-Risk-9 Incident Related to the Medium Pressure System (Excluding Dig-in)	2,254	2,866	612
Sub-total	11,026	12,768	1,742
RAMP Cross-Functional Factor (CFF) Chapter:			
Sub-total	0	0	0
Total RAMP O&M Costs	**11,026**	**12,768**	**1,742**

1229 *Id.*

1230 *Id.* at 5-6.

1231 *Id.* at 7.

Summary of RAMP Capital Costs In 2021 $ (000s)[1232]				
	2022 Estimated RAMP Total	**2023 Estimated RAMP Total**	**2024 Estimated RAMP Total**	**2022-2024 Estimated RAMP Total**
RAMP Risk Chapter:				
SDG&E-Risk-3 Incident Related to the High Pressure System (Excluding Dig-in)	21,477	22,393	36,591	80,461
SDG&E-Risk-9 Incident Related to the Medium Pressure System (Excluding Dig-in)	60,230	64,482	70,534	195,246
Sub-total	81,707	86,875	107,125	275,707
RAMP Cross-Functional Factor (CFF) Chapter:				
Sub-total	0	0	0	
Total RAMP Capital Costs	**81,707**	**86,875**	**107,125**	**275,707**

15.2.2 Sustainability

Many of the activities described in SDG&E's Gas Integrity Management Programs testimony advance the state's climate goals and align with SDG&E's Sustainability Strategy.[1233] The TIMP, DIMP, and newly proposed GSEP are designed to promote a safe and reliable natural gas supply and delivery system.[1234] Additionally, the FIMP is a new program SDG&E is proposing that would apply the principles and best practices of the TIMP and DIMP, as well as industry guidelines, to enhance the safety of SDG&E's gas facilities.[1235] The Gas Integrity Management Programs increase safety and reduce emissions.[1236] These programs provide an opportunity to continually assess risk on the system and identify areas of improvement – integrity assessments, informed by continuous data gathering and analysis, are performed regularly and

1232 *Id.*

1233 *Id.* at 16.

1234 *Id.* at 17.

1235 *Id.*

1236 *Id.*

allow the Company to evaluate risks and identify conditions that require remediation.[1237] The resulting remediation of conditions mitigates the likelihood of leaks, ruptures, and other safety risks related to the system, which in turn reduces the likelihood of carbon emissions from the SDG&E system.[1238]

15.2.3 Non-Shared O&M

SDG&E requests approval of a TY 2024 forecast of $12.768 million for Gas Integrity Management Program non-shared O&M.[1239] This forecast represents an increase of $1.742 million over 2021 adjusted-recorded costs (BY 2021).[1240] The table below summarizes the total non-shared O&M forecasts by categories of management.

GAS INTEGRITY PROGRAMS In 2021 $ (000s)[1241]			
Categories of Management	**2021 Adjusted-Recorded**	**TY2024 Estimated**	**Change**
A. TIMP	8,772	9,514	742
B. DIMP	2,254	2,866	612
C. FIMP	0	258	258
D. GSEP	0	130	130
Total Non-Shared Services	**11,026**	**12,768**	**1,742**

Cal Advocates, TURN-SCGC, TURN, EDF, and CCUE submitted testimony related to the Gas Integrity Management Programs non-shared O&M request.[1242] The table below summarizes SoCalGas's non-shared O&M forecast and compares it against the recommendations of Cal Advocates, TURN-SCGC, TURN, and CCUE.

TOTAL O&M – Constant 2021 ($000)[1243]			
	Base Year 2021	**Test Year 2024**	**Variance**
SDG&E	11,026	12,768	1,742
Cal Advocates	11,026	12,768	1,742
TURN-SCGC	11,026	12,768	1,742

1237 *Id.*

1238 *Id.*

1239 *Id.* at 19.

1240 *Id.*

1241 *Id.*

1242 *Id.* at 5.

1243 *Id.*

TOTAL O&M – Constant 2021 ($000)[1243]			
	Base Year 2021	**Test Year 2024**	**Variance**
TURN[1244]	11,026	9,668	(1,358)
CCUE[1245]	11,026	12,768	1,742

Parties generally supported SDG&E's request for Gas Integrity Management Programs non-shared O&M.[1246] Accordingly, the Commission should adopt SDG&E's request for Gas Integrity Management Programs non-shared O&M as reasonable. TURN objected to SDG&E's VIPP O&M forecast as a byproduct of their objection to the capital replacement activities which is discussed in Section 15.2.4.[1247] TURN also recommended that FIMP activities be reallocated to other programs.[1248]

SDG&E opposed TURN's recommendation for several reasons.[1249] The FIMP is not duplicating a request for existing inspections; rather, it is proposing a comprehensive inspection process beyond existing routine maintenance to systematically address the integrity of equipment located at its facilities.[1250] A robust, comprehensive, systematic, and integrated FIMP is essential to confirming that equipment integrity is addressed across multiple departments and would enhance the safety of SDG&E's transmission and NGV facilities.[1251] Applying integrity management principles to facilities would enable effective allocation of resources for prevention, detection, and mitigation activities; in the absence of a centralized program management approach, there is an increased risk of inconsistency and inefficiency.[1252] SDG&E's O&M requests are supported, reasonable, and should be adopted by the Commission in their entirety.

1244 TURN recommended a reduction of $3.0 million for VIPP non-shared services, which is greater than SDG&E's proposed $2.866 million for VIPP. In addition, TURN recommended a reduction of $0.1 million for FIMP which is less than SDG&E's proposed $0.258 million for FIMP. (*See* Ex. CA-04 (Chauncey Quam).) While the table reflects TURN's reduction, the correct amount of reduction should be $2.866 million for VIPP and $0.258 million for FIMP.

1245 CCUE did not dispute SDG&E's O&M activities or forecasts, therefore, the table reflects SDG&E's forecast.

1246 Ex. SDG&E-209-E (Sera/Razavi) at 5.

1247 Ex. TURN-05-R-E1 (Walker) at 16.

1248 *Id.* at 17.

1249 Ex. SDG&E-209-E (Sera/Razavi) at 6-8.

1250 *Id.* at 7.

1251 *Id.*

1252 Ex. SDG&E-209-E (Sera/Razavi) at 7.

15.2.4 Capital

SDG&E requests approval of a 2022 forecast in the amount of $81.707 million, 2023 forecast in the amount of $86.876 million, and 2024 forecast in the amount of $107.125 million.[1253] The table below summarizes the total capital forecasts for 2022, 2023 and 2024.

GAS INTEGRITY PROGRAMS In 2021$ (000s)[1254]				
Categories of Management	**2021 Adjusted-Recorded**	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
A. TIMP	2,287	21,477	19,173	9,290
B. DIMP	58,260	60,230	64,482	70,534
C. FIMP	0	0	0	145
D. GSEP	0	0	3,221	27,156
Total	**60,547**	**81,707**	**86,876**	**107,125**

Cal Advocates, TURN-SCGC, TURN, EDF, and CCUE submitted testimony related to the Gas Integrity Management Programs capital request.[1255] The table below summarizes SDG&E's capital request and compares it against the recommendations of Cal Advocates, TURN-SCGC, TURN, and CCUE.

TOTAL CAPITAL - Constant 2021 ($000)[1256]					
	2022	**2023**	**2024**	**Total**	**Variance**
SDG&E	81,707	86,876	107,125	275,708	0
Cal Advocates	81,707	86,876	107,125	275,708	0
TURN-SCGC	81,707	86,876	107,125	275,708	0
TURN	21,477	22,394	36,446	80,317	(195,391)
CCUE[1257]	81,707	86,876	137,690	306,273	30,565

Cal Advocates and TURN-SCGC did not take issue with SDG&E's capital request.[1258] TURN generally opposed SDG&E's forecast for VIPP activities, which SDG&E proposed to

[1253] Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 47.

[1254] Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 47.

[1255] Ex. SDG&E-209-E (Sera/Razavi) at 8.

[1256] *Id.* at 8.

[1257] CCUE did not dispute SDG&E's capital activities or forecasts for the years 2022-2023, therefore, the table reflects SDG&E's forecast.

[1258] Ex. SDG&E-209-E (Sera/Razavi) at 8.

replace vintage plastics that were manufactured by Dupont under the moniker Aldyl-A and installed from 1969-1985.[1259] SDG&E opposed TURN's recommended disallowance of the VIPP because it eliminates a necessary safety-driven integrity management activity and TURN's recommendations would not adequately address those segments that exceed SDG&E's established risk thresholds.[1260] SDG&E's VIPP capital request is based on those pipe segments that exceed the established safety risk threshold, as well as the need to address the projected long-term risks of aging assets.[1261] SDG&E's capital requests are supported, reasonable, and should be adopted by the Commission in their entirety.

15.2.5 Post-Test Year Forecasts

In support of the revenue requirement requested by SDG&E (Ex. SDG&E-45), SDG&E prepared capital cost forecasts for each of the programs for the years of 2025-2027.[1262] These cost forecasts were developed leveraging the information and assumptions explained in the Gas Integrity Management Programs testimony and are reflective of the anticipated levels of activity in these post-test years.[1263]

16. Gas Storage Operations and Construction (SoCalGas only)

SoCalGas's Gas Storage and Construction testimony and workpapers, supported by Larry T. Bittleston and Steve Hruby, describe and justify SoCalGas's Test Year (TY) 2024 forecasts for operations and maintenance (O&M) costs and capital costs for 2022, 2023, and 2024.[1264] The funding request is reasonable and represents the necessary O&M expenses and capital investments for SoCalGas to maintain the safety, integrity, and effective operations of the natural gas storage system, provide a reliable and economical supply of gas for customers throughout the service territory, especially during periods of high demand; achieve compliance with regulatory requirements; and allow gas deliveries to be efficiently balanced throughout the overall transmission and distribution system.[1265]

1259 *Id.* at 9-10.

1260 *Id.* at 12.

1261 *Id.* at 12.

1262 Ex. SDG&E-09-R (Kitson/Sera/Razavi) at 59.

1263 *Id.* at 59.

1264 Ex. SCG-10-R (Bittleston/Hruby); Ex. SCG-10-CWR-R (Bittleston/Hruby); Ex. SCG-10-WP-R-E (Bittleston/Hruby); Ex. SCG-210 (Bittleston/Hruby).

1265 Ex. SCG-10-R (Bittleston/Hruby) at iv.

SoCalGas requests approval of its TY 2024 O&M and capital forecasts. For Gas Storage Operations and Construction O&M, SoCalGas requests a total of $47.782 million.[1266] Non-shared O&M forecasts were established using a zero-based approach, and shared O&M forecasts were established using a three-year average.[1267] The Gas Storage Operations and Construction O&M forecast represents an increase of $4.309 million over base year (BY) 2021.[1268] In total, SoCalGas requests the Commission adopt a TY 2024 forecast of $47.782 million for Gas Storage Operations and Construction O&M expenses, which is composed of $47.443 million for non-shared service activities and $339,000 for shared service activities.[1269] The tables below summarize SoCalGas's TY2024 O&M request.

Gas Storage O&M Summary of Costs (in 2021 $000s)[1270]			
O&M	**2021 Adjusted-Recorded**	**Estimated TY 2024**	**Change**
Non-Shared	43,106	47,443	4,337
Shared	367	339	(28)
Total O&M	**43,473**	**47,782**	**4,309**

Gas Storage Non-Shared O&M Summary of Costs (in 2021 $000)[1271]			
O&M	**2021 Adjusted-Recorded**	**Estimated TY 2024**	**Change**
Underground Storage	6,685	4,888	(1,797)
Aboveground Storage	36,421	42,555	6,134
Total Non-Shared Services	**43,106**	**47,443**	**4,337**

Gas Storage Shared O&M Summary of Costs (in 2021 $000s)[1272]			
Storage (in 2021 $, in 000s)	**2021 Adjusted-Recorded**	**Estimated TY 2024**	**Change**
Total Shared Services (Incurred)	367	339	(28)
Total O&M	**367**	**339**	**(28)**

1266 *Id.* at iv.

1267 *Id.* at v-vi.

1268 *Id.* at iv.

1269 *Id.* at iv.

1270 *Id.* at iv.

1271 *Id.* at 13.

1272 *Id.* at 17.

SoCalGas is also requesting approval of a 2022-2024 Gas Storage Operations and Construction capital forecast in the amount of $516.024 million.[1273] The forecast is composed of a 2022 forecast of $206.195 million, 2023 forecast of $163.279 million, and 2024 forecast of $146.550 million.[1274] The table below summarizes SoCalGas's capital request.

Gas Storage Capital Summary of Costs (in 2021 $000)[1275]			
	Estimated 2022	**Estimated 2023**	**Estimated 2024**
Total CAPITAL	**206,195**	**163,279**	**146,550**

The funding requested is reasonable and represents the required O&M and capital investments for SoCalGas's Gas Storage Operations and Construction to promote the safety, integrity, design, operations, and maintenance of gas injection/withdrawal activities along with environmental and compliance functions for the four storage fields, and to meet customer demand.[1276] Gas Storage, which consists of Aboveground Storage (AGS) and Underground Storage (UGS), and Construction are responsible for planning and executing projects and activities that support the ongoing reliability of SoCalGas's storage operations.[1277] Gas Storage is responsible for the routine operation, maintenance, integrity, and engineering functions associated with the use of facilities within the perimeter of the fields.[1278] Storage fields require the continual installation, maintenance, refurbishment, and replacement of heavy industrial equipment such as engines, compressors, electrical systems, wells, piping, gas processing components, and instrumentation.[1279] This responsibility also extends beyond the plant perimeter in some areas, where gas injection and withdrawal pipelines and storage wells exist outside of the main storage field property.[1280] Gas Storage is also responsible for routine capital improvements within the storage fields related to storage wells, storage pipelines, storage gas compressor stations, storage

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1273 *Id.* at 1.
1274 *Id.* at 1.
1275 *Id.* at 1.
1276 *Id.* at 1.
1277 *Id.* at 4.
1278 *Id.*
1279 *Id.* at 2.
1280 *Id.* at 4.

purification systems, and storage auxiliary systems.[1281] Construction provides centralized fiscal and operational management of large capital investments.[1282] Functions managed within this department include analysis and consultation regarding cost estimates, permit requirements, scheduling, and execution of major gas infrastructure facilities projects necessary for the continued safe and reliable transmission of natural gas throughout the service territory.[1283]

16.1 RAMP

Certain costs supported in the SoCalGas Storage Operations and Construction testimony are driven by activities described in SoCalGas's 2021 Risk Assessment Mitigation Phase (RAMP) Report (the 2021 RAMP Report).[1284] The tables below provide summaries of the RAMP-related costs and activities supported in the SoCalGas Storage Operations and Construction testimony.

GAS STORAGE Summary of RAMP O&M Costs (in 2021 $, in 000s)[1285]			
	BY2021 Embedded Base Costs	**TY2024 Estimated Total**	**TY2024 Estimated Incremental**
RAMP Risk Chapter			
SCG-Risk-4 Incident Related to the Storage System (Excluding Dig-in)	11,542	47,363	35,821
SCG-Risk-5 Incident Involving an Employee	80	80	0
Total RAMP O&M Costs	**11,622**	**47,443**	**35,821**

GAS STORAGE Summary of RAMP Capital Costs (In 2021 $, in 000s)[1286]				
	2022 Estimated RAMP Total	**2023 Estimated RAMP Total**	**2024 Estimated RAMP Total**	**2022-2024 Estimated RAMP Total**
RAMP Risk Chapter				
SCG-Risk-4 Incident Related to the Storage System (Excluding Dig-in)	111,298	82,114	83,647	277,059
Total RAMP Capital Costs	**111,298**	**82,114**	**83,647**	**277,059**

1281 *Id.*

1282 *Id.*

1283 *Id.* at 4.

1284 *Id.* at 5.

1285 *Id.* at 6.

1286 *Id.*

Summary of RAMP Risk Activities[1287]		
RAMP ID	Activity	Description
SCG-Risk-4-C01	Integrity Demonstration, Verification, and Monitoring Practices	SoCalGas performs integrity inspections on gas storage wells to verify the pressure containing capability of the wells, detect possible leaks, and identify metal loss anomalies in the tubing and casing.
SCG-Risk-4-C02	Well Abandonment and Replacement	Under certain circumstances, SoCalGas may abandon a well rather than continue to utilize it for gas storage operations. The decision to plug and abandon a well is driven by various factors including, but not limited to, well-specific information; location-specific information; deliverability; operation and maintenance history; and operational needs.
SCG-Risk-4-C05	Storage Field Maintenance	Aboveground operation and maintenance activities include pipeline patrols, inspections, corrosion control, and other maintenance on a regular basis throughout the year.
SCG-Risk-4-C06	Compressor Overhauls	Storage compressor units increase the pressure of natural gas so it can be injected into the underground reservoirs. Examples of equipment within this area include engines and high-pressure gas compressors. Periodic overhauls of this equipment are necessary to uphold safety, maintain or improve system reliability, extend equipment life, achieve environmental compliance, and meet required injection capacities.
SCG-Risk-4-C07	Upgrade to Purification Equipment	Upgrades to this equipment will allow SoCalGas to address potential safety issues related to uncontrolled releases due to equipment failures, maintain or improve reliability, meet regulatory and environmental requirements, and meet the required capacities and specifications of various purification systems.
SCG-Risk-5-C10	Workplace Violence Prevention Programs	Consists of either physical security, security planning, awareness, risk management, and incident management.

The RAMP risk mitigation efforts are associated with specific actions, such as programs, projects, processes, and utilization of technology.[1288] Our incremental request supports the

1287 *Id.* at 8.

1288 *Id.* at 9.

ongoing management of these risks that could pose significant safety, reliability, and financial consequences.[1289]

16.2 Sustainability

Sustainability at SoCalGas focuses on continuous improvement, innovation, and partnerships to advance California's climate objectives incorporating holistic and sustainable business practices and approaches.[1290] SoCalGas's sustainability strategy, ASPIRE 2045, integrates five key focus areas across the Company's operations to promote the public interest, and the wellbeing of utility customers, employees, and other stakeholders.[1291] The activities supported in the Gas Storage Operations and Construction testimony advance the state's climate goals and align with SoCalGas's sustainability priorities.[1292] Specifically, the proposal of the Regional Clean Air Incentives Market (RECLAIM) projects and the Honor Rancho Compressor Modernization project will drive progress in the areas of protecting the climate and improving air quality in the communities.[1293] The Honor Rancho Compressor Modernization ARE component also addresses the accelerating transition to clean energy.[1294]

16.3 Non-Shared and Shared O&M

SoCalGas operates four underground storage fields – Aliso Canyon, Honor Rancho, La Goleta, and Playa del Rey – as an essential part of its integrated transmission pipeline and distribution system.[1295] This interconnected system consists of high-pressure pipelines, compressor stations, and underground storage fields, designed to receive natural gas from interstate pipelines and local production sources.[1296] The integrated system enables deliveries of natural gas to customers or into storage field reservoirs, depending on system demands. SoCalGas uses its storage assets to efficiently meet gas balancing requirements.[1297] To satisfy these needs, the individual storage facilities act as "gas suppliers" or "consumers," depending upon the

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1289 *Id.*

1290 *Id.* at 10.

1291 *Id.*

1292 *Id.*

1293 *Id.*

1294 *Id.*

1295 *Id.* at 13.

1296 *Id.*

1297 *Id.*

withdrawal or injection requirements as managed by Gas Control.[1298] Fluctuating demands may require storage operations to perform gas injection or withdrawal functions at any hour of the day, 365 days per year. Storage fields are continually staffed with operating crews and on-call personnel to support these critical 24/7 operations.[1299]

The reliance and dependency on underground storage to instantly supply the SoCalGas system with such volumes of gas over brief period of times due to extreme weather conditions occurring locally or out of state, unforeseen pipeline maintenance, or from the temporary reduction of interstate supplies for other reasons, places demand on the wells, pipelines, and other storage facilities that must support the withdrawal demands.[1300] The reliance on the availability of Storage gas requires continuous maintenance activities and ongoing investments on the wells, pipelines, and other storage facilities that must support the withdrawal demands, to meet customer demands.[1301] Gas Storage includes both operational and technical support groups that provide services essential to operating and maintaining the safety, integrity, and reliability of this critical gas delivery assets.[1302] While each storage field has its own unique operating conditions and characteristics, there are common support activities performed on a regular basis which make up the bulk of routine expenses presented in the Gas Storage Operations and Construction testimony.[1303]

SoCalGas requests approval of its TY 2024 O&M and capital forecasts. For Gas Storage Operations and Construction non-shared and shared O&M, SoCalGas requests a total of $47.782 million.[1304] Only Cal Advocates and PCF submitted testimony related to Gas Storage Operations and Construction's O&M request.[1305] Cal Advocates took no issue with the Gas Storage Operations and Construction O&M request.[1306] PCF recommended a reduction to the O&M revenue requirement rather than forecasted costs.[1307] TURN opposes SoCalGas's Lease and

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1298 *Id.*

1299 *Id.*

1300 *Id.* at 14.

1301 *Id.*

1302 *Id.*

1303 *Id.*

1304 *Id.* at iv.

1305 Ex. SCG-210 (Bittleston/Hruby) at 4.

1306 *Id.* at 2.

1307 *Id.* at 5-6.

Licensing forecasted costs, which are sponsored in SoCalGas's Fleet testimony of Michael Franco (*see* Exhibit SCG-18-R); however, the business justifications for the incremental vehicles are spread across multiple witness areas, including Gas Storage Operations and Construction.[1308] The table below summarizes SoCalGas's O&M forecast and compares it against the recommendations of Cal Advocates and PCF.

Table 16.1
O&M - Constant 2021 ($000)

O&M - Constant 2021 ($000)[1309]			
	Base Year 2021	**Test Year 2024**	**Change**
SoCalGas	43,473	47,782	4,309
Cal Advocates	43,473	47,782	4,309
PCF[1310]	N/A	N/A	N/A

16.3.1 PCF

PCF recommended Aliso Canyon annual operating expenses of approximately $100 million, including that the O&M revenue requirement, rather than forecasted costs, be reduced by approximately $46 million each year, claiming that Aliso Canyon is no longer necessary to assure natural gas reliability in the Los Angeles Basin.[1311] PCF provided calculations depicting only capital costs and provided no calculus for how it arrived at its recommendation to reduce the O&M revenue requirement.[1312] Other than PCF's mistaken and unquantified O&M recommendation, no other party opposed SoCalGas's O&M forecast.[1313]

PCF's recommendation is outside the scope of this GRC and involves issues scoped in another open proceeding before the Commission.[1314] Pursuant to Senate Bill (SB) 380, the Commission opened Investigation (I.) 17-02-002 to determine the feasibility of minimizing or eliminating the use of Aliso Canyon while still maintaining energy and electric reliability for the

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1308 *Id.* at 5.

1309 *Id.* at 4.

1310 In its testimony, PCF recommends reductions to SoCalGas's O&M revenue requirement and not to its forecasted costs. PCF did not provide workpapers supporting this calculation. Accordingly, there is no PCF forecast reduction recommendation to be included in the summary table.

1311 Ex. SCG-210 (Bittleston/Hruby) at 5.

1312 *Id.* at 5-6.

1313 *Id.* at 6.

1314 *Id.*

region.[1315] Whether Aliso Canyon is necessary for reliability is being considered in that open proceeding, and the Commission has yet to make a determination as to the feasibility of minimizing or eliminating the use of Aliso Canyon. Notably, on September 23, 2022, the Assigned Commissioner's Ruling in I.17-02-002 provided that: "Given the circumstances today, it is undeniable that the availability of gas at Aliso Canyon influences the price of gas and what customers pay for gas and electricity. Aliso Canyon is currently needed to support just and reasonable gas and electricity rates, natural gas system reliability, and energy security. Aliso Canyon cannot be immediately closed without potentially severe consequences for millions of Californians who rely on natural gas for essential services."[1316] The Commission has found that Aliso Canyon is currently needed for reliability.[1317] Accordingly, PCF's recommendations are not only outside the scope of this GRC, but also wholly unsupported, and should be rejected.

16.3.2 TURN

TURN opposed SoCalGas's Lease and Licensing forecasted costs, arguing that the incremental business need has not been justified and that SoCalGas routinely forecasts more vehicle replacement counts than it achieves.[1318] The forecasted costs for fleet vehicles are sponsored in SoCalGas's Fleet testimony of Michael Franco (*see* Exhibit SCG-18-R); however, the business justifications for the incremental vehicles are spread across multiple witness areas, including Gas Storage Operations and Construction. The Gas Storage Operations and Construction testimony demonstrates the business justification for four incremental fleet vehicles which are to support operational activities of the organization.[1319] Fleet vehicles are essential to supporting aboveground storage field operations rounds and maintenance activities.[1320] As part of their job functions, employees are required to travel to different work locations with various tools and equipment. For example, employees visit numerous wellsites to perform various activities including, but not limited to, conducting pressure and leakage surveys, patrolling field lines, lubricating valves, cleaning lines, disposing of pipeline drips, injecting corrosion inhibitors, and

1315 *Id.*

1316 *Id.*

1317 *Id.*

1318 Ex. TURN-10-R (Jones) at 3-15.

1319 Ex. SCG-210 (Bittleston/Hruby) at 5.

1320 *Id.*

maintaining well pressure monitors, alarms and gauges.[1321] These employees have a wide area to travel to for operations and maintenance.[1322] The approximate area for each field is 3,600 acres for Aliso Canyon, 600 acres for Honor Rancho, 295 acres for La Goleta and 40 acres for Playa del Rey.[1323] These operations and maintenance activities are critical to maintaining the safety and reliability of gas storage infrastructure, and the fleet vehicles forecasted in our direct testimony are necessary to complete these essential functions.[1324] Accordingly, TURN's recommendation should be rejected, and the Commission should adopt SoCalGas's request for Gas Storage Operations and Construction non-shared and shared O&M expenses as reasonable.

16.4 Capital

SoCalGas is requesting approval of a 2022-2024 Gas Storage Operations and Construction capital forecast in the amount of $516.024 million.[1325] The forecast is composed of a 2022 forecast $206.195 million, a 2023 forecast of $163.279 million, and a 2024 forecast of $146.550 million.[1326] The intent behind the capital expenditure plan is to provide safe, reliable delivery of natural gas to customers at reasonable costs.[1327] These investments also enhance the integrity and efficiency of operations while maintaining compliance with applicable regulatory and environmental regulations.[1328] The table below summarizes SoCalGas's capital request.

Table 16.2
Gas Storage (in 2021 $ 000s)

Gas Storage (in 2021 $ 000s)[1329]			
Budget Codes	**2022 Estimated**	**2023 Estimated**	**2024 Estimated**
Compressors 411	16,439	16,122	15,342
Wells 412	83,188	58,000	57,000
Pipelines 413	30,126	25,532	28,946

1321 *Id.*
1322 *Id.*
1323 *Id.*
1324 *Id.*
1325 Ex. SCG-10-R (Bittleston/Hruby) at 1.
1326 *Id.*
1327 *Id.* at 19.
1328 *Id.* at 19.
1329 *Id.*

Gas Storage (in 2021 $ 000s)[1329]			
Budget Codes	**2022 Estimated**	**2023 Estimated**	**2024 Estimated**
Purification 414	11,670	7,991	11,304
Auxiliary Equipment 419	64,772	55,634	33,958
Total	**206,195**	**163,279**	**146,550**

Other than PCF, no parties took issue with SoCalGas's request for Gas Storage Operations and Construction capital expenditures.[1330] The table below summarizes SoCalGas's capital request and compares it against the recommendations of Cal Advocates and PCF.

Table 16.3
TOTAL CAPITAL - Constant 2021 ($000)

TOTAL CAPITAL - Constant 2021 ($000)[1331]					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	206,195	163,279	146,550	516,024	
CAL ADVOCATES	206,195	163,279	146,550	516,024	0
PCF	145,135	109,688	85,083	339,906	(176,118)

16.4.1 PCF

PCF mistakenly claims that Aliso Canyon is no longer necessary to assure natural gas reliability in the Los Angeles Basin.[1332] PCF provided calculations depicting only capital costs and provided no calculus for how it arrived at its recommendation to reduce the O&M revenue requirement.[1333] As explained herein, PCF's recommendation is outside the scope of this GRC and involves issues scoped in another open proceeding before the Commission. Notably, the Assigned Commissioner in that open proceeding provided that: "Given the circumstances today, it is undeniable that the availability of gas at Aliso Canyon influences the price of gas and what customers pay for gas and electricity. Aliso Canyon is currently needed to support just and reasonable gas and electricity rates, natural gas system reliability, and energy security. Aliso Canyon cannot be immediately closed without potentially severe consequences for millions of

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1330 Ex. SCG-210 (Bittleston/Hruby) at 6.

1331 *Id.* at 6.

1332 Ex. PCF-01 (Bill Powers) at 22.

1333 Ex. SCG-210 (Bittleston/Hruby) at 5-6.

Californians who rely on natural gas for essential services."[1334] Accordingly, PCF's recommendations are not only outside the scope of this GRC, but also wholly unsupported, and should be rejected.

16.5 Honor Rancho Compressor Station Modernization (HRCM) Project

The HRCM Project is a compliance driven project to comply with the South Coast Air Quality Management District (South Coast AQMD) RECLAIM Sunset requirements, Rule 1110.2[1335] and Rule 1100.[1336] [1337] Honor Rancho operates in accordance with a combined Title V and Regional Clean Air Initiative Market (RECLAIM) air permit issued by South Coast AQMD.[1338] As South Coast AQMD transitions facilities from RECLAIM to command-and-control rules, the five Enterprise (Delaval) HVA16C compressor gas lean-burn engines are subject to Rule 1110.2 "Emissions from Gaseous and Liquid-Fueled Engines" and companion Rule 1100 "Implementation Schedule for NOx Facilities."[1339]

The HRCM Project consists of two components; the Principal component and the Advanced Renewable Energy (ARE) component.[1340] The Principal component of the HRCM Project includes the installation of the new compression equipment to comply with SCAQMD Rule 1110.2[1341] and Rule 1100.[1342] Currently, the Honor Rancho compression capacity is provided by five obsolete Enterprise (Delaval) HVA16C reciprocating units that are reaching the end of their useful life.[1343] The compressor trains were purchased in 1975, and the Delaval Company went out of business in 1989, which resulted in parts becoming difficult to find or virtually non-

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1334 *Id.* at 6.

1335 SCAQMD Rule 1110.2, "Emissions from Gaseous- and Liquid-Fueled Engines" (Amended November 1, 2019).

1336 SCAQMD Rule 1100, "Implementation Schedule for NOx Facilities" (Amended January 10, 2020). The purpose of this rule is to establish the implementation schedule for RECLAIM and former RECLAIM facilities that are transitioning to a command-and-control regulatory structure.

1337 Ex. SCG-10-R (Bittleston/Hruby) at 10-11.

1338 Appendix E – Honor Rancho Compressor Modernization Supplemental Project Description.

1339 Appendix E – Honor Rancho Compressor Modernization Supplemental Project Description.

1340 Ex. SCG-10-R (Bittleston/Hruby) at 21.

1341 SCAQMD Rule 1110.2, "Emissions from Gaseous- and Liquid-Fueled Engines" (Amended November 1, 2019).

1342 SCAQMD Rule 1100 "Implementation Schedule for NOx Facilities" (Adopted December 7, 2018 and Amended January 10, 2020).

1343 Ex. SCG-10-R (Bittleston/Hruby) at 21.

existent.[1344] In the TY 2019 GRC Decision, the Commission recognized the importance of the Project and the role of compressor stations in maintaining operational reliability and safety of the gas system.[1345] The Principal component of the HRCM Project also includes the installation of a microgrid comprised of super capacitor and/or battery energy storage system and a system of solid oxide fuel cells (SOFC) to generate electricity to support auxiliary and administrative electrical loads while reducing the need for grid purchase of electricity.[1346]

The ARE Component includes the installation of green hydrogen equipment such as electrolyzers, storage vessels, blending equipment, and a green hydrogen fueling station for fleet vehicles.[1347] As currently designed, the ARE Component reduces GHG emissions and supports climate conservation goals by blending green hydrogen with natural gas as the combustion fuel for the four new compressor gas lean-burn engines; using green hydrogen as a fuel in SoCalGas company fleet vehicles replacing automotive conventional internal combustion engine (ICE), compressed natural gas (CNG) engines by fuel cell electric vehicles (FCEV); and using green renewable electricity as the power source for HRCM Project ARE Component to produce green hydrogen.[1348]

Modernization of Honor Rancho storage field's compression assets will reduce emissions, allow SoCalGas to maintain compliance with South Coast AQMD's emissions rules, reduce peak grid electricity demand, and maintain the operational reliability of natural gas injection in the field.[1349] The HRCM Project demonstrates SoCalGas's mission to become the cleanest, safest, and most innovative energy infrastructure company in America, it supports Energy Upgrade California®, and deploys modern technology to help achieve California's climate goals.[1350]

The forecast for the Principal component for 2022, 2023, and 2024 are \$3.7 million, \$23.3 million, and \$112.7 million, respectively.[1351] SoCalGas estimates the Principal component will be placed into service in Q1 2027, followed by the ARE component in Q1 2028.[1352] Due to the

1344 *Id.*
1345 D.19-09-051 at 116-117.
1346 Ex. SCG-10-R (Bittleston/Hruby) at 23.
1347 *Id.*
1348 *Id.* at 1.
1349 *Id.* at 23.
1350 *Id.* at 23-24.
1351 *Id.* at 21.
1352 *Id.*

expected completion date of the Principal component being forecasted beyond 2024, the associated revenue requirement is captured in the PTY Ratemaking proposal sponsored by Khai Nguyen (Exhibit SCG-240).[1353] There are no revenue requirements for the ARE Component in this General Rate Case.[1354] Cal Advocates, TURN-SCGC and TURN submitted testimony related to the HRCM.

16.5.1 Cal Advocates

Cal Advocates recommended that the HRCM project be removed from PTY based on its contention that the project will not be completed on schedule, that SoCalGas had provided limited support for the project, and that the project required a separate application due to the amount exceeding $75 million.[1355] SoCalGas opposed Cal Advocates' recommendation for several reasons. SoCalGas does not anticipate delays in meeting the construction complete date and planning for the project is well underway.[1356] For instance, SoCalGas submitted a Permit to Construct (PTC) in June 2022 which is expected to be approved approximately 24 months from the application filing date.[1357] SoCalGas will have 36 months from SCAQMD issuance of the PTC to complete the project to meet the emission limits specified in Rule 1110.2.[1358] In addition, strict compliance deadlines mandated by South Coast Air Quality Management District (SCAQMD)—compliance with Rule 1100 (Implementation Schedule for NOx Facilities) and Rule 1110.2 (Emissions from Gaseous and Liquid-Fueled Engines)—fall within the PTY timeframe and are driving timely completion of this project.[1359] SoCalGas also provided detailed information on project definition, scope, cost, schedule, and sustainability goals of the HRCM Project in the Gas Storage Operations and Construction testimony and in response to data requests.[1360] Further, with regards to a separate application, the Commission addressed this issue in D.22-12-021 and the HRCM Project is exempt from the requirements of filing a separate application.[1361] Cal Advocates

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1353 *Id.*

1354 *Id.*

1355 Ex. SCG-210 (Bittleston/Hruby) at 2, 7-9.

1356 *Id.* at 7.

1357 *Id.* at 8.

1358 *Id.*

1359 *Id.*

1360 *Id.*

1361 *Id.* at 9.

failed to demonstrate that the HRCM Project should be removed from the 2024 GRC or from the PTY ratemaking proposal.

16.5.1 TURN-SCGC

TURN-SCGC do not take issue with the compression upgrade, the compressor building, and obtaining a new interconnection with SCE to accommodate the electric motor driven compressors; however, TURN-SCGC recommended removal of the microgrid from the HRCM project principal component.[1362] TURN-SCGC also recommended that the ARE projects (hydrogen production, storage, blending and fueling station) should be rejected.

With regards to the microgrid, SoCalGas opposed TURN-SCGC's recommendation because TURN-SCGC failed to consider the operational need and ratepayer benefits resulting from the construction of the microgrid.[1363] On-site electric generation is necessary for operations at Honor Rancho, and SoCalGas has historically generated electricity on-site at Honor Rancho due to the critical role of the facility in maintaining reliable gas supply to the customers, including utility-scale electric generators.[1364] The capability of Honor Rancho to generate and distribute electricity independent of the electric grid is critical now more than ever.[1365] Honor Rancho is in the CPUC Tier 3 – Extreme PSPS SCE High Fire Risk Area (HFRA) and, thus, subject to electric curtailment, which may lead to disruption in operations and the ability to supply gas to customers.[1366] Development and modernization of the existing on-site electric generation system will result in improved operational flexibility, reduced emissions, and seamless interconnection with the new SCE electric service/substation.[1367] Moreover, construction of the microgrid is an essential component of the HRCM project and will support the increased administrative and auxiliary equipment electric loads.[1368]

With regards to the ARE component, SoCalGas opposed TURN-SCGC's recommendation for several reasons. First, SoCalGas will not introduce the ARE produced green hydrogen into its

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1362 Ex. TURN-SCGC-05 (Yap) at 1.

1363 Ex. SCG-210 (Bittleston/Hruby) at 10.

1364 *Id.* at 11.

1365 *Id.*

1366 *Id.*

1367 *Id.* at 10.

1368 *Id.*

transmission system, distribution system, or storage field for customer use.[1369] As explained in the Gas Storage Operations and Construction testimony, the green hydrogen production would be located onsite and piped directly to a blending skid to fuel the four new compressor lean-burn engines.[1370] ARE produced green hydrogen would also be a fuel source for company vehicles.[1371] In addition, the blending of hydrogen is not an unproven or novel process; it is a conventional method used in various heavy industries as well as in industrial production facilities, refineries, and chemical complexes.[1372] Blending of ARE produced green hydrogen with natural gas to use as fuel for gas engine driven compressors is supported by Waukesha, the engine manufacturer, up to 12% by volume without any engine modifications.[1373] SoCalGas is proposing to blend green hydrogen up to 10% by volume, which is below the engine manufacturer's operating recommendation.[1374] Blending of green hydrogen as a fuel source reduces use of hydrocarbon-based fuel and reduces emissions as described in the Gas Storage Operations and Construction testimony.[1375] As indicated in SoCalGas's Sustainability and Climate Policies testimony (Exhibit SCG-02-R), there is an imperative to reduce GHG emissions, which will require adoption of clean fuels to support affordability, reliability, and resiliency. Given the critical role of SoCalGas and its infrastructure in helping to achieve statewide climate goals, ARE is one of several initiatives the company is proposing in this GRC to support these efforts.[1376] TURN-SCGC's recommendation to remove the ARE component of the HRCM project should be disregarded and SoCalGas's HRCM Project should be approved in its totality.

16.5.2 TURN

TURN contested the hydrogen refueling station portion of the HRCM project based on its contention that the hydrogen refueling station risks exposure to increased pollution and claimed risks associated with hydrogen blending into existing pipelines.[1377] SoCalGas opposed TURN's recommendation for several reasons. First, the anticipated emissions at the hydrogen refueling

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1369 *Id.* at 11.
1370 *Id.* at 11-12.
1371 *Id.* at 12.
1372 *Id.*
1373 *Id.*
1374 *Id.*
1375 *Id.*, Appendix E, at E-1 (Honor Rancho Compressor Modernization Supplemental Project Description).
1376 Ex. SCG-210 (Bittleston/Hruby) at 12.
1377 *Id.* at 3.

station are negligible.[1378] Notably, the anticipated emissions reductions associated with vehicles using green hydrogen rather than conventional fuels (*e.g.*, gasoline and diesel) will occur throughout the geographical area where the hydrogen fueled vehicles travel.[1379] Further, the Honor Rancho green hydrogen refueling station is a component of the larger HRCM project that will result in reductions in greenhouse gas and permitted criteria pollutants emissions.[1380] Second, as explained, the blending of hydrogen is not an unproven or novel process and SoCalGas is proposing to blend hydrogen up to 10% which is below the engine manufacturer's operating recommendation.[1381] Moreover, SoCalGas will not introduce the ARE produced green hydrogen in the transmission or distribution system or in storage for customer use; SoCalGas plans to utilize hydrogen production from the ARE component for company operations only.[1382] Accordingly, the Commission should adopt the HRCM project as proposed by SoCalGas.

16.6 Aliso Canyon Turbine Replacement (ACTR)

In D.13-11-03, the Commission authorized SoCalGas to recover its total capital costs for the Aliso Canyon Turbine Replacement Project (ACTR) up to $200.9 million.[1383] In D.19-09-051, the Commission found reasonable and authorized recovery of $275.5 million in capital expenditures to complete ACTR.[1384] The Commission also found it reasonable to continue the Aliso Canyon Memorandum Account (ACMA) to record additional capital-related costs in excess of $275.5 million and provided that any recovery sought for these amounts would be subject to a reasonableness review in a future GRC.[1385] In compliance with D.19-09-051, SoCalGas presented direct testimony in this GRC establishing the reasonableness of $21.6 million in additional capital-related costs to complete ACTR.[1386] In Ex. SCG-10-R, SoCalGas provided detailed information on the costs incurred to demonstrate the reasonableness of the $21.6 million; and in Ex. SCG-38-R, SoCalGas requested to recover the ending balance as of December 31, 2023 in the Aliso

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1378 *Id.* at 13.
1379 *Id.*
1380 *Id.*
1381 *Id.* at 14.
1382 *Id.*
1383 Ex. SCG-10-R (Bittleston/Hruby) at 37.
1384 *Id.*
1385 Ex. SCG-210 (Bittleston/Hruby) at 37.
1386 Ex. SCG-10-R (Bittleston/Hruby) at 37-41.

Canyon Memorandum Account (ACMA) which is the capital-related cost (*e.g.*, depreciation, return, taxes) associated with the capital expenditures of $21.6 million.[1387]

The final cost for ACTR was $21.6 million over the authorized recovery of $275.5 million in 2019 GRC decision.[1388] The additional capital-related costs to complete ACTR were driven by two major elements of the project.[1389] First, the pre-commissioning, commissioning, acceptance testing, and turnover of the project was more complex and took longer than anticipated, with ACTR going into service in May 2018.[1390] Second, the necessary project closeout efforts were significantly greater due to project's complexity than was previously anticipated.[1391] Cal Advocates is the only intervenor who submitted testimony concerning ACTR.[1392] Cal Advocates is the only intervenor that opposed SoCalGas's request for authorization to recover the $21.6 million in capital expenditures to complete the ACTR project.[1393] Cal Advocates appeared to recommend a reduction of $12.6 million; however, it was not clear since the amount varied in its testimony.[1394] Cal Advocates took issue with only two cost elements of the $21.6 million of costs incurred to complete ACTR: Company Labor ($1.8 million)[1395] and Overheads ($2.2 million),[1396] totaling $4.0 million of its $12.6 million disallowance recommendation.[1397] Cal Advocates did not address the additional $8.4 million in its purported disallowance recommendation.[1398]

With regards to Company Labor, SoCalGas engaged a team of qualified and experienced employees to provide internal support and oversight of the ACTR project.[1399] The $1.8 million in Company Labor costs were specific to the ACTR project and have not been recovered from any

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1387 Ex. SCG-210 (Bittleston/Hruby) at 14.

1388 Ex. SCG-10-R (Bittleston/Hruby) at 37.

1389 *Id.*

1390 *Id.*

1391 *Id.*

1392 Ex. SCG-210 (Bittleston/Hruby) at 15.

1393 *Id.*

1394 *Id.* (There is an inconsistency with Cal Advocates recommendation: Ex. CA-03 (Dao Phan), at p. 27, states, "Cal Advocates recommends $9.000 million, which is $12.600 million lower than SCG's request of $21.600 million for cost overruns associated with the ACTR project." However, on page 28, Cal Advocates cites $9.500 million yet arriving at the same reduction of $12.6 million.)

1395 Ex. CA-03 (Phan) at 28.

1396 *Id.*

1397 Ex. SCG-210 (Bittleston/Hruby) at 15.

1398 *Id.*

1399 *Id.*

other project or in O&M.[1400] The Code of Federal Regulations (CFR), which is the utility accounting guidance SoCalGas follows, states that the cost of construction work includes labor costs which includes the pay and expenses of employees of the utility engaged on construction work.[1401] Furthermore, any costs, such as Company labor, which contribute to the value of the asset can be capitalized, per CFR and Generally Accepted Accounting Principles.[1402]

With regards to Overheads, the ACTR project costs include overhead allocations based on direct capital costs, consistent with their classification as Company Labor, Contract Labor, or Purchased Services and Materials.[1403] Overhead allocations are those activities and services that are associated with direct costs and benefits, such as payroll taxes and pension and benefits, or costs that cannot be economically direct charged, such as Administrative and General overheads.[1404] The overhead allocations adhere to the methodology established by the Federal Energy Regulatory Commission (FERC) and were derived using the Commission authorized methodology.[1405] Increases in overhead costs are due to the increases in direct capital costs described in the Gas Storage Operations and Construction testimony.[1406]

Given that SoCalGas presented compelling evidence of the reasonableness of incurred costs, SoCalGas request that the Commission authorize recovery of the $21.6 million in costs incurred to complete ACTR.

17. Procurement

17.1 Gas Acquisition

SoCalGas's Gas Acquisition Department procures (1) natural gas and clean fuels for retail core customers of both SoCalGas and SDG&E; and (2) Cap-and-Trade greenhouse gas (GHG) emissions compliance instruments for SoCalGas's covered end-use customers and its gas transmission and storage facilities.[1407] SoCalGas requests approval to recover $5.247 million of

1400 *Id.*

1401 *Id.* at 16.

1402 *Id.*

1403 *Id.*

1404 *Id.*

1405 *See* Ex. SCG-31-2R (Watson).

1406 Ex. SCG-210 (Bittleston/Hruby) at 16.

1407 Ex. SCG-11 (Lazarus) at ii.

annual O&M expenses to enable the Gas Acquisition Department to fulfill its procurement responsibilities, meet department priorities, and ensure regulatory compliance.[1408]

Table 17.1

GAS ACQUISITION (In 2021 $)	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services	5,081	5,247	166
Total O&M	**5,081**	**5,247**	**166**

The TY 2024 forecast of O&M costs for SoCalGas's Gas Acquisition function, described and justified in the Gas Acquisition testimony and workpapers of Martin F. Lazarus, is an increase of $166 thousand over BY 2021 costs.[1409] This increase reflects adjustments to fill existing Gas Acquisition Department vacancies totaling $12,000 and an increase of $164,000 for incremental risk management and scheduling personnel. As explained by Mr. Lazarus, SoCalGas must fill existing vacancies within the Gas Acquisition Department in order to execute its procurement-related responsibilities and comply with related reporting obligations. In addition, it is necessary to add incremental resources to the Gas Acquisition Department to ensure its ability to effectively conduct business operations and to fulfill Gas Acquisition Department priorities and responsibilities.[1410] The TY 2024 forecasted O&M costs also reflects a net decrease of $10,000 in non-labor costs.[1411]

In addition to sponsoring the Gas Acquisition Department's costs, Mr. Lazarus' Gas Acquisition testimony also supports the calculation of costs and credits recorded in the Injection Enhancement Cost Memorandum Account (IECMA) – a total net credit of approximately $167,000.[1412] Commission system reliability directives issued in 2017 and 2018 required SoCalGas to use procurement capabilities of the Gas Acquisition Department to support SoCalGas's storage inventory requirements for system reliability for the benefit of both core and noncore customers, and to record associated incremental costs in the IECMA.[1413] Mr. Lazarus

1408 *Id*. at ii, 1.

1409 *Id*. at iii.

1410 *Id.* at ii, iii.

1411 *Id*. at iii.

1412 Ex. SCG-11 (Lazarus) at 2-3.

1413 *Id*. at 3, 22-24.

describes the regulatory authority and procurement activities that support costs and credits recorded in the IECMA. The proposed disposition of those costs and credits into rates is described in the SoCalGas Regulatory Accounts testimony sponsored by Rae Marie Yu.[1414]

Cal Advocates was the only party to submit testimony in response to SoCalGas's Gas Acquisition Department request. Cal Advocates does not oppose SoCalGas's TY 2024 expense forecast of $5.247 million. Cal Advocates' table below compares SoCalGas's TY 2024 forecast to Cal Advocates' forecast:

Table 17.2[1415]
SCG Gas Acquisition
O&M Expenses for 2024
(in Thousands of 2021 Dollars)

Description (a)	Cal Advocates Recommended (b)	SCG Proposed (c)	SCG>Cal Advocates (d=c-b)
Non-shared	$5,247	$5,247	$0
Total	$5,247	$5,247	$0

Based on the foregoing, SoCalGas requests that the Commission adopt its proposal for $5.247 million of annual O&M costs to enable the Gas Acquisition Department to fulfill its responsibilities.

17.2 Energy Procurement (SDG&E Only)

SDG&E's Energy Procurement (EP) function is tasked with procuring both long-term and short-term resources to provide electric service to bunded service customers, optimizing those resources in the wholesale energy and ancillary services markets, prudently administering resource contracts, including utility-owned resources, accurately settling all energy procurement transactions, optimizing its legacy portfolio through capacity sales transactions and allocating/selling renewable portfolio standard (RPS) resource attributes through the voluntary allocation and market offer (VAMO) process; and providing subject matter expertise to support SDG&E's regulatory compliance and advocacy efforts.[1416] EP is also required by the Commission to procure capacity resources on behalf of community choice aggregator (CCA) and direct access

[1414] Ex. SCG-38-R-E (Yu) (citations omitted).
[1415] Ex. CA-05 (Weaver) at 1, Table 5-1 (table has been renumbered here).
[1416] Ex. SDG&E-10 (Summers) at 1-2 and 12-13.

(DA) customers when necessary to ensure reliability.[1417] SDG&E requests approval to recover $9.4 million of annual O&M expenses to support the EP function. The $9.4 million overall request is consistent with O&M expenses recorded in prior years.[1418]

The TY 2024 forecast of O&M costs for the EP function represents an increase of $1.466 million over BY 2021 costs.[1419] As described and justified in the Energy Procurement testimony and workpapers of Christopher A. Summers, this increase from 2021 adjusted recorded amounts is due primarily to the need to fill several vacancies that existed in 2021, as well as an expanded need for expertise given the evolving technology and policy landscape and increasing complexity of the work performed by EP.[1420] In addition to sponsoring the EP function's costs, Mr. Summers' Energy Procurement testimony also supports the need for technology upgrades to enable SDG&E to maintain its legal obligation to provide scheduling services within the California Independent System Operator (CAISO) market. Recovery of the associated capital costs is requested in the SDG&E Information Technology testimony sponsored by William Exon.[1421]

Table 17.3

ENERGY PROCUREMENT (In 2021 $)	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
Total Non-Shared Services	7,911	9,377	1,466
Total O&M	**7,911**	**9,377**	**1,466**

Cal Advocates challenges SDG&E's Energy Procurement O&M request. In addition, UCAN objects to SDG&E's request to recover capital costs for CAISO-related software and technology/system upgrades. The table below compares the TY 2024 O&M forecasts of SDG&E and Cal Advocates (as noted above, the capital expense request related to CAISO-related technology upgrades is included in the Information Technology testimony of Mr. Exon):

1417 *Id*. at 1, note 1; *see, e.g.,* D.23-06-029 at 24-25.

1418 *Id*. at iii.

1419 *Id*.

1420 *Id*. at iii.

1421 Ex. SDG&E-25 (Exon), Ch. 2.

Table 17.4[1422]

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	Test Year 2024	Change
SDG&E	7,911	9,377	1,466
Cal Advocates	7,911	8,712	801

Cal Advocates recommends reductions to SDG&E's forecasted labor costs for its Origination and Portfolio Design (O&PD) and Resource Planning functions within EP. It proposes use of a 5-year average methodology for O&PD's labor costs instead of SDG&E's proposed forecast methodology of BY 2021 plus incremental costs. Cal Advocates also argues that the number of contracts SDG&E will handle going forward is unknown and that SDG&E's proposal to backfill vacant positions and partial vacancies within O&PD is not justified, arguing that SDG&E has been able to perform the necessary work with current staff.[1423] Finally, Cal Advocates Cal Advocates recommends a reduction for Resource Planning's labor costs on the basis that while SDG&E identifies 6.9 FTEs as the level required to perform the tasks assigned to this function, the FTE has not exceeded 6.4 in the last five years.[1424] Cal Advocates' proposed reductions are based upon flawed reasoning and should be rejected.

Cal Advocates offers little in the way of explanation for its proposal to use the 5-year average of 2017-2021 costs rather than SDG&E's forecasted incremental TY 2024 costs to develop the O&PD labor cost forecast. Its sole justification for reliance on the 5-year average appears to be that it will "smooth out" the costs recorded beginning in 2017 through BY 2021. While Cal Advocates' claim is mathematically correct – the sum of values divided by the number of values will produce a single number that represents a larger set of numbers – this fact alone can hardly serve as a policy justification for use of a methodology that relies on *backward* looking data to forecast *future* needs given the significant changes in the energy landscape that have occurred since 2017.[1425]

1422 Ex. SDG&E-210 (Summers) at 1.

1423 Ex. CA-05 (Weaver) at Section IV, Part 1.

1424 *Id*. at Part 2.

1425 Ex. SDG&E-210 (Summers) at 4-5.

Cal Advocates argues that the trajectory of existing contracts during the 2017-2021 period and SDG&E's estimate of expected contracts in 2022 is relatively consistent and therefore that incremental TY 2024 labor costs are not justified. However, Cal Advocates ignores the increasing volume and complexity of transactions arising from the current regulatory and market environment. As explained by Mr. Summers, O&PD is navigating an unprecedented level of mandated procurement necessary to maintain grid reliability and meet the state's clean energy goals while *simultaneously* handling a significant increase in the volume of sales transactions due to load departure in its region and new portfolio optimization requirements established by the Commission in the Power Charge Indifference Adjustment (PCIA) proceeding (R.17-06-026).[1426] Thus, while Cal Advocates is correct that there is currently an "unknown amount of the potential expected contracts" in TY 2024, it is safe to assume that the number will increase rather than decrease.

In addition, Cal Advocates' focus on the number of existing contracts, and its attempt to establish the "average cost per contract" concept as a metric for determining the reasonableness of its recommendation, fails to account for the increased complexity of current transactions and the corollary work effort involved in each. As Mr. Summers explains, with the introduction of new technologies, comes new challenges in crafting and negotiating resource contracts. This effort is incremental to the standard work involved in contracting for resources.[1427] Moreover, Cal Advocates fails to recognize that contract-related work is only one aspect of the duties performed by O&PD, as explained by Mr. Summers.[1428] Even if O&PD were just a "contracting" group, SDG&E's request is more than reasonable given the actual increase in the number and complexity of resource contracts, and the clear need for more procurement in the future.[1429]

Finally, Cal Advocates' claim that "[t]here is no need for additional FTEs when SDG&E is able to perform the necessary work with the staff it currently has," is puzzling given the concern Cal Advocates *itself* has raised in other procurement-related proceedings regarding O&PD staff being stretched thin and the resulting negative impact on SDG&E's contracting process.[1430] There is no doubt that staff retirements and turnover within O&PD have created significant challenges to

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1426 *Id*. at 5-6.

1427 *Id*. at 7.

1428 *Id*.

1429 *Id*. at 8.

1430 Ex. SDG&E-210 (Summers) at 8-9.

SDG&E's ability to respond to the increase in contracting activity and inundation of procurement orders experienced over the past few years. Indeed, the Independent Evaluator (IE) involved in a recent SDG&E solicitation noted that "dedicating more staff to preparing for the request for offers (RFO) process as well as executing it may help SDG&E launch solicitations more quickly, complete evaluations expeditiously, and push negotiations forward faster…"[1431] SDG&E cannot unilaterally reduce its mandated procurement contracting activity, thus the remedy to the issues identified by Cal Advocates and the IE and in other procurement-related proceedings is to address the current staffing needs of the O&PD function.

With regard to the Resource Planning function within EP, SDG&E's TY 2024 forecast requests incremental funding of $0.096 million above BY 2021 to fill vacancies that will be needed to bring the level of full-time equivalents (FTEs) to 6.9 in order to support the activities of the Resource Planning group.[1432] Cal Advocates recommends $0.874 million for the labor portion compared to SDG&E's request, which is a difference of $0.064 million. Cal Advocates reasons that while SDG&E identifies 6.9 FTEs as the level required to perform the tasks assigned to this function, the FTE has not exceeded 6.4 in the last five years. Cal Advocates' analysis is defective, however, as it does not properly account for staff turnover that artificially depressed the level of FTEs over previous years.[1433] SDG&E submits that incremental funding above BY 2021 to account for vacancies during that year, and previous years, is appropriate to ensure that the Resource Planning function has the level of FTEs necessary to handle its workload.

UCAN's challenge to SDG&E's request to recover capital costs for software and technology/system upgrades is without merit and should be rejected. The proposed upgrades are needed to allow SDG&E to monitor its portfolio and provide scheduling services within the CAISO market, and to ensure SDG&E's ability to comply with various regulatory requirements established by the Commission and other oversight bodies.[1434] The Commission has previously approved similar expenses.[1435] Accordingly, the suggestion by UCAN that the Commission deny SDG&E's recovery request is unreasonable and should be rejected.

[1431] *Id*.

[1432] *Id*. at 10.

[1433] *Id*. at 10-11.

[1434] *Id*. at 11-13.

[1435] *See, e.g.*, D.19-09-051 at 225-228.

Based on the foregoing, SDG&E requests that the Commission adopt its proposal for $9.4 million of annual O&M expenses to support the EP function through the rate case cycle.

18. Clean Energy Innovations

18.1 SoCalGas Clean Energy Innovations

SoCalGas is requesting $47.223 million for TY 2024 O&M costs associated with Clean Energy Innovations (CEI), an increase of $18.762 million over BY 2021 levels.

Summary

Clean Energy Innovations (In 2021 $, in 000s)			
	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	28,461	47,223	18,762
Total Shared Services (Incurred)	0	0	0
Total O&M	**28,461**	**47,223**	**18,762**

As discussed in detail in Section 8, California has ambitious climate goals and aims to lead the nation in many areas related to the environment. The activities proposed for CEI funding will keep SoCalGas moving forward with the energy transition in alignment with State goals and mandates, reducing its and its customers' emissions. Approving the proposed costs allows SoCalGas to take the steps it needs to take in order to advance California state policy.

Many of the costs proposed for CEI provide early support for the robust policy goals for California and the United States to transition toward a clean energy future. As summarized in the testimony of Armando Infanzon, "SoCalGas seeks funding to conduct activities that will facilitate critical development of clean energy solutions supporting California's decarbonization goals, including clean fuels such as renewable natural gas, hydrogen, and synthetic natural gas, and carbon management solutions including CCUS for hard-to-abate sectors and carbon removal from the atmosphere, to support achievement of the State's environmental and decarbonization goals. Through CEI's role in the development and implementation of innovative technologies… it acts as an incubator for and an accelerator of the development and scaling up of clean energy solutions and advances clean fuels infrastructure…."[1436] SoCalGas and its infrastructure can and should play a critical role in helping achieve California's climate goals. As one of the nation's largest

[1436] Ex. SCG-212 (Infanzon) at 6.

operators of an energy fuel delivery network, serving approximately 21.1 million consumers,[1437] and over 100,000+ miles of pipelines,[1438] SoCalGas is uniquely positioned to help develop and drive California's emerging clean energy economy through investments in clean energy. SoCalGas has embarked upon several initiatives that explore its capability to work across its service territory as a carbon reduction, management, and mitigation company.

Included within Clean Energy Innovations are four key areas for O&M costs: Sustainability, Clean Fuels Infrastructure Development, Clean Energy Innovations Project Management Office (PMO), and Research Development and Demonstration (RD&D). These areas cover a variety of functions and programs that lay the groundwork for innovative technologies that support California's climate policy goals, including the continued use and increased adoption of clean fuels, such as renewable natural gas, hydrogen, and synthetic natural gas, as well as carbon management in support of the State's carbon neutrality goals. CEI also includes the justification for capital costs related to (1) the Hydrogen Innovation Experience (H2IE), a first-of-its-kind clean energy project that incorporates solar panels, battery storage, hydrogen production via electrolysis, a hydrogen fuel cell, and hydrogen storage, all functioning as an islanded clean hydrogen microgrid, showing how hydrogen can function as a part of the clean energy future, and (2) a hydrogen refueling station which will support zero emissions vehicles in SoCalGas's fleet and the broader population. Development of clean energy solutions helps customers to adopt clean energy solutions, including products and services and supports a variety of statewide clean policy commitments.[1439]

Given Governor Newson's recent letter to the Governor's Office of Business and Economic Development directing it to develop California's Hydrogen Market Development Strategy, employing an all-of-government approach to build up California's clean, renewable hydrogen market, SoCalGas's hydrogen-related requests even more clearly align with state policy.[1440]

[1437] Ex. SCG-201 (Brown) at 2.

[1438] Ex. SCG-01-2R (Brown) at 11, n.16.

[1439] *See* Section 8.

[1440] August 3, 2023 Letter from Governor Gavin Newson to Director Myers, *available at* https://www.gov.ca.gov/wp-content/uploads/2023/08/Letter-to-Director-Meyers.pdf. SoCalGas seeks official notice of the letter pursuant to Rule 13.10 and Evidence Code 452(c) as it constitutes an "official act of the legislative, executive, and judicial departments of the United States and of any state of the United States."

The parties contesting portions of the CEI revenue request in testimony are Cal Advocates, TURN-SCGC, IS, CEJA, EDF, and PCF. Each of the contested areas will be discussed below. The Commission should adopt SoCalGas's request as reasonable.

18.1.1 Sustainability

For the Sustainability group, SoCalGas requests $1.982 million for the Test Year, an increase of $0.052 million over the Base Year adjusted recorded cost of $1.930 million. The Sustainability group's goal is to support SoCalGas's mission to create and implement sustainability strategies to help the State achieve its carbon neutrality goals and enable a clean, affordable, and resilient energy future. The group is responsible for planning, developing, and tracking near and long-term environmental, social, and governance (ESG) business strategies, with a focus on implementing sustainable business practices to optimize operational activities, while serving customers safely, reliably, and affordably. The group monitors and assesses the rapidly changing ESG environment, priorities, and requirements, and engages with external stakeholders including community advisory councils, customers, business partners, and ESG community members, and also works across business units within the Company to implement various sustainability-related initiatives and goals, and track performance for those goals. The sustainability group is not unique to SoCalGas – major companies are increasingly relying on such groups to address evolving ESG regulations and establish and track company goals.[1441] Indeed, the Commission has previously approved utility requests for funding for sustainability-related activities and strategies.[1442]

Only one intervenor, CEJA, has opposed SoCalGas's request with respect to the Sustainability group. In its testimony, CEJA argued that (1) SoCalGas's sustainability strategy does not align "with the state's climate and public health policies" because of the Company's support for the Hydrogen Innovation Experience (H2IE), and (2) SoCalGas's ASPIRE 2045 materials "may mislead the public and policymakers…."[1443]

[1441] Ex. SCG-12-R (Infanzon) at 14:17-15:9.

[1442] *See, e.g.,* D.19-09-051 at 445-446 (approving costs for Environmental Communications group where "[t]he primary function of [the group] is outreach to environmental agencies, tribal leaders, non-government organizations, and other stakeholders and also communicates about sustainability activities").

[1443] Ex. CEJA-01 (Vespa, Gersen, Saadat, and Barker) at 22.

Contrary to CEJA's position, SoCalGas's Sustainability group established a framework and vision to support a list of strategies and actions to advance its sustainability priorities as well as the State's climate goals. SoCalGas's sustainability group is not focused on just one or two projects or initiatives, such as the H2IE and ASPIRE 2045. The group broadly monitors the company, industry, and policy updates with the purpose of keeping Company policy aligned with state goals and legislative and regulatory requirements. Sustainability at SoCalGas focuses on innovation, advancing technologies and clean fuels, and integrating focus areas that promote the public interest and wellbeing of utility customers, employees, and other stakeholders.[1444] In addition to environmental and clean energy matters, the group has responsibility for the following ASPIRE 2045 focus areas related to (1) accelerating the transition to clean energy, (2) protecting the climate and improving air quality in our communities, (3) increasing clean energy access and affordability, (4) advancing a diverse, equitable, and inclusive culture, and (5) achieving world-class safety.[1445] CEJA ignores how the goals and initiatives of ASPIRE 2045 drive sustainability, provide clear alignment with state climate goals, and promote the interest of utility customers.[1446]

Throughout the CEI and Sustainability and Climate Policy testimonies SoCalGas demonstrates how its proposals, including the H2IE, align with state policies. H2IE demonstrates how clean hydrogen made from renewable electricity can enhance community energy resilience and reliability and be used to fuel clean energy systems and communities in the future.[1447] As discussed in Section 8, SoCalGas's hydrogen related proposals generally align with state and federal regulations, policies, and policy goals that have been encouraging companies to increase investment in hydrogen. In fact, California's Lieutenant Governor Eleni Kounalakis stated about the H2IE, "*Innovative projects like the [H2]IE demonstrate how California is leading the clean energy transition*…."[1448]

Additionally, CEJA's comment regarding SoCalGas's 20% voluntary RNG goal that, "It is doubtful that the Commission will find that the gas utilities can further increase biomethane

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1444 Ex. SCG-212 (Infanzon) at 11:16-12:4

1445 Ex. SCG-02-R, Ch. 2 (Sim/Arazi) at 3:24-4:6.

1446 Ex. SCG-212 (Infanzon) at 11:16-12:4.

1447 *Id. at* 12:13-24.

1448 *Id.* at 12 (*citing* Los Angeles Sentinel*, SoCalGas Models Clean Energy with First-of-its-Kind [H2] Innovation Experience* (April 13, 2023), *available at*: https://lasentinel.net/socalgas-models-clean-energy-withfirst-of-its-kind-h2-innovation-experience.html).

procurements" by 2030,[1449] is unsupported and does not justify disallowing costs for the entire Sustainability group. Clean molecules like RNG will play a critical role in enabling the State to reach net-zero GHG emissions by 2045.[1450] State policy required adoption of biomethane procurement targets for gas corporations when the State passed SB 1440. In compliance with SB 1440, in February 2022, the CPUC issued an order establishing statewide RNG procurement amounting to about 12.2% of annual bundled core demand in 2030.[1451] It is possible that the State's established amount could change over time, and there could be additional changes in policies and technologies as the RNG market progresses.[1452] Furthermore, although SoCalGas plans to meet these goals, as with any goal SoCalGas acknowledges that these plans could be affected by "Factors… that could cause actual results… to differ materially…."[1453] CEJA's speculation about one decarbonization goal in the entire ASPIRE 2045 document is not a compelling reason to disallow the entire sustainability group.

18.1.2 Clean Fuels Infrastructure Development

For Clean Fuels Infrastructure Development, SoCalGas requests $20.400 million for the Test Year, an increase of $12.205 million over the Base Year adjusted recorded cost of $8.195 million. The Clean Fuels Infrastructure Development group includes five cost categories, Business Development, the Carbon Capture Utilization and Sequestration (CCUS) Front End Engineering and Design (FEED) Study Program, the Clean Fuels Operational Readiness Program, the Clean Fuels Transportation Program, and Clean Fuels Power Generation. As with the rest of the CEI area, and as described further below, these programs and functions all support moving forward with the energy transition in alignment with State goals and mandates, reducing its and its customers' emissions.

As an initial matter, some intervenors have raised concerns that the Clean Fuels Infrastructure Development activities support new business lines and do not benefit ratepayers.[1454] Intervenors assert that it is "not appropriate for SoCalGas's methane customers to subsidize its

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1449 Ex. CEJA-01(Vespa/Gersen/Saadat/Barker) at 23.

1450 Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 10.

1451 *Id.* at 11.

1452 Ex. SCG-212 (Infanzon) at 13:12-21.

1453 Ex. SCG-02-R, Appendix B (ASPIRE 2045) at 27.

1454 *E.g.,* Ex. CEJA-01 (Vespa, Gersen, Saadat, Barker) at 25:4-9.

development of new, separate lines of business."[1455] However, the Commission has consistently encouraged utilities to seek out opportunities to improve the efficiency and environmental impact of utility systems, and clean fuels is one such opportunity. Clean fuels can be provided to customers who wish to utilize cleaner options on a tariffed basis as a substitute for natural gas or other fossil fuels—a tariffed service SoCalGas already provides—to advance the State's clean energy goals. Further, the Commission need not decide whether clean fuels should be considered a new service because the Affiliate Transaction Rules authorize utilities to offer both "[e]xisting products and services offered by the utility pursuant to tariff" and "[n]ew products and services that are offered on a tariffed basis."[1456] Finally, excluding public utilities from California's clean energy transition (as some intervenors appear to advocate) would significantly undermine the State's climate goals, and the Commission should decline to do so.

Clean fuels also can play an important role in energy system reliability. As discussed in the direct testimony of Jonathan Peress (adopted by Despina Niehaus) on Climate Policy,[1457] California's energy system is complicated and is becoming increasingly convergent and interdependent, such that a capable gas system is necessary to decarbonization and reliability, including electric reliability. The ongoing integration of unprecedented levels of variable renewable energy adds significant volatility to energy availability. In fact, advancement of renewable resources has changed the way electricity is generated and driven increased "inter-dependencies between gas and electric systems," according to the California Energy Commission (CEC).[1458] Indeed, the Commission has rightly recognized that the IIJA, which includes important clean energy programs, is "a one-time opportunity to benefit California utility customers and make critical grid and gas infrastructure investments" including to "improve the reliability and resiliency of our electric and gas systems, and achieve our ambitious climate change goals."[1459] SoCalGas's

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1455 *Id*.

1456 *See* D.06-12-029, Appendix A-3 at 22, § VII.C.

1457 Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 4.

1458 *Id.* at 5, n.2 (*citing* CEC, *Overview of California Gas Reliability Issues*, presented at the IEPR Joint Agency Workshop on Summer 2021 Reliability, Session 3: Gas Reliability Issues and Polar Vortex, *available at:* https://www.energy.ca.gov/event/workshop/2021-07/iepr-joint-agency-workshop-summer-2021- electric-and-natural-gas-0).

1459 Res. E-5254 at 5, n.7 (*citing* Alice Reynolds, President, CPUC, Letter Re: Infrastructure Investment and Jobs Act of 2021- Federal Funding Opportunities (January 24, 2022) *available at:* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-

Clean Fuels Infrastructure Development proposals are consistent with these directions from the Commission and state, and are consistent with existing lines of business and benefit ratepayers.

18.1.3 Business Development

The Business Development function broadly supports developing and deploying of cost-effective and environmentally sustainable clean energy solutions, including clean fuels and carbon management, to serve SoCalGas's customers. The function includes a host of different activities to this end, including identifying, analyzing, selecting, and prioritizing clean energy and decarbonization initiatives and projects, conducting market research, engaging in financial and business analytics activities, and collecting and analyzing information on external clean energy trends, all of which requires active collaboration with "multiple agencies – including the California Public Utilities Commission (CPUC), California Energy Commission (CEC), California Air Resources Board (CARB), the California Independent System Operator (CAISO), municipal agencies, universities, national laboratories, national and international partnership/associations", and key industry stakeholders.[1460] Engaging in these activities helps support the long-term capital planning process, and the identification, analysis, selection, and prioritization of clean energy initiatives while engaging customers. For example, Business Development supported the development and deployment of four biogas projects related to SB 1383.[1461] Some of these specific initiatives include outreach by a "Renewable Gas Customer Outreach group" focused on helping customers implement RNG projects.[1462] Another example is the "development of conceptual hydrogen infrastructure solutions as part of a response to a request for information (RFI) from Los Angeles Department of Water and Power (LADWP) to support an integrated vision and best practices that will help the LADWP to plan, design, and deploy 100% green hydrogen in the LA basin."[1463]

TURN-SCGC and CEJA oppose SoCalGas's request. TURN-SCGC claims that "tracking of clean energy trends" is not part of utility service because it does not benefit ratepayers but only SoCalGas shareholders, and therefore should not be approved. However, these efforts go toward

division/documents/federal-funding/january-2022-letter-from-cpuc-president-reynolds-to-electric-and-gas-ious.pdf?sc_lang=en&hash=1776D6C63D6310697A34CDA849700EE7).

1460 Ex. SCG-12-R (Infanzon) at 6:1-8.

1461 Ex. SCG-212 (Infanzon) at 15:23-24.

1462 Ex. SCG-12-R (Infanzon) at 18:14-19:2.

1463 *Id.* at 19:3-17.

SoCalGas identifying and integrating clean energy solutions into its system, thus supporting decarbonization benefits over the long term, including for ratepayers. While being asked about the business development function during the hearings, Mr. Infanzon affirmed just that: "[A]s I mentioned before, this energy transition, at the end of the day, will provide different clean energy solutions to customers. And that's what we're referring [to]…."[1464]

CEJA argues that certain contract costs included in the historical period for the Business Development function should be excluded because they "do not improve methane utility service"[1465] and are "not analyzing topics of general interest to expand public knowledge."[1466] These are not the tests used for rate recovery in any California utility general rate cases. Costs are recoverable if they are found to be "just and reasonable."[1467] Business Development costs are just and reasonable because they concern integrating clean fuels, such as hydrogen, and carbon management systems, into SoCalGas's operations thus providing an option for customers to lower emissions.[1468] The contracts would allow Business Development to support refueling stations,[1469] provide customers with DER assistance,[1470] and "increase engagement in the State's energy initiatives and work[] with multiple agencies, partners, research laboratories, and universities,"[1471] to assess new clean energy technologies and options. The focus is therefore largely on SoCalGas's customers. As the Business Development contracts show, those related to clean energy are exploratory in nature, as SoCalGas determines the potential options it has with respect to providing clean energy to its customers, and are further development and extensions of RD&D-type work,

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1464 Tr. V:13:2289:12-2290:8 (Infanzon).

1465 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 26:20-23.

1466 *Id.* at 26:24-26.

1467 *See* Section 3.

1468 *See* Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 27-28 (contract work "related to developing industrial clusters with partners to achieve net-zero targets in the LA Basin," "possible solutions for delivering hydrogen," "use, transmission, and distribution of Hydrogen within [SoCalGas's territory]," "designs and cost estimates for hydrogen fueling stations with a various configurations and siting criteria," "carbon dioxide pipeline feasibility study"), CEJA-01, Attachment 4 at 159 ("ammonia as an energy vector" (meaning, ammonia as a method of storing and transporting hydrogen)).

1469 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 28 ("designs and cost estimates for hydrogen fueling stations," development of a dashboard that "reflects data for public access CNG fueling stations").

1470 *Id.* ("development of a Customer DER Calculation Tool" that will help estimate "the associated savings for the customer").

1471 Ex. SCG-12-R (Infanzon) at 21; Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 29 (engagement with LADWP and DOE).

where the applicability of RD&D clean energy solutions is considered with respect to SoCalGas's operations.[1472] Finally, the Commission has consistently encouraged utilities to seek out opportunities to improve the efficiency and environmental impact of utility systems, and clean fuels is one such opportunity.[1473] Clean fuels can be provided to customers who wish to utilize cleaner options on a tariffed basis as a substitute for natural gas or other fossil fuels—a tariffed service SoCalGas already provides—to advance the State's clean energy goals. Historical costs for these activities are appropriately included and should inform the forecast for the Business Development group.

18.1.4 CCUS FEED Study Program

SoCalGas is requesting $6.655 million for a Carbon Capture, Utilization, and Sequestration Front End Engineering and Design study program to support the development of carbon management solutions of Southern California. The CCUS FEED program would support federal and state goals for carbon management, and could leverage in-progress and future federal funding through the IIJA and IRA, including programs identified in CPUC resolution E-5254. The CCUS FEED Study Program includes advancing the development of pipeline infrastructure to bring to scale the removal of carbon from the atmosphere and capture at point source for critical hard-to-abate industries in the California economy for permanent sequestration. CCUS is a set of technologies that remove CO2 either from the atmosphere (Direct Air Capture (DAC)) or from point sources. The captured CO2 is then compressed and transported for various end-use utilization, or injected into deep underground geological formations (that may include depleted oil and gas reservoirs or saline formations) for permanent storage (sequestration).[1474] CCUS is a

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1472 *See* Ex. SCG-12-R (Infanzon), Appendix B at B-3, 5, 24 (identifying technology gaps for producing clean hydrogen at scale, carbon capture, conversion of hydrogen infrastructure,

1473 *See e.g.,* D.13-12-040, Decision Adopting Joint Settlement Agreement and Granting Southern California Gas Company's Application to Establish a Biogas Conditioning and Upgrading Services Tariff (Dec. 19, 2013) at 20-21 ("As part of its mission statement, the [Commission] . . . 'serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy.'"]; D.22-02-025, Decision Implementing Senate Bill 1440 Biomethane Procurement Program (Feb. 24, 2022), (requiring gas utilities to procure biomethane derived from organic waste at levels sufficient to meet California's statutory obligation to divert 75 percent of 2014 levels of organic waste away from California landfills by the end of 2025); D.22-12-021, Decision Adopting Gas Infrastructure General Order (Dec. 1, 2022) (adopting a new framework to review utility natural gas infrastructure investments in order to help the state transition away from natural gas-fueled technologies and avoid stranded assets in the gas system).

1474 Ex. SCG-12-R (Infanzon) at 22.

means to abate CO_2 emissions from energy intensive industries where CO_2 emissions are inherent to current production processes and cannot be eliminated solely by switching to low-carbon electricity or clean fuels.[1475]

A FEED study is the basic engineering work required to produce a quality process in documenting engineering and project requirements prior to a capital investment. FEED studies are commonly performed after a conceptual or feasibility study, but before any detailed engineering work is conducted for the EPC stage (Engineering, Procurement, and Construction).[1476] The CCUS FEED study program includes the following activities: (1) evaluate the development of a CO_2 pipeline transport infrastructure system necessary to enable the deployment of carbon capture, utilization, and storage technologies in Southern California; (2) identification of routes in Southern California to follow, to the extent possible, existing pipeline corridors and/or leverage existing right of ways to help optimize project development and reduce environmental disturbance and siting concerns while connecting the CO_2 sources to the CO_2 sink for storage; and (3) development of a final scope, design, and technical specifications for the CO_2 pipeline as a precursor to the evaluation of the project's capital investment estimates.[1477]

CCUS technology is identified as a priority at the federal level. As stated in S.799 of the Storing CO_2 and Lowering Emissions (SCALE) Act, "Congress finds that carbon dioxide transport infrastructure and permanent geological storage are proven and safe technologies with existing Federal and State regulatory frameworks."[1478] In addition, the recently passed IIJA in the United States includes substantial carbon management provisions and funding of $12.1 billion over five years for FEED work for CO_2 transport and Regional Direct Air Capture hubs.[1479]

The need for CCUS in California in particular has also been recognized. Governor Gavin Newsom, in a letter to the California Air Resources Board in July 2022, wrote that, "there is no path to carbon neutrality without carbon capture and sequestration."[1480] CARB's 2022 Scoping

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1475 *Id.*

1476 *Id.* at 25, n.65.

1477 *Id.* at 26:6-22.

1478 *Id.* at 22:16-19 (*citing* S.799 "Storing CO2 And Lowering Emissions Act (SCALE Act)," last modified March 17, 2021, *available at*: https://www.congress.gov/bill/117th-congress/senate-bill/799/text).

1479 Ex. SCG-212 (Infanzon) at 8:11-9:2.

1480 Ex. SCG-212 (Infanzon) at 6 n. 23 (*citing* Office of the Governor of the State of California, *Letter to CARB* (July 22, 2022), *available at:* https://www.gov.ca.gov/wp-content/uploads/2022/07/07.22.2022-Governors-Letter-toCARB.pdf?emrc=1054d6; and EO B-48-18, Plan Update identifies the need for CCUS in supporting State carbon neutrality goals and sets the ambitious goal of removing 20 million metric tons of CO_2 by 2030 and 100 million metric tons of CO_2 by 2045. All four of CARB's 2022 Scoping Plan Update scenario models include CO_2 removal from the atmosphere and the development of carbon capture and sequestration technologies in California.[1481] Scenarios include CCS on a majority of petroleum refining operations by 2030, beginning in 2028, and CCS on 40% of stone, clay, glass and cement operations by 2030 and on all facilities by 2045. CARB's Resolution 22-21 for the "2022 Climate Change Scoping Plan for Achieving Carbon Neutrality" also highlights in its Finding and Explanation for Utilities and Service Systems that its "Final [Environmental Analysis] found that the … 2022 Scoping Plan could result in potentially significant long term operational impacts on utilities and service system," and this "could include construction of… direct air capture and other CCS projects and associated pipelines and infrastructure."[1482] Similarly, SB 27 requires the California Natural Resources Agency to establish the "Natural and Working Lands Climate Smart Strategy," creating carbon removal targets for 2030 and beyond. In addition, through the Communities Local Energy Action Program grants, the DOE has pledged technical assistance to communities in SoCalGas's service territory, such as Kern County, to support energy overburdened communities in making a clean energy transition, including the development of CCUS.[1483]

With SoCalGas's extensive experience in engineering, constructing, operating, inspecting, safety, and maintaining pipelines in the backcountry and urban settings, the Company is well-positioned to play a key role in the first-stage consideration of a region-critical open access common carrier CO_2 pipeline network that would benefit ratepayers and the state by advancing California's net-zero goals, reducing emissions from the hard to electrify sectors in Southern California, and creating new jobs and economic benefits. An open access common carrier pipeline network could help transport CO_2 captured by industries, including, potentially, SoCalGas

(January 26, 2018), *available at:* https://www.library.ca.gov/wp-content/uploads/GovernmentPublications/executive-orderproclamation/39-B-48-18.pdf.)

1481 Ex. SCG-212 (Infanzon) at 23, n.83 (*citing* CARB, *2022 Scoping Plan for Achieving Carbon Neutrality* (November 16, 2022)); *see also* Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 3-4 (AB 32, SB 32, and Executive Order B-55-18, promoting the development and examination of CCUS solutions).

1482 Ex. SCG-212 (Infanzon) at 19:14-20.

1483 Ex. SCG-12-R (Infanzon) at 25:4-7.

customers, or through direct air capture to appropriate CO2 sinks.[1484] The proposed CCUS FEED Study Program would identify CO2 pipeline routes in Southern California to follow, to the extent possible, existing SoCalGas pipeline corridors and/or leverage existing rights-of-way to help optimize project development and reduce environmental disturbance and siting concerns while connecting the CO2 source to the CO2 sink for storage.[1485] To be clear, the costs would not include any capital costs, and are limited to O&M costs for evaluating the potential for a CO2 pipeline transport infrastructure system. If SoCalGas decides to pursue such a system in the future, SoCalGas would make a separate request to the Commission.

In testimony, Cal Advocates, CEJA, IS, and TURN-SCGC oppose the request for funding for a CCUS FEED Study Program. Cal Advocates and CEJA largely argue that ratepayers should not fund the CCUS FEED Study Program because they will not see any benefit from it. TURN-SCGC and IS argue that the issue should be handled in a separate proceeding.

CCUS would benefit all ratepayers by reducing CO2, and potentially other air pollutants like particulate matter (PM), nitrogen oxides (NOx), and Sulphur oxides (SOx), from the atmosphere.[1486] Through DAC and capturing CO2 from industries, localized benefits along a CO2 pipeline pathway would be provided. The CCUS FEED Study Program proposal is not limited to serving only a few industrial customers, it also may provide a pathway for deploying clean powered DAC technology. These benefits were not rebutted in intervenors' testimony. Instead, CEJA argues, citing the Angeles Link Decision (D.22-12-055 at 5, 22), that because CCUS would not benefit every single ratepayer, it should not be included in the GRC. However, the Angeles Link Decision did not make any determinations on customer benefits, and cost recovery issues were deferred until future proceedings.[1487] In addition, the Angeles Link application covered a

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1484 *See* Ex. SCG-212 (Infanzon) at 7 (*citing* USDOE, *Pathways to Commercial Liftoff: Carbon Management,* April 2023, at 1, *available at*: https://liftoff.energy.gov/wp-content/uploads/2023/04/20230424-Liftoff-Carbon-ManagementvPUB_update.pdf.)

1485 Ex. SCG-12-R (Infanzon) at 25-26.

1486 Ex. SCG-212 (Infanzon) at 18, n.60 (*citing* DOE, *Fossil Energy and Carbon Management, Carbon Dioxide Removal Frequently Asked Questions* at 10, *available at:* https://www.energy.gov/sites/default/files/2021-11/Carbon-DioxideRemoval-FAQs.pdf.).

1487 D.22-12-055 at 22 ("The set of benefiting ratepayers will be determined when SoCalGas files for cost recovery."). The Commission did recognize that "beneficiaries of the Phase One activities are the current and future ratepayers who can potentially take service from the Project, and that the Commission has adopted a cost causation policy in which only ratepayers who benefit from the funded activities should pay for the costs." (*Id.* at 35.) However, as explained below, the potential complete hydrogen pipeline project – here, SoCalGas is only proposing a FEED study.[1488] Regardless, the actual carbon dioxide capture would benefit all ratepayers by directly removing greenhouse gases from the atmosphere.

In addition, the Commission has recognized its role in enhancing the environment with its regulation of California IOUs.[1489] As a result, the Commission has recognized an exception to the "cost-causation" principle when a public utility is supporting an explicit state policy, like reducing carbon emissions and achieving carbon neutrality. While, "[h]istorically, the determination of just and reasonable has emphasized cost-causation," the Commission has recognized that "[i]n recent years, changes in energy use to protect the environment have become increasingly important."[1490] Accordingly, the Commission may allow "for certain subsidies to promote certain societal programs" or "support explicit state policy goals."[1491] Indeed, this principle is now firmly part of the Commission's updated "Electric Rate Design Principles": "Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals."[1492] For example, in D.06-12-032, the Commission approved PG&E's "Demonstration Climate Protection Program and Tariff Option," allowing PG&E ratepayers to voluntarily opt into paying a premium to offset their climate footprint. In doing so, the Commission allowed the administration and management costs of the program to be charged to *all* ratepayers, noting that in light of the "relatively minimal bill impacts of allocating the A&M costs across all ratepayers, we conclude that it is reasonable to

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Commission has also recognized that cross-subsidies, which are "intentional deviations from cost-based rulemaking," may be appropriate when doing so "transparently and appropriately support explicit state policy goals." D.23-04-040, *Decision Adopting Electric Rate Design Principles and Demand Flexibility Design Principles* (April 27, 2023), Attachment A at 3.

1488 The decision allowing SoCalGas to record Phase One costs for Angeles Link included a cost cap of $26 million to cover activities like preliminary engineering, design, and environmental studies to study supply, demand, possible end users, pipeline configuration and storage solutions and to analyze project alternatives for a first-of-its-kind green hydrogen transportation project. D.22-12-055 at 4. SoCalGas is seeking only a fraction of that amount here.

1489 "As part of its mission statement, the [Commission] . . . 'serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy.'" D.13-12-040 at 20-21.

1490 D.15-07-001 at 2 (Decision on Residential Rate Reform for Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company and Transition to Time-of-Use Rates).

1491 *Id.* at 8, 28.

1492 D.23-04-040 at 20 (Decision Adopting Electric Rate Design Principles and Demand Flexibility Design Principles).

assign these costs accordingly, rather than risk program failure by forcing program participants to bear a large share of the A&M costs."[1493]

It must be emphasized that the need to act soon with respect to CCUS is well-established. From an environmental standpoint, CARB has stated that "If CCS is not deployed, [CO2] emissions would be directly emitted into the atmosphere, and CO2 removal by natural working lands or direct air capture would need to increase."[1494] There is a need to reach GHG reductions as quickly as possible, balanced against safety, reliability and affordability, in order to avoid the catastrophic effects of climate change.[1495] Even EDF has recognized the need to move quickly to meet the state's clean energy goals.[1496] From a cost perspective, approval of the CCUS FEED Study Program in the TY2024 GRC will also enable SoCalGas to compete for relevant federal funding opportunities under the IIJA[1497] and IRA, which could provide 50% to 80% cost sharing, in addition to what is acquired from state funding opportunities.[1498] TURN-SCGC's and IS's claim that the CCUS FEED Study Program should be part of a separate proceeding is also inapt. IS states in testimony that the costs for the CCUS FEED Study Program should not be included because they are estimates and the funding for the IIJA has not yet been determined. TURN-SCGC argues that SoCalGas "should file a separate application" for approval of the FEED Study Program. However, Resolution E-5254, which was finalized after IS's and TURN-SCGC's testimonies, expressly allows cost recovery for clean energy proposals – including carbon management programs[1499] – that may be subject to federal funding through "General Rate Case applications…."[1500] Furthermore, the fact that the costs are an "estimate" does not mean that it should not be approved. GRCs regularly deal with cost estimates – forecasts for costs in a test year

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1493 D.06-12-032 at 18 (Decision Granting Application with Modifications).

1494 Ex. SCG-212 at 20:1-5 (*citing* CARB, 2022 Scoping Plan for Achieving Carbon Neutrality at 87).

1495 Tr. V5:944:19-22 (Niehaus).

1496 Ex. SCG-316, Attachment A at 4 (referencing "Potential delays, financial uncertainty and the sheer volume of new resources required add to the urgency for comprehensive planning and rapid implementation. … The risks of building clean energy too slowly have far eclipsed the risk of moving too fast.").

1497 The Commission has rightly recognized that the IIJA, which includes important clean energy programs, is "a one-time opportunity to benefit California utility customers and make critical grid and gas infrastructure investments" including to "improve the reliability and resiliency of our electric and gas systems, and achieve our ambitious climate change goals."

1498 Ex. SCG-212 (Infanzon) at 20:6-11.

1499 Res. E-5254 (April 6, 2023) at 3-4.

1500 *Id.* at 20.

are essentially estimates. The cost was derived "based on industry guidance of FEED studies for large, first of its kind infrastructure projects, and based on previous costs for studies of this nature."[1501]

The Commission should find that these limited, early-stage research and planning activities are appropriate for support. Costs for the CCUS FEED Study Program should be approved.

18.1.5 Clean Fuels Operational Readiness Program

SoCalGas is requesting $2.500 million funding for the Clean Fuels Operational Readiness Program, which will help SoCalGas develop a strategic framework for operational and system readiness to help accelerate the Company towards new clean fuels infrastructure.[1502] In particular, the Clean Fuels Operational Readiness Program will focus on the integration of hydrogen and carbon management infrastructure into our existing systems. Other than for hydrogen blending, none of the previous or current SoCalGas activities or programs have addressed the operational readiness of the existing natural gas infrastructure system to support a diverse portfolio of clean fuels and carbon management across all aspects of the value chain.[1503]

While CEJA objects to the broader Clean Fuels Infrastructure Development group entirely, TURN-SCGC is the only intervenor to directly oppose SoCalGas's request for a Clean Fuels Operational Readiness Program. TURN-SCGC argues that "the Commission should deny the proposed funding for the clean fuels operational readiness program as duplicative of SoCalGas's other efforts," such as those relating to RNG and hydrogen.[1504] First, as described in testimony,[1505] the program applies beyond RNG and hydrogen. Second, the RNG and Hydrogen proceedings cited by TURN-SCGC are focused on certain aspects of those fuels – the Clean Fuels Operational Readiness Program will be focusing on other aspects, especially those critical to the operational considerations of integrating clean fuels and carbon management infrastructure, such as those relating to technology, materials, workforce, Information Technology (IT) and Operational Technology (OT) systems, training standards, regulatory and compliance protocols, and fleet and facilities considerations.[1506] As acknowledged in the CEI's direct testimony and the direct

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[1501] Ex. SCG-12-R (Infanzon) at 26:7-9.

[1502] *Id.* at 26.

[1503] Ex. SCG-212 (Infanzon) at 23:4-9.

[1504] Ex. TURN-SCGC-06 (Yap) at 8.

[1505] Ex. SCG-212 (Infanzon) at 22.

[1506] *Id.* at 23:18-24:7.

testimony of Maria Martinez (Gas Engineering), SoCalGas is separately seeking to demonstrate blending hydrogen into the existing natural gas system in the Joint IOU hydrogen blending demonstration application, which would collect live blending data to demonstrate the feasibility of developing a hydrogen injection standard.[1507] As discussed in Ms. Martinez's direct testimony, SoCalGas's hydrogen blending program included in her testimony would evaluate the development of material specifications, update of operations standards, management of change, and the development of safety training for operations and first responders specific to hydrogen blending efforts and is not duplicative of the clean fuels operational readiness program which is focused on other aspects of operational readiness of hydrogen and also carbon management.[1508]

18.1.5.1 Clean Fuels Transportation Program

SoCalGas requests funding for its Clean Fuels Transportation Program. The program provides "information, education and training related to Clean Transportation for a variety of stakeholders, including owners of hydrogen fuel cell vehicles (FCVs) and renewable natural gas vehicles (RNGVs), operators of hydrogen and RNGV refueling stations, vehicle and equipment manufacturers, government agencies, policymakers, and others."[1509] Customers go to SoCalGas for information about how they or their businesses might employ low emission vehicles (LEVs) and zero emission vehicles (ZEVs), such as those that use RNG or Hydrogen. The program was authorized in separate proceedings before 2005 when it was examined for inclusion in future GRCs and approved in D.05-05-010, and has been approved in SoCalGas's GRCs since that time. The findings of D.05-05-010 still hold true today – customers do and will seek out SoCalGas for information about LEV and ZEVs. In particular, as shown by market research commissioned by SoCalGas, and the conclusions drawn in the CEC AB 8 report, there is increasing demand for hydrogen FCVs which "will result in an increased demand for public and private hydrogen refueling infrastructure, customer information, education, and training. The Clean Fuels Transportation Program will support customers by providing the necessary hydrogen refueling infrastructure, information, education, and training." In addition, the California Air Resource Board has mandated that 25% of all new bus purchases by 2023 be zero-emission, with a full

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1507 Ex. SCG-07-R (Martinez) at 33-35.

1508 Ex. SCG-212 (Infanzon) at 23.

1509 *Id.* at 24:13-17.

transition by 2040.[1510] This rule parallels a state requirement that starting in 2026, 35% of new passenger vehicles sold must be considered zero-emission, rising to 100% in 2035.[1511]

TURN-SCGC, IS, CEJA, and PCF all oppose SoCalGas's request. TURN-SCGC argues that the customer information program amounts to only "marketing, business development, and lobbying efforts" and should not be funded. However, the educational and information sharing efforts undertaken through this program are legitimate and needed activities, as discussed above. Moreover, there is no evidence suggesting that such work is inappropriate or should not be ratepayer funded.

IS argues that because these expenses are not directly providing gas delivery service, they should not be allowed. This would directly contradict the historic approval of these costs in past GRCs and D.05-05-010, which IS does not address in testimony. CEJA similarly argues the program is "designed to support new business opportunities for SoCalGas" and that SoCalGas is not the appropriate entity to provide the information. For the same reasons, and those discussed in Section 18.1.2, CEJA's arguments fail.

CEJA also argues that the state is shifting to ZEV by 2045, and therefore the funding is not appropriate. However, this GRC only concerns the next four years – decades before 2045, during which time LEV or potential LEV consumers and businesses may have questions regarding LEVs that SoCalGas would be able to answer. Further, SoCalGas's Clean Fuels Transportation Program serves ZEV customers. For example, hydrogen is a zero-emission fuel and SoCalGas's increasing involvement with it, including through providing customer support in the Clean Fuels Transportation program, is a step it is taking toward helping the State achieve its ZEV goals. CEJA argues "it is inappropriate for SoCalGas' captive methane customers to pay for hydrogen activities that do not benefit them, including SoCalGas' promotion of hydrogen as a vehicle fuel." Again, the service of providing information is available to all customers, and has been found to be

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[1510] California Air Resources Board, *Innovative Clean Transit (ICT) Regulation Fact Sheet* (May 16, 2019), *available at:* https://ww2.arb.ca.gov/resources/fact-sheets/innovative-clean-transit-ict-regulation-fact-sheet.

[1511] California Air Resources Board, *Advanced Clean Cars Regulation*, *available at:* https://ww2.arb.ca.gov/our-work/programs/advanced-clean-cars-program; *see also,* 13 CCR § 1962.4 (Zero-Emission Vehicle Requirements for 2026 and Subsequent Model Year Passenger Cars and Light-Duty Trucks).

appropriate for many GRCs.[1512] CEJA also argues that the "hydrogen refueling station business model is troubling because the dominant technology for producing hydrogen" is steam methane reformation (SMR). The argument fails because (1) the state has been encouraging the adoption of hydrogen refueling stations – whether they are SMR stations or otherwise,[1513] and (2) the hydrogen refueling station proposed in this GRC is not an SMR station. CEJA's apparent dislike of hydrogen as a vehicle fuel is contrary to the weight of state policy, which supports the rapid build-out of a robust hydrogen fueling station network in California. Finally, CEJA argues that because other companies "may or may not provide similar services" relating to information, education, and training, SoCalGas should not be permitted to do the same. However, CEJA presents no evidence as to which companies provide this particular service, and SoCalGas has long been a resource for information relating to natural gas vehicles without raising issues concerning unfair competition for many years and there is no explanation by CEJA why hydrogen refueling would be any different.

Finally, PCF's argument that the program should not be funded due to concerns about hydrogen leakage and climate impacts ignores existing State encouragement of the creation and adoption of hydrogen refueling stations. The 2022 CARB Scoping Plan states that in order for the state to be successful with its climate goals, the state should "Continue and accelerate funding support for zero emission vehicles and refueling infrastructure through 2030 to ensure the rapid transformation of the transportation sector" and that "Electricity and hydrogen are currently the primary fuels for ZEVs." PCF's arguments contradict the State's goals related to hydrogen stations and as described in the CEC AB 8 report, "general barriers … to overall widespread FCEV commercialization and deployment remain" and the "need for a reliable hydrogen supply and reliable stations also presents a barrier to widespread FCEV commercialization and deployment, as

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[1512] 2016 SoCalGas General Rate Case (D.16-06-054 at 121-130), 2019 SoCalGas General Rate Case (D.19-09-051 at 365-359); *see also* D.06-12-032, *Decision Granting Application with Modifications*, (Dec. 14, 2006) (Approving PG&E's application to establish a "Demonstration Climate Protection Program and Tariff Option," allowing PG&E ratepayers to voluntarily opt into paying a premium to offset their climate footprint but allowing the administration and management costs of the program to be charged to all ratepayers).

[1513] *See* California Air Resources Board, *2022 Scoping Plan for Achieving Carbon Neutrality* (December 2022) at 88-89, *available at:* https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf, ("Steam methane reformation paired with CCS can thus ensure a rapid transition to hydrogen and increase hydrogen availability until such time as electrolysis with renewables can meet the ongoing need….").

does expanded geographic coverage of the stations. FCEV adoption may increase at a higher pace when these barriers are addressed."

The Clean Fuels Transportation Program should be approved as proposed.

18.1.5.2 Clean Fuels Power Generation

SoCalGas's CEI request also includes $0.360 million in incremental funding for the Clean Fuels Power Generation team. The Clean Fuels Power Generation team provides policy, technical, and economic feasibility analyses and advises internal and external stakeholders in areas that pertain to regulatory, tariffs, contracts, air quality, legislation, market transformation, and education and training specific to clean fuel power generation. More specifically, the team provides valuable information related to distributed energy resources (DERs) such as fuel cells, linear generators, and energy storage—along with clean fuels such as hydrogen and renewable gas, which are necessary to maintain a reliable, resilient, and cost-efficient energy system.[1514] Over the last several years the increase in extreme weather events has left customers vulnerable to power outages, increased costs, and overall energy uncertainty, forcing many to rely on fossil fuel backup generation, which is counter to the State's environmental goals.[1515] DERs provide better alternatives to this non-renewable, fossil fuel backup generation. Customers looking to deploy microgrids require a full understanding of the numerous programs, tariffs, credits, and subsidies applying to DERs and customer options for clean fuels provided through the gas utility system. This kind of information has historically been found to be of value, especially to smaller customers, as the regulation landscapes change.[1516]

Setting aside CEJA's general opposition to the Clean Fuels Infrastructure Development Program, only TURN-SCGC argues against this proposed cost. TURN-SCGC argues that "[t]he proposed activities are clearly not within the scope of the gas utility business."[1517] However, these areas are well-within SoCalGas's experience, and are exactly the kind of customer education that

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1514 Ex. SCG-212 (Infanzon) at 27.

1515 SB 350 (De León, 2015), *available at:* https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350.

1516 *See* D.13-05-010 at 629 (approving of costs related to supporting and educating customers about installation of new systems and those subject to new regulations, finding "Without the assistance of SoCalGas, these smaller customers may not be aware of how these new air quality regulations will affect their use of gas-fired appliances.").

1517 Ex. TURN-SCGC-06 (Yap) at 7.

SoCalGas traditionally performs (and which has been approved by the CPUC).[1518] Furthermore, TURN-SCGC's general statement that "many firms that provide technical services to customers who are wanting to develop power generation projects" is misguided. First, TURN-SCGC does not actually identify any such firms that provide the information that SoCalGas provides. Second, it appears TURN-SCGC believes that the Clean Fuels Power Generation group is responsible for construction or engineering services – this is not the case. Finally, SoCalGas has successfully managed several DER programs across its service territory, including the Self-Generation Incentive Program for DERs. SoCalGas is also recognized in the community at a level that third-party engineering firms are not. SoCalGas is well-positioned to continue providing credible information to customers for these important programs and the forecast should be approved.

18.1.6 Clean Energy Innovations Project Management Office (PMO)

SoCalGas is requesting $1.592 million for its Clean Energy Innovations Project Management Office, an increase of $1.295 million over $0.297 million for the 2021 Adjusted-Recorded Base Year. A PMO is needed to formalize the project management processes and procedures for the expanding and increasingly complex projects and activities that are part of CEI's project portfolio. The governance processes are guided by industry standards and best practices, designed to standardize project execution across the project portfolio, and provide leadership with clear, timely, and accurate portfolio information. These processes allow management to assess whether projects follow scope and schedule, meet quality expectations, and are on target to achieve established goals. PMOs are a standard industry best practice in project management. At SoCalGas, PMOs oversee a variety of projects, including the PSEP, Mobile Home Park Utility Upgrade, Advanced Meter, and other subject areas and their costs have routinely been approved as just and reasonable in prior GRCs.[1519]

TURN-SCGC and CEJA argue in testimony that SoCalGas's proposal to establish a PMO responsible for project governance, project management standards, and reporting is inappropriate for projects outside SoCalGas's core utility business. As explained above, SoCalGas should be allowed to pursue different pathways to help meet the State's clean energy goals. State and federal agencies, regulations, and lawmakers affirm the importance of accelerating the clean energy

[1518] D.13-05-010 at 629; D.19-09-051.

[1519] Ex. SCG-12-R (Infanzon) at 41:27-43:2.

transition.[1520] The CEI PMO will help reduce risks, remove redundancies, and increase efficiencies for SoCalGas's efforts in this transition.

TURN-SCGC and CEJA also contend that the CEI PMO is "overhead-heavy." As with other PMOs at SoCalGas, the CEI PMO includes a number of important organizational functions described in testimony,[1521] and will support all current project activities and future initiatives. The CEI PMO should be approved as requested.

18.1.7 Research Development and Demonstration Refundable Program

SoCalGas is requesting $23.249 million for its RD&D program for the test year, an increase of $5.209 million over the $18.040 million for the base year. Funding for RD&D includes non-labor costs for execution of projects by third-parties, direct project expenditures, and management and administration costs. The costs are tracked in a one-way balancing account and are refundable – whatever amounts SoCalGas does not use are returned. The RD&D Program was statutorily authorized in Pub. Util. Code § 740.1 to identify and support new technologies and research activities. The program focuses on four main research domains: Clean & Renewable Energy Resources, Gas Operations, Clean Transportation, and Clean Energy Applications. SoCalGas also requests in this GRC a modification of the RD&D Advice Letter filing from a Tier 3 to a Tier 2 Advice Letter. The entire RD&D program is opposed by CEJA, and two aspects are opposed by Cal Advocates.

The RD&D Program cost was forecasted using a zero-based method that has been utilized in SoCalGas's last two GRCs and has been previously approved by the Commission.[1522] To provide additional support for the zero-based forecast method, SoCalGas performed an extensive technology gap analysis and assessed needs for each RD&D program area based on the current state of technology and considered whether each program area would be anticipated to provide safety and reliability enhancements, further energy efficiency goals, reduce criteria pollutants and GHG emissions, or meet other cost and performance goals.[1523] The robust gap analysis is

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[1520] *See* Ex. SCG-202-E (Niehaus/Arazi) at 4-6.

[1521] Ex. SCG-12-R (Infanzon) at 42.

[1522] D.19-09-051 at 377 ("we find that a zero-based methodology is more forward-looking as it considers funding for projects that are being planned rather than projects that have already been completed. In addition, a zero-based method has been utilized for this cost center in SoCalGas' last two GRCs and we continue to find this method as more appropriate in this case."); A.14-11-004, Direct Testimony of Jeffrey G. Reed (Customer Service Technologies, Policies, and Solutions), Ex. SCG-13-R at 7.

[1523] Ex. SCG-12-R (Infanzon) at Appendix B.

summarized in an 84-page chart attached to testimony, and includes policy drivers, ratepayer benefits, technology gap description, source citations, and specific development activities.[1524] This gap analysis identifies potential areas for research; these gaps are later discussed with the research community and may lead development of specific research proposals that would then be evaluated through the RD&D program and considered for funding based on program requirements.[1525] The increase from the last GRC is based on this gap analysis (which includes more work related to clean energy), increased consideration of Environmental and Social Justice issues in RD&D funding decisions (based on discussions with Energy Division),[1526] development of an equity engagement roadmap, increased webinars, and transparency efforts, and identifying and tracking funding opportunities presented by the Infrastructure Investment and Jobs Act (IIJA).[1527]

The RD&D Program is run through an established process for RD&D project selection and approval. Internally, areas of research are identified, opportunities are reviewed, scopes of work are refined, funding sources are evaluated, and projects are initiated.[1528] An Annual Report is provided to Energy Division and made publicly available, which includes ongoing and completed projects, funds expended, the process for project selection, and other information.[1529] The RD&D Program engages with stakeholders (including DOE, CEC, and GTI Energy) then hosts a public workshop to present the results of the previous year's RD&D activities and to obtain input regarding its intended spending for the following calendar year. The 2021 workshop was attended by 165 individuals from organizations including the CPUC, California Governor's Office of Business and Economic Development, SCAQMD, Earthjustice, GTI, and the Latino Chamber of Commerce of Compton. Public comments are collected during and after the workshops to help provide guidance to RD&D staff in research planning efforts. At the conclusion of this stakeholder engagement, SoCalGas files a Tier 3 Advice Letter with its research plan for approval of the budget and projects for the following calendar year. The advice letter includes descriptions

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1524 Id.

1525 *Id*.

1526 *See* Res. G-3573 at 15-16 (OP 3) ("In developing the subsequent Research Plans, SoCalGas shall: Continue to increase its focus on equity by including detail on how it will measure impacts to communities and providing additional detail on engagement with community-based organizations.").

1527 Ex. SCG-12-R (Infanzon) at 46:10-47:8 and n.105.

1528 *Id.* at 48:3-25

1529 *Id.* at 48:28-49:3 (*citing* SoCalGas, *Research, Development, And Demonstration (RD&D), available at:* https://www.socalgas.com/sustainability/research-development-demonstration-rdd).

of the benefits of the projects, and a discussion of the ways RD&D staff incorporates feedback from workshop stakeholders and Commission staff. For the past 2 years, the budgets and projects included in these advice letters have been entirely or nearly entirely approved.

SoCalGas also requests in this GRC a modification to the advice letter aspect of the annual RD&D review and approval process. SoCalGas intends to continue providing the same information to the Commission, and conducting the same workshops and engagement efforts, but requests that the advice letter filing requirement be changed from a Tier 3 advice letter to a Tier 2 advice letter. Although the advice letters are filed in June in the year prior to program implementation, through the last three years of advice letter filings, Resolutions have not been issued until March 19, 2021 (78 days into the 2021 program year), March 17, 2022 (76 days into the 2022 program year), and at the time of filing this brief, SoCalGas's 2023 program still has not been approved (206 days into the program year, and more than a year after filing). These delays restrict SoCalGas's ability to issue payments to research teams and to properly utilize the authorized budget. SoCalGas is understanding of resource constraints at the Commission, and proposes this advice letter change in hopes of reducing the burden on the Commission in approving the RD&D advice letters, allowing SoCalGas to be a better research partner with external research teams, and helping SoCalGas better manage its RD&D funds.

Cal Advocates opposes two aspects of SoCalGas's RD&D request, and CEJA opposes the entire program, including several specific pieces of the request. First, Cal Advocates and CEJA both oppose the change in the AL process. The intervenors claim in testimony that moving to a Tier 2 advice letter would reduce oversight. However, the program would still continue the processes described above, including the robust stakeholder engagement process (in which Cal Advocates and CEJA may participate) – the only change would be that approval would only require action by Energy Division staff instead of a full Commission resolution. CEJA argues a Tier 3 AL is necessary given a supposed "misalignment" between SoCalGas's proposals and California policy. As explained throughout this brief and proceeding, SoCalGas's goals clearly align with State clean energy policies.[1530] The consistent approval of SoCalGas's past ALs concerning clean energy RD&D further emphasizes this alignment.[1531] Second, Cal Advocates

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1530 *See* Section 8.

1531 Ex. SCG-212 (Infanzon) at 31, n.107 ("with respect to SoCalGas's clean energy-related RD&D efforts, recent CPUC resolutions have specifically approved RD&D's efforts in the areas of hydrogen contends that the delays in rulings on the Tier 3 advice letters are "anecdotal" and not a "recurring, widespread issue."[1532] However, this has been an issue for three years in a row, and the extent of the delay has been increasing. Approving SoCalGas's requested modification to the approval process would facilitate timely RD&D Program efforts without reducing stakeholder input, and should be approved.

Cal Advocates also opposes the Clean Transportation RD&D research domain, claiming that the projects do not provide ratepayer benefits. As an initial matter, Pub. Util. Code § 740.1 requires that RD&D projects "should offer a *reasonable probability* of providing benefits to ratepayers…."[1533] The Commission has previously found that Clean Transportation RD&D meets this standard.[1534] Further, each of the projects in the Annual Reports describe the proposed projects' anticipated benefits to ratepayers – for example, the 2021 Annual Report explains the benefits to ratepayers for this domain, including, but not limited to, reduced GHG emissions, improved air quality, and safety.[1535] Likewise, the hydrogen-related RD&D efforts included in this GRC benefit ratepayers by supporting California's clean energy transition and by de-risking promising pre-commercial technologies and supporting the transition of those technologies from a concept to widespread commercial deployment. As part of this program, SoCalGas will study innovative technologies, optimizing them for mass production, performing long-duration testing to ensure longevity and reliability, making improvements in their energy efficiency, and/or reducing costs to make them attractive substitutes to existing energy sources. For example, RD&D efforts in this GRC will advance new technology to make hydrogen fueling faster, more reliable, and

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production and CCUS. (*See* Resolution G-3573, March 18, 2021, at 11-12 (approving (1) $1.5M for Renewable Gas Production, including, biomass processing and conversion, hydrogen production from renewable sources, and methanation (2) $2,924,200 for Low Carbon Hydrogen Production including, but not limited to, methane pyrolysis and advanced steam methane reforming (SMR) technologies); *Id.* at Appendix A (approving (1) $1M for Low GHG Chemical Processes subprogram, including Carbon Capture and Utilization (CCU), and Carbon Capture and Sequestration (CCS)); Resolution G-3586, March 17, 2022, at Appendix A (approving: (1) $3,295,501 for Renewable Gas Production, specifically RNG and hydrogen, from various feedstocks and multiple technological pathways, (2) $2,197,001 for CCUS-related RD&D). The proposed work of the broader CEI program to scale up Hydrogen delivery and enable large-scale carbon management is a logical extension of the research and technology development performed by RD&D.)").

1532 Ex. CA-07 (Kaur) at 9-10.

1533 Pub. Util. Code § 740.1 (emphasis added).

1534 Ex. SCG-212 (Infanzon) at 32.

1535 *Id*.

more affordable.[1536] Additionally, this work helps improve fueling efficiency and reduce the delivered cost of hydrogen, which will help drive the entire market forward.[1537]

CEJA opposes the RD&D Program in its entirety. CEJA first argues that the program should be administered by the CEC, not SoCalGas. However, the RD&D Program has been consistently approved in past GRCs. The decision in the last GRC explicitly made the following Findings of Fact:

> 169. SoCalGas' RD&D programs complement other R&D programs such as solicitations, host sites, and co-funding projects that complement the CEC's Natural Gas R&D program as well as projects that supplement programs by the Environmental Protection Agency and Air Resource Board.
>
> 170. SoCalGas' RD&D program is not duplicative of and supplements other R&D projects by government agencies and other groups.
>
> 171. The RD&D programs are not dependent on the CEC's funding level and utilities may pursue projects that supplement RD&D projects of other agencies and entities.[1538]

Since those Findings of Fact, SoCalGas's RD&D Program has had its RD&D AL filings approved entirely or with minimal modifications – there is no reason to abandon this successful program. Further, to the extent that CEJA is concerned about potential duplication between SoCalGas and CEC research efforts, SoCalGas is a frequent participant in CEC programs, and the CEC is invited to participate in the annual RD&D Program public workshop. Potential areas of overlap would be addressed through these established collaborative processes.

CEJA also opposes the entire program on the grounds that "Many of the research initiatives SoCalGas proposes are wholly unrelated to its role delivering methane to ratepayers" and "would squander ratepayer funds that are unlikely to help California rapidly and cost-effectively meet its climate and public health goals."[1539] Despite CEJA's assertions, SoCalGas is not limited to RD&D that exclusively focused on delivering methane to customers. In fact, as part of the criteria for "evaluating the research, development, and demonstration programs proposed by electrical and gas corporations," the projects should be able to demonstrate that they meet at least one of five listed objectives, including "[d]evelopment of new resources and processes, particularly renewable

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1536 *Id.* at 39.

1537 *Id.*

1538 D.19-09-051 at 745-746.

1539 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 38.

resources and processes which further supply technologies" and "[e]nvironmental improvement."[1540] For every project that SoCalGas funds and undertakes, it explains the benefits of such projects to ratepayers in its Annual Report, workshops, and AL filings. These projects have included clean energy research projects, including concerning hydrogen and CCUS, and funding for such projects has been approved.[1541] Indeed, the Commission approved SoCalGas's 2021 and 2022 RD&D plans, which included research related to safely blending hydrogen into a pipeline; studying the impacts of hydrogen on pipeline operation and maintenance; low-carbon hydrogen production technologies; hydrogen fuel cell electric vehicles; and refueling technologies and systems that support hydrogen as a transportation fuel.[1542] Based on this well-established precedent, there is nothing unusual or improper with the additional hydrogen and other clean fuels-related RD&D programs that SoCalGas includes as part of this GRC. CEJA's complaint that projects must relate to the delivery of methane is without merit.

CEJA also claims in testimony that if the RD&D Program is not entirely dissolved or relocated, then a number of research areas should not be approved. CEJA identifies a host of areas in SoCalGas's RD&D gap analysis that it opposes. Generally speaking, such specific arguments should be addressed through the RD&D Annual Report and workshop processes. In addition, these areas of research may be areas of research that are of great importance to other stakeholders – just because CEJA opposes them does not render them valueless areas of research.

First, CEJA objects to the Renewable Hydrocarbon Conversion research area on the grounds that the proposed hydrogen production processes could cause air pollution. As Mr. Infanzon explain during cross-examination, further research is needed to find technologies that could result in no pollutants from Renewable Hydrocarbon Conversion[1543] – this emphasizes the need for such early research and is not a reason not to conduct it at all. In addition, CEJA's myopic focus on whether there could be *any* pollutants from such technology ignores overall environmental impact[1544] and whether other benefits could flow from such research.

1540 Pub. Util. Code § 740.1(e)(1), (4).

1541 Ex. SCG-212 (Infanzon) at 31, n.107.

1542 *See* Res. G-3586 (March 22, 2022) (approving 2022 Research, Development, and Demonstration Program Research Plan); Res. G-3573 (Mar. 19, 2021) (approving 2021 Research, Development, and Demonstration Program Research Plan and noting that "the CPUC remains interested in supporting the development of renewable hydrogen").

1543 Tr. V13:2302:23-2304:8 (Infanzon).

1544 Ex. SCG-212 (Infanzon) at 34:9-14.

Second, CEJA opposes the Carbon Management research area, claiming that installing carbon capture equipment on industrial facilities can increase air pollution. CEJA's narrow characterization of the Carbon Management sub-program is inaccurate. The proposed Carbon Management subprogram includes many research areas beyond point-source carbon capture at industrial facilities, which CEJA focuses on. Furthermore, the citation CEJA relies on, a 2011 report by the European Environment Agency, clarifies that the current literature "concerning emissions of air pollutants for energy conversion technologies with CO2 capture is most often based on assumptions and not on actual measurements," that a "proper quantitative analysis of emissions and environmental performance is required," and that "much of the available information is merely qualitative in nature."[1545] These are issues that SoCalGas's RD&D program can address. Nor does the report discuss the opportunities that exist to mitigate the emissions – something that SoCalGas's RD&D program seeks to identify in order to enable CCUS while reducing NOx/GHG emissions.

CEJA also generally argues against any carbon capture related RD&D as improper "business development."[1546] It is unclear what CEJA's argument is in this instance. To the extent that CEJA is arguing that SoCalGas should not be allowed to study carbon capture technologies in the RD&D Program (which provides information for the benefit of the public, not just SoCalGas) just because SoCalGas may, in the future, offer CCUS-related services, that argument is directly contrary to state policies and objectives endorsing carbon removal technologies. There is widespread consensus among experts that negative-emissions technologies will be required in order to achieve state and federal climate goals.[1547] Carbon capture, which SoCalGas has been successfully studying through approved projects in its RD&D program can make tangible

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1545 Ex. SCG-212 (Infanzon) at 34 at n. 120 (*citing* European Environmental Agency, *Air pollution impacts from carbon capture and storage (CCS)* at 7, *available at:* https://www.eea.europa.eu/publications/carbon-capture-and-storage).

1546 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 40.

1547 Ex. SCG-212 (Infanzon) at 35, n.124 (*citing* Lawrence Livermore Laboratory Foundation, *Getting to Neutral: Options for Negative Carbon Emissions California* (August 2020) at 1, *available at:* https://gs.llnl.gov/sites/gs/files/202108/getting_to_neutral.pdf; Frontiers, *The Role of Direct Air Capture in Mitigation of Anthropogenic Greenhouse Gas Emissions* (November 21, 2019), *available at:* https://www.frontiersin.org/articles/10.3389/fclim.2019.00010/full; Nature Communications, *A policy roadmap for negative emissions using direct air capture* (2021), *available at:* https://www.nature.com/articles/s41467-021-22347-1; CARB, *2022 Scoping Plan for Achieving Carbon Neutrality* (November 16, 2022) at 84-89, 91-97, *available it:* https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf).

contributions to the State's climate goals, separate from whether anything might amount to "business development."

CEJA also argues, without any basis, that "SoCalGas does not have unique expertise" on the technologies in the RD&D program. Relying on nothing but assumption, CEJA's characterization of SoCalGas's expertise also ignores the collaborative, interdisciplinary nature of the RD&D program. SoCalGas RD&D has more than a decade of experience, has collaborated on RD&D projects relating to RNG, hydrogen, and carbon capture and sequestration among a host of other topics.[1548] The program is an important element of a larger technology funding ecosystem that includes federal, state, and regional public agencies, and a variety of gas industry research entities.[1549] SoCalGas also has a strong understanding of customer challenges, and can leverage its network to gain access to the most knowledgeable technologists, researchers, scientists, and engineers from the national laboratory ecosystem and top universities in the country. In fact, every year, SoCalGas RD&D staff conduct outreach to subject matter experts at 10-15 relevant organizations, including GTI Energy, the CEC, and the DOE.[1550]

CEJA also objects to the Systems Emissions research area and asks the CPUC to deny it or limit research in this area to exclude combustion technologies and 'certified' gas. CEJA's position appears to be that if there is any combustion, then the research should not be approved. However, this position ignores potential incremental environmental benefits to long-living infrastructure, such as compressor stations, that can result in near-term emissions reductions. Such incremental benefits are valuable in meeting State goals and regulatory requirements,[1551] and should not be lost by an absolute rejection of combustion technologies.

CEJA argues that the Environment research area should be denied because it is "ambiguous" and the research would be "irrelevant to customers in California."[1552] As stated

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1548 *See* A.10-12-006, Direct Testimony of Gillian A. Wright (Customer Services – Information), Ex. SCG-09 at 43 (Table GAW-12) (Approved by D.13-05-010).

1549 Ex. SCG-212 (Infanzon) at 36:10-13.

1550 *Id*. at 36:18-20.

1551 *Id*. at 36:23-37:3 (*citing* CARB, Low Carbon Fuel Standard, *available at:* https://ww2.arb.ca.gov/our-work/programs/lowcarbon-fuel-standard; Office of the Governor of the State of California, EO-55-18, September 9, 2018, *available at:* https://www.ca.gov/archive/gov39/wp-content/uploads/2018/09/9.10.18Executive-Order.pdf; CARB, AB 32 Global Warming Solutions Act of 2006 (September 28, 2018), *available at:* https://ww2.arb.ca.gov/resources/fact-sheets/ab-32-global-warming-solutions-act-2006).

1552 Ex. CEJA-01(Vespa/Gersen/Saadat/Barker) at 41.

above, these research gap areas are not projects – they are areas of potential research. Specific projects would be reviewed in the Annual Report, workshop, and AL filing. Notwithstanding that, SoCalGas included additional detail in the gap analysis for potential areas of research.[1553] As for a lack of benefit to California ratepayers, CEJA cherry-picks one reference to Canadian RNG production to demonstrate a lack of benefit to Californians because "gas pipelines in most states and provinces flow away from California,"[1554] something it asserts without support and is actually false. The research area discusses other research activities beyond broad RNG market analysis,[1555] and in fact RNG consumed in California is overwhelmingly produced out of state.[1556]

CEJA also opposes half of the requested funding for the research areas concerning Gas Composition and Quality and Materials & Equipment, arguing that these research areas potentially include research concerning hydrogen blending. CEJA argues such work runs counter to D.21-07-005 which sets forth criteria for hydrogen blending pilots. However, that decision is specific to blending pilots – not the broader research done through RD&D.[1557] Moreover, SoCalGas has no interest in duplicating research, and any such overlap that CEJA takes issue with could be addressed through the AL process.

CEJA also opposes research on light-duty hydrogen vehicles, arguing that such vehicles have "several disadvantages as a decarbonization strategy."[1558] However, further research is needed to determine the role such vehicles will play in low-cost decarbonization, and use of such

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1553 *See, e.g.,* Ex. SCG-12-R (Infanzon), Appendix B at 13 ("1. Development and evaluation of high resolution historical climate dataset over California 2. Stanford Natural Gas Initiative Program 3. Center for Methane Research 4. PRCI (Pipeline Research Council International) GHG strategic research priorities").

1554 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 41.

1555 Ex. SCG-12-R (Infanzon), Appendix B at 14 ("2) Identification and evaluation of RNG treatment technologies and technology readiness levels 3) Assessment of pipeline quality specifications for RNG (by country, regions and example specifications) 4) Overview of available credits for environmental attributes (*e.g.*, RINs, LCFS, and others)").

1556 Ex. SCG-212 (Infanzon) at 37, n.130 (According to BioCycle, "At the end of 2019, only 2.7% of the 139.3 million diesel gallon equivalents (DGE) of RNG consumed by California motor vehicles was produced by in-state facilities, according to GNA.").

1557 D.22-12-057 at 1 (decision limited to "the development of pilot projects to further evaluate standards for the safe injection of clean renewable hydrogen into California's common carrier pipeline system by specifying permissible injection thresholds, locations, testing requirements, and independent analysis.")

1558 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 42.

vehicles is being encouraged by the State and various agencies.[1559] With respect to SoCalGas specifically, over 50% of SoCalGas's fleet is class 2b trucks. Battery electric trucks are limited to shorter ranges compared to hydrogen counterparts. SoCalGas's fleet needs to be able to respond to customers and emergency events if needed, something which battery electric vehicles in class 2b may not be as well-equipped to handle. *See* Section 24 for further details. Costs for this research area should be approved.

CEJA also argues in testimony that the Commission should deny the forecast for the "Refueling Infrastructure" research sub-program because the program gives SoCalGas "an unfair advantage." The argument misunderstands SoCalGas's RD&D Program. The technologies developed within this RD&D subprogram (including nozzles, compressors, fueling protocols, or mobile refuelers) —are publicly shared so that the results can benefit all hydrogen station developers and users.[1560] SoCalGas does not use any confidential or proprietary information to benefit the utility's other business operations.[1561] This work improves fueling efficiency and reduces the cost of hydrogen, which will help benefit the entire market.[1562]

CEJA also objects to research related to hydrogen combustion because of emissions from "burning hydrogen in gas-fired power plants," citing a single study.[1563] However, the study actually emphasizes the need for further research, noting that mitigation options could maintain operation within existing emission limits, including "a larger or more efficient SCR system."[1564] Reports by other researchers and agencies also emphasizes the need for this research.[1565]

1559 Ex. SCG-212 (Infanzon) at 38:18-20 ("California today provides up to $20M annually in subsidies for both light-duty, fuel-cell electric vehicles (LD FCEVs) and for LD FCEV fueling stations.").

1560 Ex. SCG-212 (Infanzon) at 39:7-14.

1561 *Id*. at 39:14-15.

1562 *Id.* at 39:15-17.

1563 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 42-43.

1564 Ex. SCG-212 (Infanzon) at 39:21-40:1.

1565 *See* Georgia Tech Strategic Energy Institute, *NOx Emissions from Hydrogen-Methane Fuel Blends* (January 2022) at 2, *available at:* https://research.gatech.edu/sites/default/files/inline-files/gt_epri_nox_emission_h2_short_paper.pdf ("many studies could be interpreting their NOx emissions incorrectly by as much as 40% against high-hydrogen systems."); CEC, *GFO-22-504 - Hydrogen Blending and Lower Oxides of Nitrogen Emissions in Gas-Fired Generation (HyBLOX)* (January 6, 2023), *available at:* https://www.energy.ca.gov/solicitations/2023-01/gfo-22-504-hydrogen-blending-and-lower-oxides-nitrogen-emissions-gas-fired (need to study such emissions in hydrogen systems).

CEJA further claims that RD&D activities for Hydrogen in Residential Homes and Hydrogen Blends in Commercial Equipment are research areas that should not be permitted because SoCalGas is engaged in hydrogen blending proceedings (and generally because CEJA is opposed to hydrogen blending).[1566] The RD&D research that will potentially be explored through the RD&D program is separate from "the development of pilot projects to further evaluate standards for the safe injection of clean renewable hydrogen into California's common carrier pipeline system by specifying permissible injection thresholds, locations, testing requirements, and independent analysis."[1567] The RD&D research concerns "off-system research" that is not related to the pilots and should be explored.

Finally, CEJA argues that funding for the "Commercial Development of Gas Heat Pump" and "Catalytic Burner for Near-Zero Emission in Residential Water and Space Heating" research areas should be denied because they "are inconsistent with California's air quality goals," which are not focused on zero emission alternatives.[1568] However, the South Coast Air Quality Management District's 2022 Air Quality Management Plan (AQMP) acknowledges that a glide path for near-zero-emissions technologies for space and water heaters should include low-NOx technologies as a transitional alternative when installing a zero-emission unit is determined to be infeasible.[1569] Should there be a change in policy, SoCalGas's annual Public Workshop and

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1566 CEJA's arguments that there are increased NOx emissions and therefore this research should not be conducted is contradicted by other research. *See* Ex. SCG-212 (Infanzon) at 41, n.150, n.151 (*citing* Science Direct, *A compilation of operability and emissions performance of residential water heaters operated on blends of natural gas and hydrogen including consideration for reporting bases* (March 3, 2023), *available at:* https://www.sciencedirect.com/science/article/pii/S036031992300722X; MDPI, *Impact of Hydrogen/Natural Gas Blends on Partially Premixed Combustion Equipment: NOx Emission and Operational Performance* (February 24, 2022), *available at:* https://www.mdpi.com/1996-1073/15/5/1706). In order to better determine how hydrogen could best be blended additional research is needed.

1567 D.22-12-057 at 1.

1568 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 43-44.

1569 Ex. SCG-212 (Infanzon) at 42:14-18, n.156 (*citing* South Coast AQMD, *2022 Air Quality Management Plan* (December 2, 2022) at 4–14, ES-4, *available at:* http://www.aqmd.gov/docs/default-source/clean-air-plans/air-quality-management-plans/2022-airquality-management-plan/final-2022-aqmp/final-2022-aqmp.pdf. Clean fuels offer a pathway to achieve significant reductions in nitrous oxide (NOx) and particulate matter (PM) emissions from both stationary and mobile sources as California transitions towards a diversified portfolio of clean energy resources to displace traditional liquid fuels (*e.g.*, diesel and gasoline) to support various end user needs. In the LA basin, mobile sources, including heavy-duty trucks, ships, airplanes, locomotives, and construction equipment, account for more than 80 percent of NOx emissions.

Research Plan process provide a forum to address new regulatory developments with stakeholders and subject matter experts from the research community. CEJA's complaint is therefore not a basis for denying funding for these identified areas of research.

18.1.8 Capital Costs

18.1.8.1 Hydrogen Innovation Experience (H2IE – formerly [H2] Hydrogen Home)

In TY2024, SoCalGas is forecasting $4.573 million[1570] in rate base to support the capital expenditure activities to build the H2 Innovation Experience (H2IE), a state-of-the-art clean energy project that showcases the role hydrogen could play in attaining California's decarbonization goals. The H2IE also will help demonstrate and advance the development and adoption of a portfolio of sustainable energy solutions needed to benefit ratepayers, provide end users with relevant energy choices options based on their individual requirements and support local grid resilience and reliability needs. The specific costs for this project are addressed in Section 25. Funding for the capital project was directly opposed in testimony only by EDF and CEJA.

The H2IE is one of the first-of-its-kind clean energy projects that incorporates solar panels, battery storage, hydrogen production using electrolysis, a hydrogen fuel cell, and hydrogen storage, all functioning as an islanded clean hydrogen microgrid. The H2IE uses an electrolyzer that converts solar energy into green hydrogen, and a fuel cell to convert the hydrogen back to electricity. The home functions as a regular home, powered by reliable energy year-round. The major appliances for the home are fueled by up to 20% green hydrogen-methane blend, with the electricity for the home provided through solar power and a battery. Excess solar power is converted to green hydrogen. In the event there is insufficient solar power, the fuel cell is activated to convert the green hydrogen back into electricity to provide power to the home. The H2IE is expected to be Platinum LEED certified. In addition to making clean energy tangible to visitors, the H2IE is a "living lab" that allows for research and testing, the H2IE also allows examination of the viability assessments and promotes further innovation and adoption of future hydrogen technologies at scale. In other words, H2IE will incorporate state-of-the-art technology to provide a real-word demonstration of how SoCalGas can de-carbonize its existing services—

Stationary sources, including power plants, refineries, and factories, will be responsible for the remaining 19 percent in 2037.)

1570 *See* Section 24.

furnishing gas for heat and power to customers. The project also showcases hydrogen blending into the natural gas system for a less carbon-intensive energy source to be used in the home's appliances, which also advances the use of hydrogen blending for decarbonizing SoCalGas's pipelines—the backbone of SoCalGas's utility services.[1571]

The H2IE was named one of Fast Company's 2021 World-Changing Ideas in North America, recognized for its impact on climate goals, design, scalability, and ingenuity in innovation.[1572] As stated above, the value of the H2IE was recognized by Lieutenant Governor Eleni Kounalakis, as an "Innovative project[]" that "demonstrate[s] how California is leading the clean energy transition…. This first-of-its-kind project shows how hydrogen and microgrids can help power homes, enhance grid reliability, and preserve and grow good-paying union jobs in our state."[1573]

EDF opposes any costs related to the H2IE. EDF argues the costs should be denied because of "the apparent cost effectiveness of electrification for new construction over gas even at current prices," and CEJA similarly argues that the "[H2IE] does not benefit SoCalGas ratepayers," is "ineffective and costly," and is inconsistent with electrification.

As described in Ex. SCG-212, the H2IE will benefit ratepayers by demonstrating the potential role hydrogen could play in attaining California's decarbonization goals in alignment with the 2022 CARB Scoping Plan assumptions on the role of hydrogen blending.[1574] The H2IE project also demonstrates the potential of scaling a modular clean energy pathway that captures the benefits of economies of scale for ratepayers. Powered as needed by clean hydrogen, the H2IE microgrid will help advance the development and adoption of a portfolio of sustainable energy solutions needed to benefit ratepayers and provide end users with relevant energy choice based on their individual requirements.[1575] The H2IE can also demonstrate the role clean renewable

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1571 Ex. SCG-12-R (Infanzon) at 56-58.

1572 *Id.* at 57:7-10, n.116 (*citing* SoCalGas Newsroom, *The H2 Hydrogen Home Named a World-Changing Idea by Fast Company* (June 15, 2021), *available at:* https://newsroom.socalgas.com/stories/the-h2-hydrogen-home-named-a-world-changing-idea-by-fast-company).

1573 Ex. SCG-212 at 12:20-24, n.47 (*citing* Los Angeles Sentinel, *SoCalGas Models Clean Energy with First-of-its-Kind [H2] Innovation Experience* (April 13, 2023), *available at:* https://lasentinel.net/socalgas-models-clean-energy-withfirst-of-its-kind-h2-innovation-experience.html).

1574 Ex. SCG-212 (Infanzon) at 44.

1575 *Id.* at 43-45.

microgrids could provide in terms of flexibility and scalability to serve neighborhoods, commercial buildings, and transportation end-use needs in support of California's decarbonization goals. Finally, H2IE does nothing to detract from the state's building electrification efforts. Rather, the project complements building electrification by enhancing community energy reliability and resilience. In order to decarbonize California and reliably support electrification, growing electric demand under the conditions of severe climate events, and an increasingly intermittent energy supply projected for 2030 and beyond, clean fuels in addition to renewable electricity will be increasingly relied upon in distributed microgrid applications.[1576]

18.1.8.2 Hydrogen Refueling Stations

SoCalGas has included capital costs associated with a hydrogen vehicle refueling station (HRS).[1577] This HRS will be designed to serve the utility fleet located at the bases in question as well as the general public. The costs for the stations are covered directly in Section 25, however, the justification for the HRS is discussed here. SoCalGas is also requesting authority to sell and disburse hydrogen related green credits generated by utility owned, public access hydrogen vehicle refueling stations to customers, consistent with the treatment of natural gas vehicle related green credits described in D.14-05-021, D.14-12-083, and Advice Letter 5295-G. The green credit revenue will be placed in the Hydrogen Refueling Station Balancing Account (HRSBA) as described in Section 43. Cal Advocates, TURN, IS, TURN-SCGC, and CEJA oppose SoCalGas's request.[1578]

The development of Hydrogen Fueling Stations is an appropriate area for public utility investment and will help SoCalGas transition its fleet from LEVs to ZEVs. The hydrogen refueling activities proposed by SoCalGas are consistent with other transportation services that utilities already provide, and the Commission has a long history successfully regulating utilities' charging/fueling infrastructure and services for electric vehicles. For example, in 2021, the Commission authorized electric utilities to spend more than $720 million on light-duty charging alone to build approximately 52,000 chargers.[1579] SoCalGas has also been authorized to build

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1576 *Id*.

1577 *See* Ex. SCG-19-R-2E (Guy).

1578 PCF generally opposes SoCalGas's involvement with hydrogen, which would include hydrogen refueling stations. Such opposition is addressed throughout this Section.

1579 D.21-07-028 at 11.

natural gas refueling stations in past GRCs.[1580] Accordingly, there is well-established Commission precedent for SoCalGas to develop its own hydrogen fueling stations. Like the electric charging stations and natural gas refueling stations, which the Commission has previously authorized, HRSs are necessary to test and possibly develop a nascent HFCEV market.

SoCalGas's hydrogen fueling stations will also benefit SoCalGas's ratepayers. These stations will be designed to serve SoCalGas's own HFCEV fleet, thus allowing SoCalGas to maintain reliable service while reducing its GHG emissions. Indeed, there are only approximately 30 public access hydrogen fueling stations within the SoCalGas service territory, which covers approximately 24,000 square miles.[1581] As described in detail in testimony, demand and need for refueling stations has increased significantly over recent years and continues to increase: FCV sales in the United States continues to grow year over year, and requests concerning refueling stations increased 16-fold from 2020 to 2021. Consumer research showed 94% of respondents believed SoCalGas's proposed hydrogen products and services would be beneficial with 81% stating the proposed hydrogen products and services would motivate them or their company to adopt hydrogen vehicles sooner.[1582] Furthermore, federal, state, and local air quality and climate change related programs, regulations, and legislation encourage the increase of hydrogen fuel cell vehicles and stations.[1583]

1580 D.13-05-010 at 727-734; D.16-06-054 at 263-264.

1581 Ex. SCG-12-R (Infanzon) at 29.

1582 Ex. SCG-12-R (Infanzon) at 33:1-34:5.

1583 *Id*. at 35:16-38:8 (*citing* State of California, Executive Department, EO B-48-18, *available at:* https://www.library.ca.gov/wpcontent/uploads/GovernmentPublications/executive-order-proclamation/39-B-48-18.pdf ("State entities [shall] work with the private sector and all appropriate levels of government to spur the construction and installation of 200 1 hydrogen fueling stations");

State of California, Executive Department, *EO N-79-20*, *available at:* https://www.gov.ca.gov/wpcontent/uploads/2020/09/9.23.20-EO-N-79-20-Climate.pdf (100 percent of in-state sales of new passenger cars 4 and trucks will be zero-emission by 2035);

CARB, *Proposed 2020 Mobile Source Strategy* (September 28, 2021) at 4, *available at:* https://ww2.arb.ca.gov/sites/default/files/2021-09/Proposed_2020_Mobile_Source_Strategy.pdf (CARB 2020 Mobile Source strategy states, "a key focus of the 2020 Strategy 10 is advancing the use of zero-emission technologies wherever feasible");

U.S. Department of Energy, *DOE Announces Nearly $200 Million to Reduce Emissions in Cars and Trucks* (November 1, 2021), *available at:* https://www.energy.gov/articles/doe-announces-nearly-200million-reduce-emissions-cars-and-trucks (U.S. Department of Energy announced it "awarded $199 15 million to fund 25 projects aimed at putting cleaner cars and trucks on America's roads);

CARB, *Current LCFS Regulation* (modified July 2020), *available at:* https://ww2.arb.ca.gov/sites/default/files/2020-

SoCalGas's hydrogen refueling stations would also be made available directly to the general public, which is supported by the Commission's recent approval of Advice Letter 6024. Advice Letter 6024 authorizes and establishes a Low Carbon Fuel Standard (LCFS) Fuel Card Program to be used at utility owned and operated public access compressed natural gas and hydrogen fueling stations.[1584] Therefore, public-facing hydrogen refueling stations would benefit ratepayers by allowing SoCalGas to fully execute the LCFS Fuel Card Program reviewed and approved by the CPUC. Finally, the emissions reductions that SoCalGas can achieve by kickstarting the nascent hydrogen transportation market will also benefit ratepayers.[1585]

Cal Advocates argues that SoCalGas has access to existing HRSs in its territory and therefore it questions the value to ratepayers provided by building new hydrogen refueling stations. As discussed above, there is a demonstrated need for hydrogen refueling stations in SoCalGas's 24,000 square miles of territory. Consumer research shows a need for stations, and while the number of stations continues to increase, this need grows.[1586]

TURN-SCGC opposes HRS because "providing hydrogen is not part of the SoCalGas gas utility business."[1587] However, operating these stations is consistent with other transportation services that utilities already provide, and with Commission approval and regulation of utilities'

07/2020_lcfs_fro_oalapproved_unofficial_06302020.pdf at 54 (Table 1) and 73 (Table 5) (CARB updated the Low Carbon Fuel Standard (LCFS) program, 20 which now mandates a 20% reduction in the carbon intensity of transportation fuels 21 used in California by 2030. Hydrogen, when used as a motor vehicle fuel, has GHG 22 emissions that are up to 228% lower than diesel fuel); the number of bills addressing natural gas and hydrogen mobility has increased from 2 bills in the 2018-2019 legislative session, to 6 bills in the 2019-2020 legislative session, and to 9 bills in the 2020-2021 legislative session;

South Coast Air Quality Management District, *Final 2016 Air Quality Management Plan* at 3-32, *available at:* https://www.aqmd.gov/docs/default-source/clean-air-plans/air-quality-management-plans/2016air-quality-management-plan/final-2016-aqmp/final2016aqmp.pdf?sfvrsn=15;

see also San Joaquin Valley Air Pollution Control District, *2016 Ozone Plan* at ES-6, *available at:* http://valleyair.org/Air_Quality_Plans/Ozone-Plan-2016/ES.pdf (with heavy-duty diesel trucks as the single largest contributor to these 15 emissions, the widespread deployment of near-zero and zero emission heavy-duty trucks, 16 including hydrogen FCV trucks, is the single most impactful emission reduction strategy.))

1584 Approval of SoCalGas Advice Letter 6024, *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_6024.pdf.

1585 Ex. SCG-212 (Infanzon) at 46.

1586 Ex. SCG-12-R (Infanzon) at 31.

1587 Ex. TURN-SCGC-06 (Yap) at 9.

charging/fueling infrastructure.[1588] Advice Letter 6024 also demonstrates the CPUC anticipated granting SoCalGas authority to own and operate public access HRSs as it anticipates the need to "Transition the LCFS customer incentive program to hydrogen when SoCalGas receives appropriate regulatory approvals to own and operate hydrogen fueling stations." TURN-SCGC also argues that constructing new refueling stations does not comply with the CPUC's ESJ Plan, alleging that the stations "will exacerbate [] pollution…." To the contrary, HRSs and the zero emission hydrogen fuel cell electric vehicles that they service can reduce regional air pollution, reduce GHG emissions, and provide local residents and fleets with an opportunity to fuel and operate their own hydrogen fuel cell electric vehicles.[1589]

IS and CEJA argue that HRS should be paid for by individuals taking service at the stations, and not by "methane customers."[1590] However, the issue of cost allocation for HRS is pending in the on-going 2024 Cost Allocation Proceeding. The argument is outside the scope of this GRC. The costs presented in Section 25 concerning hydrogen refueling stations should be approved.

18.2 Clean Energy Innovations (SDG&E Only)

SDG&E is requesting the Commission adopt its TY 2024 forecast of $9.985 million in O&M costs associated with its CEI. SDG&E also requests the Commission adopt its forecast for CEI capital expenditures in 2022, 2023, and 2024 of $23.024 million, $24.974 million, and $26.333 million, respectively. Exhibits SDG&E-15-R-E, SDG&E-15-WP-E, SDG&E-15-WP-S, SG&E-15-CWP-E, SDG&E-215, and SDG&E-215-S, which consist of Mr. Fernando Valero's testimony and workpapers, support the costs related to CEI.

As Mr. Valero testified, CEI at SDG&E supports the delivery and use of clean energy throughout SDG&E's service territory. This includes the evaluation, testing, and deployment of infrastructure and technologies needed to achieve both SDG&E's and California's goal of decarbonization, resiliency, and operational flexibility, supporting customers' adoption of clean energy technologies, and re-establishing a Research, Development and Demonstration (RD&D) program at SDG&E. CEI is on the forefront of SDG&E's effort to advance California's ambitious and necessary goal to counteract climate change by decarbonizing the state's electricity supply by

[1588] *See* R.18-12-006, Order Instituting Rulemaking to Continue the Development of Rates & Infrastructure for Vehicle Electrification (December 19, 2018) at 6; D.21-07-028.

[1589] Ex. SCG-212 (Infanzon) at 47:10-14.

[1590] Ex. CEJA-01 (Vespa, Gerson, Saadat, and Barker) at 34-35; Ex. IS-02 (Gorman) at 9.

2045.[1591] In the longer term, CEI's programs and projects presented in this GRC are a catalyst for that energy transition by evaluating, developing, and piloting emerging and diverse technologies to inform future investments, whether by the state, SDG&E or other Investor-Owned Utilities (IOUs), customers or third-party providers. In the near-term, CEI's programs and projects bring resources online that capture excess renewable generation, such as solar photovoltaic (PV), for later use when needed, strengthen microgrids, and enhance local grid reliability, local grid resiliency, and local power quality, while additionally seeking to improve local air quality while lowering SDG&E's operational carbon footprint.

As stated in the CARB Scoping Plan, California must continue:

> ". . . building on and accelerating carbon reduction programs that have been in place for a decade and a half…. [C]ontinuing to build out the solar arrays, wind turbine capacity, and other resources that provide clean, renewable energy to displace fossil-fuel fired electrical generation. [And] … also … scaling up new options such as renewable hydrogen for hard-to-electrify end uses…."[1592]

CARB indicates that California must "shatter the carbon status quo."[1593] As one of California's largest providers of electric service, SDG&E's CEI program and project funding requests are positioned to help meet the state's mandatory clean electricity goals by 2045, while helping provide reliable service to its customers.

Included within SDG&E's CEI request are five key areas for O&M costs: (1) Hydrogen Strategy and Implementation (HIS) Department; (2) Advanced Clean Technology (ACT) Department; (3) Innovation Technology Development; (4) Sustainable Communities; and (5)

1591 *See* SB 100, Sections 1(b) & 5, codified at Pub. Util. Code Section 454.53(a) (directing Commission to "plan for 100 percent of total retail sales of electricity in California to come from eligible renewable energy resources and zero-carbon resources by December 31, 2045"), https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB100; SB 1020 (2022), Section 4, codified at Pub. Util. Code Section 454.53(a) (directing this Commission to plan for "eligible renewable energy resources and zero-carbon resources [to] supply 90 percent of all retail sales of electricity to California end-use customers by December 31, 2035, 95 percent of all retail sales of electricity to California end-use customers by December 31, 2040, 100 percent of all retail sales of electricity to California end-use customers by December 31, 2045, and 100 percent of electricity procured to serve all state agencies by December 31, 2035"), https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220SB1020.

1592 *See* CARB's 2022 Scoping Plan (November 2022) at p. 1-2: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp.pdf.

1593 *Id.*

Distributed Energy Resource (DER) Engineering Department.[1594] The TY 2024 O&M forecasts are summarized as follows:

Summary of TY 2024 O&M Costs

CLEAN ENERGY INNOVATIONS NON-SHARED SERVICES O&M (In 2021 $)			
	2021 Adjusted-Recorded (000s)	**TY2024 Estimated (000s)**	**Change (000s)**
Hydrogen Strategy and Implementation Department	617	1,011	394
Advanced Clean Technology Department	1,221	1,376	155
Innovation Technology Development	0	5,000	5,000
Sustainable Communities	180	282	102
Distributed Energy Resource Engineering Department	1,878	2,316	438
Total O&M	**3,896**	**9,985**	**6,089**

SDG&E's CEI capital requests fall within the following five categories of management: (1) Advanced Energy Storage; (2) Microgrid and Controls; (3) Sustainable Communities; (4) Mobile Energy Storage; and (5) Hydrogen.[1595] The 2022, 2023, and 2024 capital forecasts are summarized as follows:

Capital Expenditures Summary of Costs by Category

Categories of Management	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
Advanced Energy Storage Total	**13,258**	**16,448**	**22,582**
20278A Advanced Energy Storage	12,483	1,314	0
212690 Advanced Energy Storage 2.0	0	13,284	20,030
212710 Non-Lithium-Ion Energy Storage Technology	775	1,850	2,552
Microgrid and Controls Total	**6,721**	**102**	**0**
17246A Borrego 3.0 Microgrid	5,296	102	0
212660 ITF Expansion	1,425	0	0
Sustainable Communities Total	**969**	**407**	**439**

1594 Ex. SDG&E-15-R-E (Valero) at 5.

1595 *Id*. at 17.

Categories of Management	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)
20281A Sustainable Communities Removal	969	407	439
Mobile Energy Storage Total	**2,076**	**2,076**	**2,076**
212610 Mobile Battery Energy Storage Program	2,076	2,076	2,076
Hydrogen Total	**0**	**5,941**	**1,236**
212680 Hydrogen Build Ready Infrastructure	0	770	1,155
212720 Hydrogen Energy Storage System Expansion	0	5,171	81
Total Capital	**23,024**	**24,974**	**26,333**
NON-COLLECTIBLE (NC)	20,520	24,684	26,333
COLLECTIBLE (CO)	2,504	290	0

In addition, CEI supports the costs requested in other areas including: (1) Electric Generation (*e.g.*, the Palomar Hydrogen Systems Project, the Hybrid at Miramar Energy Facility, O&M for Generation Distributed Energy Facilities, and the Miguel VRF BESS); (2) Information Technology (*e.g.*, the Local Area Distribution Controller project); and (3) Fleet Services (*e.g.*, Vehicle Additions for DER engineers and ACT departments).[1596]

The parties contesting portions of the CEI revenue requests were Cal Advocates, TURN, CEJA, UCAN, EDF, FEA, PCF, and the CCAs. Each of the contested areas will be discussed below. SDG&E respectfully submits that the Commission should adopt SDG&E's request as reasonable and reject the contesting parties' recommendations in their entirety.

18.2.1 Summary of Differences

The following tables summarize SDG&E's O&M and capital forecasts versus other parties' recommendations.[1597]

1596 *Id*. at 31-35.

1597 Ex. SDG&E-215 (Valero) at 1.

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	**3,895**	**9,985**	**6,090**
CAL ADVOCATES	**3,895**	**4,971**	**1,076**
TURN	**3,895**	**9,985**	**6,090**
CEJA	**3,895**	**3,974**	**79**
UCAN	**3,895**	**9,610**	**5,715**

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	**23,024**	**24,974**	**26,333**	**74,331**	**-**
CAL ADVOCATES	**1,425**	**0**	**800**	**2,225**	**(72,106)**
TURN	**20,227**	**7,817**	**1,727**	**29,771**	**(44,560)**
UCAN	**23,024**	**24,974**	**0**	**19,330**	**(26,333)**
CEJA	**23,024**	**24,974**	**25,178**	**73,176**	**(1,155)**

18.2.2 SDG&E's Response to Parties' General Recommendations

18.2.2.1 Cal Advocates' Challenge to SDG&E's Additional Labor Costs

Cal Advocates recommends the "[t]he Commission should reduce estimates of *labor additions* by 50% across the board" and argues that "[its] estimate has the same basis as, and no more uncertainty than, the estimates provided by SDG&E."[1598] Cal Advocates recommends a reduction of $1,866,125 to SDG&E O&M labor costs (identifying $1,428,625 of that amount as "Unique Adjustments") and a reduction of $2,540,250 to SDG&E 2022 to 2024 capital labor costs, to reflect this 50% "across the board" cut.[1599,1600]

Cal Advocates' proposed reduction should be rejected for three reasons: (1) Cal Advocates made an error in calculating "incremental labor costs" by including base year costs; (2) Cal Advocates presents no evidence supporting its assertion that SDG&E only needs half of its proposed O&M labor force (whether incremental or total); and (3) Cal Advocates presents no evidence supporting its assertion that SDG&E only needs half of its proposed capital projects labor force.[1601]

1598 Ex. CA-09-E (Younes) at 2 and 12 (emphasis added).

1599 *Id.* at 13 & n. 32.

1600 *Id.* at n. 31.

1601 Ex. SDG&E-215 (Valero) at 8-9.

First, a review of Cal Advocates' workpapers reveals that it calculated its proposed reduction by cutting 50% from all SDG&E labor costs, including base year O&M labor costs.[1602] Such costs are not "incremental labor" or "additional labor" (*i.e.*, 2022-2024 labor requests), but rather constitute the known cost of running the program (*i.e.*, HSI, ACT and DER Engineering) in the base year (*i.e.*, actual 2021 base year labor expenditures).[1603] In many instances, this brought Cal Advocates' recommended O&M funding for the departments' O&M labor *below* the base year labor (*i.e.*, what was spent on labor in 2021). This is inconsistent with Cal Advocates' proposal and appears to be a mistake.

Second, even if Cal Advocates' proposal were limited to *incremental* O&M labor, Cal Advocates has presented no facts that suggest SDG&E can complete the proposed work with only half of the proposed incremental labor (or only half the work force, if Cal Advocates truly meant to attack SDG&E's base year 2021 O&M costs).[1604] SDG&E has demonstrated the need for additions to the workforce, while Cal Advocates has not adequately supported their explanation for not funding incremental labor.

Third, Cal Advocates presents no evidence to establish that SDG&E only needs half of its proposed capital projects labor force to implement the proposed capital projects. In fact, Cal Advocates does not discuss SDG&E's capital labor forecasts at all other than to propose its reduction.[1605] SDG&E adequately supported its capital labor forecasts by justifying and representing the estimated internal labor necessary to take on the capital request. For all the foregoing reasons, Cal Advocates' request for a 50% "across the board" cut to labor costs is inaccurate, unsubstantiated, and should be denied by the Commission.

18.2.2.2 Cal Advocates' Challenge to SDG&E's Energy Storage Projects

Noting that many of SDG&E's proposed projects are for energy storage, Cal Advocates contends that the Commission, in D.19-11-016, established that "the Investor-Owned Utilities

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1602 *Id*. at Appendix C ("Workpapers for Ex. CA-09: Labor Line items" in which Cal Advocates' cuts to base year labor costs are highlighted in red.).

1603 Ex. SDG&E-15-WP-E at 11 ("The forecast method is base-year. This is appropriate because it accurately reflects the current state of the activities performed by the Advanced Clean Technology team.").

1604 Ex. SDG&E-215 (Valero), Appendix C.

1605 Ex. CA-09-E (Younes) at 10-13.

(IOUs) have a duty to procure only cost-effective resources."[1606] Cal Advocates argues: "In the case of projects which serve no specific need, these projects can only represent least cost to ratepayers if they have a positive net benefit compared to, among other things, third-party ownership and no project."[1607] Cal Advocates also states its opposition to "ratepayer funding of projects which the utility engages in voluntarily."[1608]

SDG&E disagrees.[1609] CPUC D.19-11-016, which was intended to address the potential for electricity system resource adequacy shortages beginning in 2021 and set forth incremental capacity targets for load serving entities, does not apply to SDG&E's projects in this GRC proceeding. While Cal Advocates quotes a portion of the Commission's Conclusion of Law in that Decision, the full Conclusion of Law states: "29. For purposes of *the requirements of this decision*, the IOUs should be authorized to consider third-party ownership and utility ownership of resources to be procured to satisfy the requirements *of this order*, but should be required to show that any utility-owned resources represent least cost to ratepayers, utilizing Appendix A, Section 2c, of D.19-06-032 as a starting point."[1610] The energy storage projects for which SDG&E seeks funding are not proposed to meet the incremental capacity requirements of D.19-11-016, and therefore, its requirements do not apply.

Moreover, as the Commission stated in that Decision, "to avoid any further confusion as reflected in the comments of some parties, our decision here is entirely about resources for system reliability, which means resources that qualify to meet system resource adequacy requirements. The June 20, 2019 Ruling was focused on concern about the potential for a system-level (not local or flexible) reliability shortfall by 2021."[1611] SDG&E's energy storage projects proposed in the GRC are meant to address local areas with high levels of renewable penetration and are not meant to satisfy the system resource adequacy targets set forth in D.19-11-016 and as such do not fall into the confines of D.19-11-016.

The need for energy storage systems to manage rapidly increasing renewable penetration, such as solar PV, and to achieve our decarbonization goals is unequivocal. SDG&E's Advanced

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1606 *Id.* at 14.

1607 *Id.* at 15.

1608 *Id*.

1609 Ex. SDG&E-215 (Valero) at 9-11.

1610 D.19-11-016, Conclusion of Law 29 (emphasis added); *see also id*. at OP 8.

1611 *Id.* at 13.

Energy Storage (AES) programs are directly aligned with providing local reliability through the renewable energy transition, with precedence set through approval of AES 1.0 in SDG&E's TY 2019 GRC.[1612] The AES 2.0, HESS Expansion, Non-lithium-Ion Energy Storage, and Mobile Battery Energy Storage systems proposed in this GRC represent practical solutions to, among other things, facilitate the utilization of abundant solar PV generation both in front of and behind the meter to reduce reliance on fossil fuel generation.

The CEI funding requests in the GRC are consistent with the investments needed to decarbonize. Mr. Valero's testimony and workpapers demonstrate the need for energy storage and their benefit to ratepayers. From a program standpoint, by leveraging the modularity and scalability of energy storage, SDG&E is judiciously utilizing a stepwise approach to de-risk implementations. This approach benefits ratepayers from both a technology and cost perspective, including: (1) establishing how local systems in the territory can maintain resiliency with increased renewable energy generation and evolving grid requirements; (2) ensuring the knowledgebase exists to locally deploy the appropriate storage technology at the right scale to maximize utilization; (3) creating proof points that energy storage assets can reduce both utility and customer dependence on fossil-fuel generation, and enable increased renewable integration; and (4) implementing and testing modern, cybersecure distributed energy resource management systems which can facilitate optimal deployment of DERs and mitigate over-sizing of future energy storage projects.

18.2.2.3 UCAN's Promotion of Customer Side of the Meter Distributed Energy Resources

UCAN promotes customer side of the meter (CSOM) Distributed Energy Resources (DER) (synonymous with behind-the-meter (BTM) DER), particularly when combined with CSOM battery storage, as a significant part of the future electric grid. UCAN argues that CSOM DERs should replace utility-owned storage and that SDG&E has failed to take adequate steps to prepare for high CSOM DER penetration.[1613] Although UCAN endorses SDG&E's non-lithium-ion pilot projects, it also "recommends that the entire budget for clean energy innovation of $26.33 million be denied."[1614]

[1612] D.19-19-051.

[1613] *See* Ex. UCAN-01-E (Woychik), *passim*.

[1614] Ex. UCAN-01-E (Woychik) at 12 and 285.

SDG&E agrees CSOM DERs are resources which can contribute to the electric grid, and that CSOM storage resources will play a role in the future. However, CSOM DERs, including those with storage, do not replace the need for in-front-of-the-meter (IFOM) utility-owned storage and SDG&E's other investments now. SDG&E submits that the Commission should reject UCAN's suggestion that CSOM DERs somehow warrant disallowance of any of SDG&E's proposed TY 2024 expenditures for the following reasons.[1615]

First, UCAN does not present a feasible or coherent proposal for CSOM DERs to replace the need for IFOM utility-scale energy storage projects or other aspects of SDG&E's electric distribution system. Indeed, UCAN was unable to describe in detail the capacity, cost, funding, dispatchability, and reliability of such resources.[1616] No specific information has been provided, though UCAN did imply that customers would pay for the battery storage, without predicting how many would do so. Additionally, the Self-Generation Incentive Program (SGIP) already funds 85% for energy storage technologies[1617] from SDG&E's annual $22 million allocation of SGIP funding.[1618] Furthermore, on a levelized cost of capacity and energy basis, Lazard's April 2023 update[1619] indicates the cost of residential solar PV plus storage is greater than 75% higher than full scale utility solar PV plus storage systems, so UCAN's statements regarding CSOM's value appear contrary to publicly available cost comparison information. In short, UCAN did not support its claim that SDG&E's investments in IFOM utility-owned storage could and should be replaced with CSOM DER.

Second, pursuant to its DER Action Plan 2.0, the Commission currently is considering how best to value and incorporate DERs into electric grid planning in a number of ongoing proceedings, including proceedings on the Order Instituting Rulemaking to Modernize the Electric Grid for a High Distributed Energy Resources Future (R.21-06-017), the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (R.22-07-005), and the Order

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1615 Ex. SDG&E-215 (Valero) at 11-15.

1616 *Id*. at Appendix B, UCAN Response to SDG&E Data Request SCG-SDGE-UCAN-001, Question 4; *see also id.* at Questions 5 & 7.

1617 D.20-01-021 at 2.

1618 *Id.* at 12.

1619 *See* Lazard's Levelized Cost of Storage Analysis-Version 8.0, (April 2023) p. 18-19, available at: https://www.lazard.com/research-insights/2023-levelized-cost-of-energyplus/.
"The levelized cost of residential PV + storage on a capacity basis is $584-$735 $/kW-year versus utility PV + storage cost of $125-171 $/kW-year. The levelized cost of residential PV + storage on an energy basis is $392-$508 $/MWh versus utility PV + storage cost of $65-91 $/MWh."

Instituting Rulemaking to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, Data Use And Access, And Equipment Performance Standards (R.22-11-013). Most recently, the Commission considered the value of CSOM DERs in its Decision Revising Net Energy Metering Tariff and Subtariffs (D.22-12-056). In that proceeding, the Commission did not find that customer-owned DERs provide "more than individual benefits" or that "net energy metering installations will directly result in decreased utility-scale projects."[1620] At this point in time, UCAN's claims about CSOM DER, and its replacement of utility investments, are premature and uninformed.

Third, there are underlying fundamental challenges of incorporating CSOM DERs into the larger electric grid network. First, the outputs of CSOM DERs are not all visible to SDG&E's real-time operations. Second, CSOM DERs may vary in the type of metering, monitoring, and telemetry installed, which once again limits visibility to SDG&E, but also may limit potential communication of the CSOM asset and SDG&E. Third, CSOM DERs are not all used to export electricity to the grid in times of need, but instead are used to serve as a load-modifying asset for the customer only. Fourth, the uncertainty of the CSOM DER location being on a circuit that has a need. Finally, manufacturer limitations (*e.g.*, local controller) that prohibit the dispatch of CSOM DERs, by an outside entity other than the customer or manufacturer, limit the ability of SDG&E to utilize CSOM assets.

In sum, UCAN's assertion that "extensive battery storage *can be provided* by CSOM DERs" is not evidence that CSOM DERs with battery storage *are* available on the relevant circuits, what their capacity or state-of-charge (SOC) may be, or that the customers owning any such CSOM DERs with battery storage are willing and able to guarantee to provide energy to the grid or a microgrid (*e.g.*, the Borrego Springs Microgrid) when needed (rather than utilize battery stored energy themselves). Without adequate energy storage capabilities that are strategically serving the affected circuits, the CSOM DERs in it of themselves are not an all-encompassing solution to solve the complexities of safely and reliably operating the electric grid, both currently and in the future. Considering the incorporation challenges of CSOM DERs mentioned above, there is need for IFOM utility-scale energy storage to harness the CSOM solar PV during the hours when solar energy is plentiful, and then dispatch during the hours of peak need (*e.g.*, when solar energy is no longer available).

[1620] D.22-12-056, FOF 43 and 49.

18.2.2.4 General Opposition to Hydrogen-Related Projects

SDG&E must actively usher in the very challenging clean energy transition to 100% clean electricity by 2045 with a prudent and phased approach to new technology adoption and deployment. SDG&E's decarbonization strategy embraces diverse clean technologies to help meet this challenge, including clean hydrogen. Hydrogen has many unique properties that make it a necessary tool in SDG&E's decarbonization toolkit, including that hydrogen is a dispatchable carbon-free fuel for reliable power generation and transportation, is a long duration energy storage medium, can be produced in a sustainable manager, and is scalable. Therefore, in order to learn how to deploy hydrogen safely and effectively, SDG&E has included hydrogen related capital and O&M requests in the GRC.

There are several intervenors opposed to the inclusion of hydrogen-related technologies. Some opposition is based upon general skepticism concerning whether hydrogen truly can be a clean energy resource that reduces greenhouse gas (GHG) emissions, while other opposition is related to specific projects. There appears to be an overall misconception that adoption of clean hydrogen will slow down electrification efforts, when in fact hydrogen will serve as a key source of clean, reliable, dispatchable power to support electrification. Investing in hydrogen projects related to electric infrastructure today will allow SDG&E to prudently scale hydrogen to meet California's requirement of 100% clean energy by 2045. Indeed, on August 3, 2023, Governor Newson issued a letter to the Governor's Office of Business and Economic Development directing it to develop California's Hydrogen Market Development Strategy, employing an all-of-government approach to building up California's clean, renewable hydrogen market.[1621] As the Governor expressed, "[t]his Strategy should be organized around our north star: **leverage hydrogen to accelerate clean energy deployment and decarbonize our transportation and industrial sectors**."[1622]

Mr. Valero addresses in detail each of the concerns regarding SDG&E's hydrogen-related funding requests in Ex. SDG&E-215.[1623] SDG&E views hydrogen as a critical tool for supporting

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1621 August 3, 2023 Letter from Governor Gavin Newson to Director Myers, available at https://www.gov.ca.gov/wp-content/uploads/2023/08/Letter-to-Director-Meyers.pdf. SDG&E seeks official notice of the letter pursuant to Rule 13.10 and Evidence Code 452(c) as it constitutes an "official act of the legislative, executive, and judicial departments of the United States and of any state of the United States."

1622 *Id*. (bold in original).

1623 Ex. SDG&E-215 (Valero) at 15-23.

California's clean, electrified future and it only has three to five GRC cycles to learn how to incorporate clean hydrogen on its electric system. All of the hydrogen projects addressed in Ex. SDG&E-15-R-E are designed to be prudent, used and useful, reduce GHG emissions, and to expand SDG&E's understanding of how to manage and operate hydrogen assets in an appropriate way. SDG&E believes all projects should be funded as part of this GRC.

18.2.3 SDG&E's CEI O&M Costs

18.2.3.1 1DD001 Hydrogen Strategy and Implementation Department O&M

SDG&E is requesting $1.011 million in O&M funding for the HSI Department, which is responsible for understanding, developing, incorporating, and promoting the integration of clean hydrogen projects to help prepare the Company and its customers for a reliable, increasingly electrified future.[1624] The O&M expenses include labor costs for department staff and the non-labor funding request to support sponsorship of industry standards committees, consortia membership fees, industry events, conference travel and attendance, technical advisory committees and the development of critical safety training modules.

Cal Advocates - As discussed above, Cal Advocates recommends reducing "estimates of labor additions by 50% across the board," including for the HSI Department.[1625] However, Cal Advocates made an error in its calculation of "additional labor" as discussed in the general response Section 18.2.2.1. Cal Advocates' proposed reduction of $305,500 from both the *base* forecast for this Department, as well as cutting 50% of the *additional* labor costs appears to be an error.[1626] Moreover, Cal Advocates provides no basis for its proposal to cut 50% of the funding for additional labor in this Department. SDG&E submits that a qualitative assessment is appropriate for a newer team without significant historical data on which to draw. Most of the work required for the HSI team is based on future projects informed by policies directing or supporting hydrogen adoption (*i.e.*, SB 1075 and the federal 2022 IRA), as well as SDG&E's perception of upcoming hydrogen regulatory activity, such as proceedings, reporting, or new applications, that will be required.

[1624] Ex. SDG&E-15-R-E (Valero) at 5-6.

[1625] Ex. CA-09-E (Younes) at 2 and 12.

[1626] Ex. SDG&E-215 (Valero) at Appendix C (SDG&E highlighting of errors in Ex. CA-09 WP Labor Line Items, O&M tab).

CEJA – CEJA suggests that SDG&E should have sought Commission authorization before creating the HSI department.[1627] However, SDG&E is not required to seek authorization from the Commission each time it creates, eliminates, or combines departments. CEJA also previously raised concerns about certain hydrogen-related studies referenced in Mr. Valero's direct testimony. SDG&E has made it clear that it is not requesting funding for any of those studies in this GRC and has not performed these studies.[1628] In addition, SDG&E disagrees with CEJA's contention that SDG&E failed to provide sufficiently detailed information to determine whether SDG&E is requesting revenue for activities that will provide reasonable benefits to ratepayers. As the evidence shows, SDG&E has met the burden of showing that the HSI Department will perform work that benefits customers by evaluating the potential of hydrogen to decarbonize California's energy grid while maintaining reliable and resilient electric service.[1629]

Finally, CEJA raised concerns about SDG&E's proposed $100,000 expenditure for "Sponsorships and other costs," relating to hydrogen.[1630] However, SDG&E clarified that "notwithstanding the description of 'Sponsorship and other costs,' SDG&E did not and will not use any O&M dollars to sponsor any third-party entities."[1631] SDG&E also explained that "[t]he $100,000 budget may be allocated to support sponsorship of industry standards committees, consortia membership fees, industry events, conference travel and attendance, and technical advisory committees for the Hydrogen Strategy and Implementation Department. The budget will also fund the critical development of hydrogen safety training modules for internal employees, project partners, first responders, and visitors from the community to SDG&E hydrogen sites."[1632]

18.2.3.2 1DD002 Advanced Clean Technology Department

SDG&E is requesting $1.376 million in funding for its Advanced Clean Technology (ACT) Department, whose mission is to identify, advance, and build innovative solutions that are necessary solutions on SDG&E's pathway for a clean energy transition.[1633] The ACT department is responsible for developing and deploying energy storage, microgrids, integration software and

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[1627] Ex. CEJA-01 (Vespa *et al.*) at 45.
[1628] Ex. SDG&E-15-R-E (Valero) at 6.
[1629] Ex. SDG&E-215 (Valero) at 26-29.
[1630] Ex. CEJA-01 (Vespa *et al.*) at 50-51.
[1631] *Id*.
[1632] *Id*. at Appendix B, SDG&E's response to Data Request CEJA-SEU-018 Q 4a.
[1633] Ex. SDG&E-15-R-E (Valero) at 8-9.

other clean energy technologies to provide electric stability and to help the Company continue to operate the system effectively, delivering clean energy in a safe, resilient, and efficient manner. The O&M expenses include labor costs for the department staff and the non-labor costs for training and staff development.

Cal Advocates – Cal Advocates propose reducing SDG&E's O&M request by $634,000 on the grounds that "SDG&E's testimony provides only a high-level account of the labor to be done."[1634] Cal Advocates recommends the Commission reduce estimates of labor additions by 50 percent across the board.[1635] However, Cal Advocates does not identify any specific basis for its challenge to the Advanced Clean Technology Department budget. Moreover, Cal Advocates made an error in its calculation of "additional labor" as discussed in my Section 18.2.2.1. Cal Advocates proposes to cut $556,000 from the base forecast for this Department, as well as cutting 50% of the additional labor costs.[1636] This appears to be an error as Cal Advocates' proposal would be below SDG&E's base year O&M spend of $1,112,000,[1637] which is based on actual hours worked in 2021.

There is no basis for cutting 50% of the funding for additional labor (much less all labor) in this Department. As the evidence shows, the ACT department undertakes a multitude of projects, initiatives, and regulatory proceedings which impacts current and future labor estimates.[1638] For instance, the ACT department investigates potential decarbonization projects as well as integration software necessary to integrate DERs and microgrids. On the regulatory front, the ACT department is the lead business unit for the Microgrid Order Instituting Rulemaking (OIR) (R.19-09-009) and the Electric Program Investment Charge (EPIC) proceeding (R.19-10-005). Both aforementioned proceedings are ongoing and are working through active tracks with the Commission. The ACT department also supports the Wildfire Mitigation Plan (WMP) filing, the Rule 21 proceeding (R.17-07-007), and the High DER proceeding (R.21-06-017).

1634 Ex. CA-09-E (Younes) at 2, Table 9-1.

1635 *Id.* at 12.

1636 *See* Ex. SDG&E-215 (Valero) at Appendix C (SDG&E highlighting of errors in Ex. CA-09 WP Labor Line Items, O&M tab).

1637 Ex. SDG&E-15-R-E (Valero) at 11.

1638 *Id.*

18.2.3.3 1DD003 Innovation Technology Development O&M

SDG&E is requesting $5.0 million in funding for its Innovation Technology Development program, which will identify and support new technologies and research activities that benefit SDG&E's customers and are consistent with California's and the Company's climate and sustainability goals which include lower GHG emissions and operational efficiencies.[1639] SDG&E's RD&D program does not include any pre-commercial demonstrations, which SDG&E is separately authorized to conduct as part of the EPIC program.[1640] The TY 2024 request of $5.0 million supports the Company's sustainability goal for a decarbonized future. SDG&E concurrently requests authority to open a one-way balancing account to track the costs associated with this RD&D program.[1641]

SDG&E's estimated Innovation Technology Development funding categories are summarized in the following table, which identifies the specific RD&D programs and sub-programs:

Estimated Innovation Technology Development Funding Categories ($000)[1642]

Program	Sub-Program	Forecast
System Advancements	Planning, Control & Power Optimization	1,400
Clean Energy	Carbon Sequestration	1,300
Customer End-Use	Electrification Transformation	1,000
External Engagement	Consortia Subscription Fees, Stakeholder Workshops, Conferences, etc.	425
Program Management	SDG&E Program Administration & Project Management	875
Total		**5,000**

1639 *Id.* at 12-14.

1640 California Public Utilities Code Section 740.1 provides authority for utility RD&D activities that benefit ratepayers through improved reliability, safety, environmental benefits, and operational efficiencies provided that efforts are not duplicative of other research funding entities.

1641 Ex. SDG&E-15-R-E (Valero) at 43.

1642 *Id.* at 12. (Funding split between programs is estimated and will be refined once the program is approved and RD&D initiatives are established).

Cal Advocates – Cal Advocates proposes to cut 50% of the funding for three staff positions[1643] based on its claim that SDG&E's descriptions are too "high-level" and thus should be cut 50% across the board.[1644] However, SDG&E has presented evidence justifying the need for these positions as three additional FTEs are needed to oversee, administer and manage the activities.[1645] Cal Advocates also proposes to cut 50% of the funding for Business Unit Project Support,[1646] yet again provides no support to justify this 50% cut aside from its broad claim that all labor descriptions are too "high level." SDG&E has demonstrated that the internal business labor support is necessary to have a successful RD&D program and thus Cal Advocates' proposal should be rejected.[1647]

With respect to the Customer End-Use, Electrification Transformation sub-program, Cal Advocates recommends that the Commission deny the $1.0M funding request on the grounds that these advancements do not provide benefit to ratepayers in general, but only to those who choose to procure EVs.[1648] Cal Advocates also argues that technology demonstrations like wireless power transfer and dynamic in-motion charging and emerging beachhead sectors should be developed by the electric vehicle (EV) and EV charging industries.[1649] SDG&E disagrees.[1650] While the EV charging industry should continue to develop technology demonstrations, SDG&E must also help guide customers through their electrification transformation with research and development of new technology, particularly in the transportation sector which is the largest GHG contributor in California.[1651] Moreover, new technologies such as bi-directional vehicle-to-grid (V2G) or wireless power delivery benefits all ratepayers. These technologies can provide grid reliability and resiliency, enable more efficient use of renewable energy, and integrate with other distributed energy resources. Research from this sub-program complements SDG&E's EV Infrastructure

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1643 Ex. CA-09-E (Younes) at 18.

1644 *Id.* at 10, 12, 18.

1645 Ex. SDG&E-15-WP (Valero) at 17; Ex. SDG&E-15-R-E at 11 to 12.

1646 Ex. CA-09-E (Younes) at 18.

1647 Ex. SDG&E-215 (Valero) at 31.

1648 Ex. CA-09-E (Younes) at 18.

1649 *Id.* at 20.

1650 Ex. SDG&E-215 (Valero) at 31-34.

1651 *See* CARB Press Release 22-30, https://ww2.arb.ca.gov/news/california-moves-accelerate-100-new-zero-emission-vehicle-sales-2035.

Programs and can provide SDG&E with unique insights into how customers can better integrate these technologies with the grid and thereby increase EV adoption in support of SB 676.[1652]

Cal Advocates also opposes the Clean Energy, Carbon Sequestration sub-program on the grounds that SDG&E did not identify any specific quantitative or qualitative benefits for its Carbon Sequestration technology.[1653] SDG&E disagrees. In its 2022 Scoping Plan, the CARB recognized the potential need for carbon capture and sequestration (CCS) in the electric sector to meet California's climate change goals. As stated therein, CCS for electricity generation will play a part in California's transition to carbon neutrality by 2045 as required by SB 100 and AB 1279 (2022).[1654] SDG&E's Innovation Technology Development will play a small, but essential, role in studying and evaluating new solutions for carbon sequestration or clean generation enhancements that could be implemented by SDG&E or its suppliers of electricity, which could use these technologies for their gas-fired generation plants. California will need to utilize all available tools to reach these goals.

Cal Advocates also takes issue with the System Advancements, Planning Control & Power Optimization subprogram arguing that "a piece of distribution equipment" purchased under the System Advancement project, when placed in O&M, can be recovered in perpetuity because it will remain in the historical data upon which future years are often forecasted.[1655] Cal Advocates recommends that this piece of equipment be documented as a capital expenditure rather than O&M. SDG&E disagrees with Cal Advocates. First, the referenced Electric System Equipment is not yet defined. At this point, it is uncertain if SDG&E will procure Electric System Equipment and, if it does, such equipment will be specific to the applied research SDG&E is doing in this sub-program and is not a general capital request. Second, Cal Advocates' position is based on a misunderstanding of fact. Cal Advocates has confused the "unit metric" of "piece of distribution equipment" to mean that SDG&E may purchase a single piece of equipment costing that

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[1652] Senate Bill 676 (2019), Section 1, codified at Pub. Util. Code Section 740.16, https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200SB676.

[1653] Ex. SDG&E-215 (Valero) at 32.

[1654] SB 100 sets a goal of requiring renewable and zero-carbon energy resources to supply 100% of electric retail sales and state loads by 2045. AB 1279 (2022) states that California's policy is to "[a]chieve net zero greenhouse gas emissions as soon as possible, but no later than 2045, and to achieve and maintain net negative greenhouse gas emissions thereafter." CCS will be necessary to achieve "net negative" GHG emissions.

[1655] Ex. CA-09-E (Younes) at 21.

amount.[1656] As with other RD&D programs, SDG&E might spend money on equipment necessary to complete a project, but that does not mean it will continue to procure that equipment in perpetuity as Cal Advocates asserts. Instead, SDG&E will complete an RD&D project, then look to launch something different, which may or may not include equipment purchases. For these reasons, Cal Advocates' proposal to move the $800,000 Electric System Equipment forecast to capital expenditure should be rejected.

CEJA - CEJA recommends that the Commission deny all funding for the Innovation Technology Development program because SDG&E has not met its burden to show that spending on this new program would be in the ratepayers' interest. CEJA specifically attacks the Clean Energy program's proposed "evaluation and study of new solutions for carbon sequestration and/or clean generation enhancements on a small scale to determine whether to adopt them commercially on a larger scale."[1657] CEJA states that if the Commission approves this new program in any form, it should prohibit funding on research related to carbon capture and/or sequestration.[1658]

SDG&E disagrees with CEJA's recommendations because significant technological developments need to take place in California before the state can meet its goals in SB 100, SB 1020 and AB 1279.[1659] An essential part of the carbon neutrality transition will be new and/or advanced technologies and methodologies of maintaining a reliable and resilient electric grid. SDG&E's Innovation Technology Development program advances those goals by evaluating CCS use by SDG&E and/or its electricity suppliers. SDG&E is looking to evaluate all promising technologies to decarbonize its operations and its suppliers' operations. As recognized in CARB's 2022 Scoping Plan and in California SB 905,[1660] CCS is one option that should be explored. Again, California will need to utilize all available tools to reach its SB 100 goal.

18.2.3.4 1DD004 Sustainable Communities O&M

SDG&E is requesting $0.282 million in funding for its Sustainable Communities Program, which was created in response to SDG&E's 2004 Cost of Service Decision, D.04-12-015.[1661] The

[1656] Ex. SDG&E-15-WP-E (Valero) at 22.

[1657] Ex. CEJA-01 (Vespa, *et al.*) at 53-55.

[1658] Ex. CEJA-01 (Vespa *et al.*) at 55.

[1659] Ex. SDG&E-215 (Valero) at 35-36.

[1660] SB 905, Section 2 (2022), codified at Cal. Health & Saf. Code Section 39741.1(a), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB905.

[1661] Ex. SDG&E-15-R-E (Valero) at 14-15; D.04-12-015 at 35-37.

requested funding is to support the ongoing operation and maintenance activities of the DERs installed as part of the program's community-based energy strategy. While the program is no longer available for new enrollments, SDG&E still has an obligation to maintain the existing assets. The costs requested here allow SDG&E to continue to maintain those assets. As the assets reach the later years in their useful life, additional maintenance activities are required to keep the resources operational, driving the need for increased costs compared to expenses incurred in 2021.

Cal Advocates - SDG&E agrees with Cal Advocates' recommendation that the escalating contingency factor used to prepare the forecast for this budget code was incorrect. As such, SDG&E agrees the "other" classification within the SCP 2024 O&M budget should be reduced from $57,000 to $10,000, which represents a reduction of $47,000 to SDG&E's 2024 forecast.[1662]

18.2.3.4 1DD005 Distributed Energy Resource Engineering Department O&M

SDG&E is requesting $2.316 million in O&M funding for its DER Engineering Department, which leverages technology in order to accelerate the future of the electric industry through the use of microgrids, energy storage, advanced control systems and proactive engineering, testing, and demonstration.[1663] The DER Engineering Department's work is directly contributing to the Company's and State's goal of decarbonizing the electric grid by integrating DERs into the system. The DER Engineering Department does critical work by proactively testing and analyzing technology and energy storage at the Integrated Test Facility (ITF). This facility allows SDG&E to perform various real operational scenarios in a safe and controlled test environment to better understand system characteristics and device behavior before the technologies are installed and operational on the electric system. The ITF serves as a platform to drive industry standards, promote collaboration, and develop institutional knowledge to operate the electric system more safely, reliably, and efficiently.

Cal Advocates - Cal Advocates recommends a reduction of $342,000 of the DER Engineering budget code on the grounds that it cannot determine the basis for SDG&E's FTE assessment and therefore recommends the Commission reduce estimates of labor additions by 50

1662 This reduction has been accounted for in the total O&M request listed in the summary table above. However, due to rounding and the table value being in ($000), the reduction of $47,000 is not readily apparent.

1663 Ex. SDG&E-15-R-E (Valero) at 15-16.

percent across the board.[1664] Again, Cal Advocates made an error in its calculation of "additional labor" as discussed in Section 18.2.2.1 as it proposes to cut $123,000 from the base forecast for this Department, as well as cutting 50% of the additional labor costs.[1665] Moreover, Cal Advocates provides no basis for its proposal to cut 50% of the funding for additional labor in this Department. As Mr. Valero testified, additional engineering staff is needed to perform testing on new technologies, performing microgrid islanding studies, integration of microgrids into SDG&E's local area distribution controller (LADC), and performing other engineering studies related to the integration of DERs. Additional staff is also needed to support the increase in energy storage and clean technology capital projects, such as the Advanced Energy Storage program and the Mobile Battery Energy Storage Program.[1666]

As Mr. Valero testified, the DER Engineering Department leverages technology in order to accelerate the future of the electric industry through the use of microgrids, energy storage, advanced control systems and proactive engineering, testing, and demonstration, which impacts current and future labor estimates.[1667] For instance, the DER Engineering Department is actively supporting planned and unplanned outages, including PSPS events, in order to support customer resiliency through microgrid operations at the Borrego Springs Microgrid, as well as deploying backup generators. Without adequate staffing, the Department cannot perform all of the work needed.

UCAN – UCAN recommends a $375,000 reduction in this budget code, arguing that "the proposed additional grid O&M budget request for grid modernization and advanced interconnection and modeling ($1,300,502) is also outmoded, inconsistent with the Commission's priorities, and appears unjustified."[1668] SDG&E disagrees with UCAN's proposal, which would cut additional labor (FTE) for two positions funded by the DER Engineering Department, as it lacks substantive justification. As the evidence shows, the DER Engineering department leverages technology in order to accelerate the future of the electric industry through the use of microgrids, energy storage, advanced control systems and proactive engineering, testing, and demonstration,

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1664 Ex. CA-09-E (Younes) at 12.

1665 *See* Ex. SDG&E-215(Valero) at Appendix C (SDG&E highlighting of errors in Ex. CA-09 WP Labor Line Items, O&M tab).

1666 Ex. SDG&E-15-R-E (Valero) at 16; Ex. SDG&E-215 (Valero) at 37.

1667 Ex. SDG&E-15-R-E (Valero) at 15-16.

1668 Ex. UCAN-01-E (Woychik) at 241.

which impacts current and future labor estimates.[1669] The technologies the DER Engineering Department will support are not obsolete.[1670] Moreover, additional engineering staff is needed to perform testing on new technologies, performing microgrid islanding studies, integration of microgrids into SDG&E's local area distribution controller (LADC), and performing other engineering studies related to the integration of DERs. Additional staff is also needed to support the increase in energy storage and clean technology capital projects, such as the Advanced Energy Storage program and the Mobile Battery Energy Storage Program.[1671]

18.2.4 SDG&E's CEI Capital Requests

18.2.4.1 20278A Advanced Energy Storage

SDG&E is requesting capital funding for the Advanced Energy Storage (AES) project in the amount of $12.483 million (2022), $1.314 million (2023), and $0 (2024), which support the Company's goal of decarbonization, resiliency, and operational flexibility.[1672] The AES project continues the Company's strategic deployment of energy storage devices established in SDG&E's TY 2019 GRC, D.19-09-051,[1673] on distribution circuits with an abundance of solar photovoltaic (PV) penetration to effectively manage the reliability of the grid. Benefits include leveraging excess renewable energy to charge the battery component of the microgrid during the day when the circuit is experiencing lighter load levels, discharging the battery component of the microgrid during times of higher loading, and mitigating electric service intermittency. The project also supports SDG&E's grid modernization efforts and is part of the Grid Modernization Plan (Exhibit SDG&E-12-R-E (Swetek), Appendix C).

Cal Advocates - Cal Advocates argues that "the AES project was not needed, proven by the fact that it was never built," and therefore recommends an adjustment of $12,483,000 in 2022 and $1,314,000 in 2023, in addition to the Commission denying cost recovery for funds already spent.[1674] Cal Advocates is factually wrong.[1675]

1669 Ex. SDG&E-15-R-E (Valero) at 15-16.
1670 *Id*.
1671 *Id*.
1672 *Id*. at 17-19.
1673 D.19-09-051 at 293-294.
1674 Ex. CA-09-E (Younes) at 28-29.
1675 Ex. SDG&E-215 (Valero) at 41-44.

As the evidence demonstrates, spending on the two AES resources began as far back as 2017. AES was under construction when this Application was filed and some of the resources could come online in 2023 in order to leverage excess photovoltaic (solar PV) energy generation on the three circuits serving the Borrego Springs Microgrid.[1676] The excess solar PV energy in Borrego Springs includes "two PV farms with the first being a 26 MW_{AC} PV installation, and the second being a 6.5 MW_{AC} PV installation."[1677] In addition, there is over 8 MW of BTM, non-curtailable rooftop solar PV deployed. In contrast however, the local peak load, which is picked up by the microgrid through all three interconnected circuits, is 14 MW.

The generation circuit addition necessary to allow the BESS to connect to the Borrego Springs Microgrid has been completed, as contemplated by the Borrego Springs Microgrid 3.0 project discussed below. Additionally, the site grading work necessary to accommodate the BESS and the HESS have been completed in preparation for foundation and support structure construction. The BESS is on track to come online this year as the equipment is already received and is awaiting the necessary foundation construction for installation. Related to supply chain delays, the HESS project is anticipated to be commissioned in spring of 2024.

In addition, there is no justification for Cal Advocates' recommendation that cost recovery of funds already spent should be denied. AES was authorized in the 2019 GRC Decision (D.19-09-051)[1678] for capital funds from 2017 to 2019. It is inappropriate for Cal Advocates to recommend denial of funding previously approved by the Commission; indeed, the only spending in scope of this TY 2024 GRC is the capital request from 2022 through 2024. SDG&E's AES assets, the BESS and the HESS, are prudent additions to improve both the local reliability of the Borrego Springs community and the microgrid itself, while also better integrating excess PV generation, some of which cannot be curtailed. Additionally, as stated above, the assets are under-construction with spending as far back as 2017 for this program and some of the resources could come online this year or early next year.

UCAN – UCAN takes issue with SDG&E's Advanced Energy Storage project, claiming that (1) standard lithium-ion battery storage is neither "advanced technology" nor innovative; and

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[1676] Ex. SDG&E-15-R-E at 18; Ex. SDG&E-15-CWP-E at 4; Ex. SDG&E-15-WP-S at 1-2.

[1677] Ex. SDG&E-215 (Valero) at Appendix B, Data Request PAO-SDGE-062-AMY Question 5.

[1678] D.19-09-051 at 293-294.

(2) customer-side-of-the-meter (CSOM) DERs "can provide extensive battery storage."[1679] SDG&E disagrees.[1680] First, SDG&E's AES BESS deployment will utilize lithium-ion storage technology, which is a proven, yet newer technology that provides clear benefits to the local distribution system.[1681] Second, as discussed in Section 18.2.2.3 above, UCAN's assertion that "extensive battery storage can be provided by CSOM DERs" is not evidence that CSOM DERs with battery storage are available on the relevant circuits, what their capacity may be, or that the customers owning any such CSOM DERs with battery storage are willing and able to guarantee and provide energy to the Borrego Springs Microgrid when needed (rather than utilize the battery stored energy themselves).

18.2.4.2 212690 Advanced Energy Storage 2.0

SDG&E is requesting capital funding for the AES 2.0 project in the amount of $0 (2022), $13.284 million (2023), and $20.030 million (2024).[1682] This project is a continuation of the prior AES project and will consist of three energy storage systems each approximately 7 MW/14 MWh in size. The AES Storage 2.0 project is the second phase of the previous AES project approved in SDG&E's TY 2019 GRC.[1683] This project continues to advance the company's strategic deployments of energy storage devices on distribution circuits with an abundance of PV penetration (which has grown significantly since SDG&E's first phase of this project) to effectively manage the reliability of the grid.

Cal Advocates – Cal Advocates argues that this funding request should be denied on the grounds that "SDG&E has not established a need, a need date, project benefits, or locations for project installation."[1684] Cal Advocates also contends that "SDG&E has provided no evidence that utility ownership is the proper structure," and asserts that "if SDG&E would like rate recovery for AES 2.0, it should apply for recovery with an Application that meets the reasonableness standard required by D.19-06-032."[1685] SDG&E disagrees on both counts.[1686]

1679 Ex. UCAN-01-E (Woychik) at 285.
1680 Ex. SDG&E-215 (Valero) at 44.
1681 *Id*.
1682 Ex. SDG&E-15-R-E (Valero) at 19.
1683 D.19-09-051 at 293-294.
1684 Ex. CA-09-E (Younes) at 31.
1685 *Id*.
1686 Ex. SDG&E-215 (Valero) at 46-48.

First, Cal Advocates' assertion that "because SDG&E has not yet selected any locations, it cannot plausibly have an identified need for them," makes no sense. Mr. Valero testified as to the need to deploy storage devices on "distribution circuits with an abundance of PV penetration" to manage reliability of the grid. The fact that SDG&E continues to explore potential sites with high penetration PV should not be a surprise. SDG&E will continue to assess renewables penetration on circuits up until the time it decides where installing storage devices is most beneficial to renewables integration and grid reliability. The failure to identify specific circuits and locations now, when conditions on electrical circuits may change in the future, does not indicate a lack of need. To the contrary, as detailed in Ex. SDG&E-215, the need for storage devices to manage renewables penetration is well-known and increasing.[1687]

Second, SDG&E disagrees with Cal Advocates' suggestion that D.19-06-032 is grounds to deny SDG&E's funding request. In D.19-06-032, the Commission considered IOU proposals to comply with AB 2868 (2016),[1688] which instructed the Commission to require the IOUs to file applications for a certain amount of distributed energy storage systems that prioritize public sector and low income customers.[1689] Cal Advocates claims the Commission's reasoning for rejecting a Pacific Gas and Electric Company (PG&E) program applies equally to SDG&E's AES 2.0 program.[1690] Not so. The AB 2868 process applies specifically to procurement undertaken pursuant to that statutory provision;[1691] the resources being contemplated here are not subject to AB 2868 or its related requirements as they are for different purposes. Moreover, while the Commission noted that PG&E's Application was missing specific site locations, it also noted missing costs, no projection of benefits, and a limitation to utility-owned projects, which the Commission found contrary to AB 2868's express provision.[1692] Also, as the Commission

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1687 *Id*.

1688 *See* D.19-06-032 at 2: "AB 2868, signed into law on September 26, 2016, adds Sections 2838.2 and 2838.3 to the Public Utilities Code. It directs the Commission, in consultation with the California Air Resources Board and the Energy Commission, to direct the three Investor-Owned Utilities (IOU) to file applications for programs and investments to accelerate widespread deployment of distributed energy storage systems to achieve ratepayer benefits, reduce dependence on petroleum, meet air quality standards, and reduce emissions of greenhouse gases."

1689 *See* D.19-06-032 at 3: "The total capacity of the programs and investments in distributed energy storage systems approved by the Commission pursuant to AB 2868 is not to exceed 500 megawatts (MW), divided equally among [PG&E, SCE and SDG&E]."

1690 Ex. CA-09-E (Younes) at 32.

1691 D.19-06-032, Conclusions of Law 7 and 12.

1692 *Id*. at 31, 65.

described it: "PG&E is not proposing the procurement of specific projects at a specific cost, rather it is proposing a framework that would then allow it to conduct an [Request for Offer (RFO)] and propose future utility owned projects through an Advice Letter process."[1693] SDG&E's AES 2.0 program is not intended to meet the requirements of AB 2868, nor is SDG&E's AES 2.0 program structured like PG&E's program. SDG&E has provided evidence of the need, ratepayer benefit and cost of the AES 2.0 program.

Finally, SDG&E disagrees with Cal Advocates' assertion that, "if SDG&E would like rate recovery for AES 2.0, it should apply for recovery with an Application that meets the reasonableness standard required by D.19-06-032."[1694] As an initial matter, the Commission made plain that D.19-06-032 applied to storage projects "pursuant to AB 2868,"[1695] which AES 2.0 is not. Further, the direction provided in Appendix A of D.19-06-032 was intended to apply *solely* to the IOUs' implementation of AB 2868,[1696] which again, encourages the accelerated deployment of distributed energy storage systems that prioritize public sector and low-income customers. Appendix A was not intended to apply more broadly. The Commission expressly states in D.19-06-032 that Appendix A "detail[s] how the IOUs should propose specific projects to be approved ***pursuant to AB 2868***."[1697] Appendix A confirms this narrow focus, directing that applications for AB 2868 projects contain "[a]n explanation of how the procurement ***meets the mandates of AB 2868***, including . . . prioritization of those programs and investments that provide distributed energy storage systems to public sector and low-income customers . . . ."[1698]

Moreover, AB 2868 expressly recognizes that the Commission may approve other storage projects in other proceedings,[1699] such as this GRC proceeding. AES 2.0 deployments are envisioned firstly as distributed energy resources supporting the local distribution system by

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1693 *Id*. at 27.

1694 Ex. CA-09-E (Younes) at 32 and n.113.

1695 *See, e.g.,* D.19-06-032, COL 9, 12-15 and OP 3, 7, 10-13.

1696 AB 2868, Stats. 2015-2016, Ch. 681 (Cal. 2016).

1697 D.19-06-032 at 32 (emphasis added).

1698 *Id*., Appendix A at 5 (emphasis added).

1699 AB 2868 (2016), Section 2, codified at Pub. Util. Code Section 2838.2(c)(3) ("The capacity authorized pursuant to paragraph (1) is in addition to any investments authorized pursuant to Section 2836."); Pub. Util. Code Section 2836(a)(4) ("Nothing in this section prohibits the commission's evaluation and approval of any application for funding or recovery of costs of any ongoing or new development, trialing, and testing of energy storage projects or technologies outside of the proceeding required by this chapter.").

helping manage the rapid influx of renewable generation, in particular solar PV generation. While SDG&E will hold a RFO for the storage technology provider in AES 2.0 (*i.e*., the Equipment Supply Agreement) and the construction and permitting (*i.e.*, Balance of Plant),[1700] which SDG&E does for any utility-owned storage asset and did in AES 1.0, with AES 2.0, SDG&E is not seeking to meet the statutory requirements of AB 2868.

TURN - TURN recommends the Commission deny SDG&E's funding request on the grounds that the "proposals are so vague and unsupported that SDG&E has not met its burden of proof supporting the projects.[1701] TURN also recommends that, if the Commission approves AES 2.0, the Commission should order SDG&E to convert capital expenditures to a capital addition only after the project is assumed to be online. Lastly, TURN proposes that the Commission should establish what appears to be both a two-way balancing account treatment and a memorandum account treatment for the projects under this budget code.[1702]

SDG&E disagrees with TURN's claim that the AES 2.0 project is vague and unsupported. As Mr. Valero testified,

> This project continues to advance the company's strategic deployments of energy storage devices on distribution circuits with an abundance of PV penetration (which has grown significantly since SDG&E's first phase of this project) to effectively manage the reliability of the grid. Benefits include leveraging excess renewable energy to charge during the day when the circuit is experiencing lighter load levels, discharging during times of higher loading, and mitigating intermittency.[1703]

In addition, Mr. Valero's testimony and Capital Workpapers provide information about the expected size, type, and cost of the projects.[1704] Moreover, TURN's proposal for a separate project accounting, including a memorandum account, is unwarranted and inconsistent with the treatment of other capital projects in the GRC. SDG&E agrees with TURN that the AES 2.0 project should not have capital expenditures added to rate base until the expected online date for the project and has made the necessary updates to the Results of Operation Model.

1700 Ex. SDG&E-215 (Valero) at 50 n. 176. SDG&E notes there are two additional types of contracting for storage (*i.e.*, Engineering, Procurement and Construction or Balance of Plant) which could also be considered in SDG&E's RFO related to AES 2.0 deployments.

1701 Ex. SDG&E-215 (Valero) at 57.

1702 *Id.* at 57, 82.

1703 Ex. SDG&E-15-R-E (Valero) at 20.

1704 Ex. SDG&E-15-R-E (Valero) at 19; Ex. SDG&E-15-CWP-E at 12.

18.2.4.3 212710 Non-Lithium-Ion Energy Storage Technology

SDG&E is requesting capital funding for the Non-Lithium-Ion Energy Storage Technology project in the amount of $0.775 million (2022), $1.850 million (2023), and $2.552 million (2024).[1705] The project will seek commercially available solutions for energy storage technologies that avoid issues associated with lithium-ion technologies and can offer additional benefits. It also targets deployment of alternative technologies on a small scale to develop familiarity with the technology and the application situations in which larger-scale deployments are merited.

Cal Advocates – Cal Advocates recommends the Commission deny SDG&E's funding request for this project on the grounds that "SDG&E's proposal could count toward the long-duration storage ordered in D.21-06-035."[1706] and therefore, the Commission should order SDG&E to comply with the procedural requirements of D.21-06-035 (*i.e.*, an Application)."[1707] Cal Advocates also claims that, "[b]efore excluding lithium-ion technology, SDG&E should show that non-lithium-ion storage provides a net benefit to ratepayers relative to the lithium-ion storage."[1708]

SDG&E disagrees that SDG&E's Non-Lithium-Ion Energy Storage Technology proposal should count towards SDG&E's D.21-06-035 long-duration energy storage obligation for 2026, and notes that Cal Advocates is again attempting to have requirements from discrete decisions have blanket applicability to this GRC.[1709] D.21-06-035 is clear that its requirement to file an application for utility-owned storage applies only to "procurement conducted as a result of [the] order" in the Decision.[1710] The Commission also made plain that the procurement in D.21-06-035 was to address the mid-term reliability needs of the CAISO operating system.[1711] SDG&E is proposing to deploy non-lithium-ion alternatives on a small scale to develop familiarity with the technology and to inform future applications in larger-scale.[1712] SDG&E is not intending for the

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1705 Ex. SDG&E-15-R-E (Valero) at 21-22.

1706 Ex. CA-09-E (Younes) at 34, 35 (emphasis added).

1707 *Id.* at 35.

1708 *Id*.

1709 Ex. SDG&E-215 (Valero) at 54-55.

1710 D.21-06-035, Ordering Paragraph 13 and at 93.

1711 D.21-06-035 at 2 ("This decision addresses the mid-term reliability needs of the electricity system within the California Independent System Operator's (CAISO's) operating system by requiring at least 11,500 megawatts (MW) of additional net qualifying capacity (NQC) to be procured by all of the load-serving entities (LSEs) subject to the Commission's integrated resource planning (IRP) authority.").

1712 Ex. SDG&E-15-R-E (Valero) at 21.

three small scale deployments to participate in the CAISO market at least initially, as SDG&E wants to become familiar with the technologies and their capabilities. For that reason alone, the deployments would not meet the obligations specified in D.21-06-035,[1713] as the assets would not meet CAISO net qualifying capacity (NQC) requirements because they would not be bid into CAISO.[1714] Instead, SDG&E proposes to follow the multi-year demonstration process utilized by SDG&E's Miguel Vanadium Redox Flow (Miguel VRF) BESS, which is distribution interconnected.[1715,1716]

In addition, Cal Advocates' concern about "over-procurement" makes little sense for three small pilot projects that are connected to the distribution system. Requiring a separate application for this limited pilot program, rather than consideration in this GRC proceeding, would be inefficient and time-consuming for both SDG&E and the Commission. Finally, the purpose of this pilot program is to study non-lithium-ion storage technologies. Therefore, Cal Advocates' suggestion that SDG&E should determine whether lithium-ion technology has greater benefit to ratepayers before SDG&E even begins the non-lithium-ion pilot program is not reasonable or logical.

TURN - TURN also recommends the Commission deny SDG&E's funding request on the grounds that SDG&E has failed to meet its burden of proof supporting the projects."[1717] Again, SDG&E disagrees. As the evidence shows, SDG&E proposes a multi-year demonstration of each technology studied to identify the value steams and study potential large-scale applications of the technology.[1718] SDG&E identified examples of technologies that may be deployed (new battery chemistries, as they emerge, and non-battery alternatives such as flywheels and gravity-based storage), explained that SDG&E would seek commercially available solutions, and provided a limited budget for feasibility and planning work, deployment and commissioning, and

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1713 D.21-06-035 at 2.

1714 *See* CAISO tariff (http://www.caiso.com/rules/Pages/Regulatory/Default.aspx), Section 40.4.3.1 states "Submit Bids into the CAISO Markets as required by this CAISO Tariff." Section 40 of CAISO's Federal Energy Regulatory Commission (FERC) authorized tariff can be found at http://www.caiso.com/Documents/Section40-ResourceAdequacyDemonstration-for-SchedulingCoordinatorsintheCaliforniaISOBalancingAuthorityArea-asof-Feb11-2023.pdf.

1715 The Vanadium Flow Battery Project (synonymous for the Miguel VRF) was funded by the 2019 GRC D.19-09-051 at 294.

1716 Ex. SDG&E-215 (Valero) at Appendix B, Data Request CCAS-SDGE-002, Question 02.22b.

1717 *Id.* at 7, 57.

1718 *Id*. at 56.

evaluation.[1719] Evaluation of non-lithium-ion storage technologies avoids risks associated with over-dependence on lithium-ion and other existing battery technologies, may increase the diversity of storage resources available to the grid as encouraged by the Commission,[1720] and is needed to advance SDG&E's and California's transition to the carbon neutrality required by SB 100 for retail electricity sales.[1721]

18.2.4.4 17246A Borrego 3.0 Microgrid

SDG&E is requesting capital funding for the Borrego 3.0 Microgrid in the amount of $2.792 million (2022), $(0.188) million (2023), and $0 (2024).[1722] The scope of Borrego 3.0 is to install a new distribution circuit to allow for additional capacity to support the installation of additional energy storage assets to increase the size of the microgrid supporting the community of Borrego Springs. The additional DERs, approved in SDG&E's 2019 GRC,[1723] are under construction and expected to be online in 2023-2024, as set forth in the discussion regarding SDG&E's AES project above.[1724] The additional energy storage assets will not only support SDG&E's goal of transitioning this microgrid to being 100% renewable solution by reducing reliance on diesel generators, but will also help increase the amount of load the microgrid can carry for extended durations. A portion of this project is reimbursable by a grant from the Department of Energy studying various microgrid capabilities."[1725] At this point, the new circuit contemplated by Borrego 3.0 has been constructed and is ready to interconnect the AES energy storage assets.

Cal Advocates – Cal Advocates recommends the Commission deny SDG&E's funding request on the grounds that SDG&E has not established a need for the project.[1726] SDG&E disagrees.[1727] First, the new circuit that is funded by this project is necessary to integrate the DERs approved by the Commission in SDG&E's 2019 GRC Decision,[1728] which will capture excess PV

1719 Ex. SDG&E-15-CWP (Valero) at 22.

1720 *See, e.g.*, D. 21-06-035 at 36.

1721 SB 100 sets a goal of requiring renewable and zero-carbon energy resources to supply 100% of electric retail sales and state loads by 2045; *see also* SB 1020 (2022).

1722 Ex. SDG&E-15-R-E (Valero) at 22-23.

1723 D.19-09-051 at 294.

1724 Ex. SDG&E-15-CWP (Valero) at 34.

1725 *Id*. at 34.

1726 Ex. CA-09-E (Younes) at 38.

1727 Ex. SDG&E-215 (Valero) at 57-59.

1728 D.19-09-051 at 293-294.

energy generation and reduces utilization of fossil fuel generators during outages. Second, SDG&E's Borrego 3.0 project will contribute to many items related to the Borrego Springs Microgrid, including SDG&E's cost-share associated with the DOE grant to directly validate that renewable DERs can provide the same microgrid resiliency and reliability as fossil fuel based DERs. Third, by allowing integration of additional energy storage to strengthen the microgrid, the Borrego 3.0 project will lower GHG emissions, supporting SB 32's goal, and allow for carbon neutrality of the microgrid operation in the future, supporting SB 100's goal. Today, the Borrego Springs Microgrid utilizes diesel generators as the island master – the primary resource for black start, keeping the system stable when transitioning to island, and providing capacity. Energy storage development at Borrego, of which Borrego 3.0 is a key part, will demonstrate that battery-based resources can perform the same function and therefore fossil fuel generators can be decoupled from operations in the future. Finally, the project de-risks utility energy storage adoption on the decarbonization pathway to serve resiliency and reliability applications, including services to rural/remote communities that are more likely to rely on diesel and gas generators during PSPS or outage conditions.

<u>UCAN</u> – UCAN argues that the ongoing construction of battery and hydrogen storage devices at the Borrego Springs Microgrid does not justify construction of the new circuit needed to integrate those assets into the microgrid.[1729] However, the Commission already approved the Borrego Springs Microgrid energy storage projects in D.19-09-051,[1730] and it would be inefficient not to integrate those assets into the microgrid through the new circuit built under the Borrego Springs Microgrid 3.0 project. SDG&E notes the circuit work has been completed (*i.e.*, circuit 173 has been added).

UCAN also argues that SDG&E failed to justify the project, that it is "outmoded," and that it "seems primarily aimed at integration of only USOM DERs."[1731] SDG&E disagrees.[1732] The Borrego Springs Microgrid provides valuable service to SDG&E customers as it is in a rural and remote desert community, subject to temperature extremes, flooding, and other extreme weather. During planned maintenance of the single, long transmission line running into the area, as well as

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1729 Ex. UCAN (Woychik) at 286-87.

1730 D.19-09-051 at 294.

1731 *Id*. at 288.

1732 Ex. SDG&E-215 (Valero) at 60-62.

when extreme weather events cause unplanned outages on the line, enhancing the power and capacity of microgrid through energy storage enables improved support of critical loads and will reduce reliance on both utility and customer usage of fossil-fuel based generators during outages. The functionality of Borrego 3.0 will demonstrate that battery-inverter based resources can provide the same, if not better, capability as the current diesel generators, and will allow the microgrid to seamlessly black start and island the community all based on clean technologies. This is the opposite of "outmoded."

UCAN does not appear to understand how IFOM utility energy storage DERs support existing, and facilitate incorporation of additional, customer DERs. Should an outage occur in Borrego Springs, in the absence of adequate utility-sided microgrid energy storage for seamless transition to island operations, there is risk of customer-sided solar inverters tripping in underfrequency conditions, resulting in a loss of PV generation. If anything, Borrego 3.0 will ensure seamless operation of customer-sided PV while at the same time facilitating incremental customer additions.

18.2.4.5 212660 Integrated Test Facility (ITF) Expansion

SDG&E requests capital funding for the ITF Expansion project in the amount of $1.425 million (2022), $0 (2023), and $0 (2024). This project supports the safe and reliable deployment of advanced technologies, which is driven by State policy and consumer adoption of DERs and other clean energy technologies. This expansion project includes the procurement of a real-time digital simulator and multiple Doble testing sets. The project also supports SDG&E's grid modernization efforts and is part of the Grid Modernization Plan (Exhibit SDG&E-12, Appendix C). No party has opposed the ITF expansion.

18.2.4.6 20281A Sustainable Communities Removal

SDG&E requests capital funds for the Sustainable Communities Removal project in the amount of $0.969 million (2022), $0.407 million (2023), and $0.439 million (2024).[1733] This project involves the expected removal of SDG&E-owned solar PV arrays and small batteries on customer sites throughout San Diego County through 2024. The identified customer sites, mainly municipal buildings, schools, non-profit and commercial buildings, are scheduled for a potential

[1733] Ex. SDG&E-15-R-E (Valero) at 25-26.

lease renewal in the corresponding years, however, it is unlikely that the customers will renew the lease and instead will exercise their right to remove the PV arrays.[1734]

Cal Advocates - Cal Advocates recommends a reduction of the capital request for this project by $1,113,417,[1735] suggesting that "SDG&E should pursue a different strategy, such as selling the used equipment to the site owners at a discounted rate."[1736] If the Commission allows SDG&E to remove the equipment, Cal Advocates contends that "SDG&E's cost estimates are far too high."[1737]

As a threshold matter, SDG&E notes that the lessor, not SDG&E, decides whether to terminate the lease.[1738] SDG&E's first goal is to seek the extension of a lease option, but that is not always feasible as it is the lessor's choice. Additionally, SDG&E looked into alternatives as Cal Advocates proposes but found that they are not feasible due to either fire code or negative impacts to the customer (*e.g.*, stranding the asset on the site owner's roof, or triggering individual Section 851 filings). Also, SDG&E notes that SDG&E's removal process and expenses include the recycling of the assets in order to properly dispose of parts and be good environmental stewards.

SDG&E disagrees with Cal Advocates that the removal costs are too high or that there is undepreciated value.[1739] It is unreasonable for Cal Advocates to attempt to isolate and estimate an undepreciated value of the Sustainable Communities projects and use this as justification that the projects are "problematic," since these assets are part of a group depreciated account and under group depreciation, as further described in Exhibit SDG&E-36-R. As Sustainable Communities follows a group asset depreciation, it is inappropriate for Cal Advocates to assign undepreciated value to individual assets. Additionally, SDG&E's removal cost estimates are based on an independent decommissioning study prepared by Sargent & Lundy, an engineering firm. The detailed study can be found in Exhibit SDG&E-36-WP-S – Volume 13. Notably, Cal Advocates

1734 D.04-12-015 at 35-37.

1735 Ex. CA-09-E (Younes) at 47.

1736 *Id.* at 42.

1737 *Id.*

1738 Ex. SDG&E-215 (Valero) at 63-64.

1739 *Id.*

challenges the removal costs as "inflated,"[1740] yet Cal Advocates did not present any informed analysis of likely removal costs.

18.2.4.7 212610 Mobile Battery Energy Storage Program

SDG&E requests capital funds for the Mobile Battery Energy Storage Program in the amount of $2.076 million (2022), $2.076 million (2023), and $2.076 million (2024).[1741] This program will consist of purchasing three mobile battery systems for each of the years 2022, 2023, and 2024 for a total of nine mobile battery systems. The intent is to have the mobile battery systems staged throughout SDG&E's service territory at either district operations & control centers or substations with available space for storage of the units to allow for quick and efficient deployment when needed. This program supports the Company's goal of decarbonization by decreasing the reliance on backup diesel generation through the alternative use of clean energy batteries which are not limited by physical location. SDG&E can leverage these mobile battery energy storage systems (MBESS) to increase grid resiliency and operational flexibility for the Company's customers during public safety power shut-off events by deploying these systems to at-risk electric systems experiencing things like system maintenance outages and adverse weather conditions.

Cal Advocates - Cal Advocates recommends the Commission deny SDG&E's funding request on the grounds that SDG&E did not provide specific evidence that the MBESS are needed or benefit ratepayers.[1742] SDG&E disagrees as the MBESS will immediately support SDG&E's resiliency and reliability efforts, especially during Public Safety Power Shutoffs (PSPS) events and other unplanned or planned outages.[1743] For example, in 2020 SDG&E deployed 195 diesel generators to mitigate customer impacts during planned outages and PSPS events, while in 2021 SDG&E deployed 168 diesel generators for planned outages, a PSPS event and one unplanned event. As detailed in Mr. Valero's testimony, deploying a MBESS in place of a diesel generator results in the following benefits: (1) GHG emissions reductions; (2) reduction of criteria air pollutants (*e.g.*, NO_x, carbon monoxide (CO), hydrocarbons, and diesel particulate matter) which affects ambient air quality; and 3) reduction of diesel fuel consumed.[1744] Notably, MBESS

1740 Ex. CA-09-E (Younes) at 44.

1741 Ex. SDG&E-15-R-E (Valero) at 26-27.

1742 Ex. CA-09-E (Younes) at 48-49.

1743 Ex. SDG&E-215 (Valero) at 65-67.

1744 Ex. SDG&E-215 (Valero) at 66.

deployments can support the Clean Energy and Pollution Reduction Act of 2015 (SB 350) designated disadvantaged communities (DACs).[1745]

18.2.4.8 212680 Hydrogen Build Ready Infrastructure

SDG&E requests capital funds for the Hydrogen Build Ready Infrastructure project in the amount of $0 (2022), $0.770 million (2023), and $1.155 million (2024), which will provide for the acceleration of electric system service infrastructure necessary to support customers' localized creation of hydrogen via electrolysis for the purpose of supporting clean, hydrogen-based transportation in SDG&E's service territory.[1746] By facilitating the development of this service infrastructure, the Hydrogen Build Ready Infrastructure program will allow qualifying customers to produce hydrogen for various use cases that will reduce GHGs. This effort targets providing customers with an incentive by covering the interconnection costs incurred as it relates to the specific customer's installation of a hydrogen electrolyzer on SDG&E's electric grid. The program is designed to fund up to five customers and their associated interconnection-related costs as it pertains to their investment in an electrolyzer of no more than 2 MW. SDG&E will target and prioritize these electrolyzer plus solar installations with a focus on serving public interest entities (*e.g.*, public transit agencies, waste management agencies, port authorities or school districts).[1747]

Cal Advocates - Cal Advocates contends that the Commission should deny all funding, arguing it "entails a cross-subsidy because it covers costs related to up to five customers which would be spread across all customers."[1748] SDG&E disagrees as the program will create environmental benefits for all customers by incentivizing, through subsidizing interconnection costs, San Diego customers interested in early adoption of locally produced hydrogen.[1749] Such customers will use the hydrogen generated onsite to displace polluting fossil fuel they would otherwise consume. Additionally, for customers interested in switching to hydrogen-powered vehicles, creating electrolytic hydrogen onsite can be more efficient because it removes the need to transport and store the hydrogen. Without a program like the Hydrogen Build-Ready Infrastructure, customers committed to hydrogen fuel adoption might elect instead to have hydrogen delivered to their site via a diesel fueled truck, which would increase emissions related to

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[1745] https://oehha.ca.gov/calenviroscreen/sb535.

[1746] Ex. SDG&E-15-R-E (Valero) at 28-29.

[1747] Ex. SDG&E-15-R-E (Valero) at 28

[1748] Ex. CA-09-E (Younes) at 52.

[1749] Ex. SDG&E-215 (Valero) at 67-69.

the transport and storage of hydrogen. As detailed in Mr. Valero's testimony, the environmental benefits of replacing diesel fueled vehicles with hydrogen fuel cell electric vehicles are significant.[1750]

Cal Advocates also objects to a two-way balancing account as proposed by SDG&E, and instead would propose a one-way balancing account if funding was approved. [1751] SDG&E does not object to Cal Advocates proposal for a one-way balancing account. Finally, SDG&E notes the capital dollars will only be spent *if* customers apply to the program and meet its requirements. Should no customers apply and qualify, no dollars will be spent.

CEJA – CEJA contends that the Commission should deny all funding for the project on the grounds that producing hydrogen through grid-connected electrolysis is "dangerously emissions intensive."[1752] SDG&E rejects this claim. As detailed in the Mr. Valero's testimony, SDG&E developed this initiative with a strong understanding of the near- and longer-term trajectory of the carbon intensity of California's grid, and incorporated up-to-date technology, cost assumptions, and federal/state policy assessments in its proposed program.[1753] In contrast to CEJA's assessment, SDG&E judiciously projects future emissions intensity of grid connected electrolysis utilizing the most current data available. Given the rapid pace of decarbonization, use of older analysis can at best lead to inaccurate assessments and at worst support entrenched biases that will impede development of a technology neutral, diverse array of clean energy and transportation solutions for society.

UCAN – UCAN objects to this funding request, arguing that SDG&E will need to become involved in the "currently uneconomic and largely speculative market for hydrogen electrolyzers,"[1754] and the projects require new infrastructure which "are far from commercially available."[1755] UCAN additionally states that SDG&E has "no track record in developing or operating a hydrogen electrolyzer."[1756]

1750 *Id.*

1751 Ex. CA-09-E (Younes) at 52.

1752 Ex. CEJA-01 (Vespa *et al.*) at 56.

1753 Ex. SDG&E-215 (Valero) at 70-73.

1754 Ex. UCAN-01-E (Woychik) at 289.

1755 *Id*. at 290.

1756 *Id*. at 289.

UCAN's concerns are unfounded.[1757] Under this program, SDG&E will not be in the market for electrolyzers, nor will it be operating or providing ratepayer funding for electrolyzers. Rather, the Hydrogen Build-Ready Infrastructure simply provides "customers with an incentive by covering the interconnection costs incurred as it relates to the specific customer's installation of a hydrogen electrolyzer on SDG&E's electric grid."[1758] The customers, not SDG&E, will purchase and operate electrolyzers and they will ultimately determine if it uneconomic to do so.

FEA - FEA recommends that instead of a two-way balancing account, SDG&E track program costs via a memorandum account.[1759] However, as noted above, SDG&E has agreed to the use of one-way balancing account pursuant to Cal Advocates' recommendation. SDG&E agrees with Cal Advocates that a one-way balancing account provides reasonableness review by the Commission.

18.2.4.9 212720 Hydrogen Energy Storage System Expansion

SDG&E requests capital funds for the Hydrogen Energy Storage System Expansion project in the amount of $0 (2022), $5.171 million (2023), and $0.081 million (2024).[1760] SDG&E plans to expand the hydrogen portion of the Advanced Energy Storage System at the Borrego Springs Microgrid,[1761] which includes increasing onsite hydrogen fuel cell capacity from 250 kilowatts (kW) to 1000 kW and doubling onsite hydrogen storage to support the increased fuel cell capacity. This expansion is critical to support islanding operation of the microgrid and helping better meet the community's high-solar penetration load after the sun has set. Additionally, the project includes purchasing an atmospheric water generation system[1762] to learn about alternative water supplies that can support clean electrolytic hydrogen production, which is very important in the drought-prone region of Borrego Springs since water is the feedstock for the electrolyzer process.

Cal Advocates - Cal Advocates argues that this project is not needed, contending it is a "glorified research project," and is concerned the project could "stymie GHG reduction efforts by raising electricity rates."[1763] SDG&E disagrees as it is proposing the HESS Expansion to support

1757 Ex. SDG&E-215 (Valero) at 74.
1758 Ex. SDG&E-15-R-E (Valero) at 28.
1759 Ex. FEA-01 (Smith) at 50.
1760 Ex. SDG&E-15-R-E (Valero) at 29-30.
1761 D.19-09-051 at 293-294.
1762 An atmospheric water generator converts ambient water vapor in the air into liquid using solar energy.
1763 *Id*. at 61.

resilient, low-GHG microgrids in a remote area of its service territory that is prone to grid outages. As Mr. Valero testified, the expanded hydrogen energy storage system at Borrego will directly reduce the need for polluting onsite diesel generators and supports the Borrego Springs Community's electric resiliency and environmental goals.[1764] Moreover, SDG&E provided its analysis supporting the reasonableness of the request, including: (1) the HESS expansion request supports absorbing some of the peak net load that would otherwise be met by diesel fuel in the incremental amount of 750 kW; (2) the HESS expansion is sized for eight hours of storage; (3) it meets SDG&E's footprint requirements for the available space at the microgrid; (4) it will allow SDG&E to operate the HESS alongside other DER assets such as batteries in islanded mode; and (5) it could allow SDG&E to independently dispatch the HESS to the grid during daily operations (*i.e.*, blue sky conditions), should it become a participating generator per the CAISO Tariff.[1765]

As explained in Mr. Valero's testimony, the expanded HESS will be "used and useful" and will reduce harmful emissions associated with diesel generators.[1766] It will help SDG&E understand the benefits and value of hydrogen energy storage systems both for microgrids in island mode as well as "grid-connected" mode since the HESS will be large enough to be a CAISO participant. Lastly, it allows SDG&E to continue to learn how to manage distributed clean hydrogen resources as the company transitions to a 100% clean electricity system by 2045.

18.2.5 Support to Other Cost Areas

18.2.5.1 Electric Generation Projects

18.2.5.1.1 210390 Palomar Hydrogen Systems

As set forth in Section 19 (Electric Generation), SDG&E seeks capital and O&M funding for the Palomar Hydrogen Systems program. The Palomar Hydrogen Systems program is SDG&E's first pilot focused on demonstrating multiple use cases of electrolytically produced hydrogen to support decarbonizing natural gas-powered plant operations.[1767] SDG&E's Palomar Hydrogen Systems request is an important example of SDG&E taking a proactive approach to ensure it is ready to meet the requirements of SB 100 and SB 1020 while delivering safe and reliable service. Clean hydrogen will play a vital role in helping to decarbonize California's

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[1764] Ex. SDG&E-15-R-E (Valero) at 30.

[1765] Ex. SDG&E-215 (Valero) at 75-75.

[1766] *Id.* at 75-77.

[1767] Ex. SDG&E-15-R-E (Valero) at 31-32.

electric grid by ultimately becoming a key source of clean, firm, and dispatchable power that can support the electric system at times of low renewable production and high demand. As part of the Palomar Hydrogen Systems project, solar panels will be installed to generate carbon-free electricity to help produce clean hydrogen on-site through electrolysis. This hydrogen will then be used in practical applications, including electric power generation, to replace gray hydrogen for generator cooling, and as a clean transportation fuel.[1768]

The true value of this pilot is the impactful learnings SDG&E will achieve on how to manage hydrogen for multiple use cases at a generating asset. These include critical first-hand lessons and experiences for designing and managing onsite electrolytic hydrogen production and gas storage to support (1) hydrogen blending; (2) hydrogen for generator cooling; and (3) hydrogen for vehicle fueling. SDG&E will gain knowledge and experience in a variety of areas, including engineering, system design, codes and standards, controls, valves, piping, venting, safety requirements, hazards, material specifications, best practices, risk management, metering, performance data on gas turbine efficiency with blended gas, emissions data, cost data, developing asset operation and maintenance strategies, developing and publishing standard operating procedures, training staff, labor, and first responders, and developing asset management requirements and protocols. There is no adequate way for SDG&E to gain this expertise other than developing a real-world project, as proposed here.

Cal Advocates – Cal Advocates recommends the Commission deny the funding request for Palomar Hydrogen System on the grounds that the projects lacks benefits[1769] and that the project does not meet "the Commission's guidelines and standards set in D.22-12-057."[1770] SDG&E disagrees.[1771] SDG&E seeks to advance compliance with the State-mandated goals to achieve decarbonization in the electrical sector and across the economy. SDG&E's request is an important example of SDG&E taking a proactive approach to ensure it is ready to meet the requirements of SB 100 and SB 1020 while delivering safe and reliable service.

Power generation from a carbon-free fuel like hydrogen will be an important and dispatchable enabler and source of electrification of buildings and transportation. In the 2022

[1768] Ex. SDG&E-215 (Valero) at 78 to 79.

[1769] Ex. CA-05 (Weaver) at 32.

[1770] *Id*.

[1771] Ex. SDG&E-215 (Valero) at 80-85.

CARB Scoping Plan, CARB projects that by 2045, California will require over 220 gigawatts (GW) of new electricity resources to meet the growing electric demand. Of those new resources, CARB's plan estimates 9.325 GW of new hydrogen combustion turbine resources.[1772] The SDG&E Path to Net Zero study found that to cost-effectively support the grid with a one day in ten year loss of load requirement in the year 2045, California will need 20 GW of clean, firm dispatchable power generation to affordably complement all the intermittent renewable resources and battery energy storage that will make up the bulk of our generation portfolio.[1773]

SDG&E cannot sit idly by for the next 10 to 20 plus years and then suddenly expect its employees, vendors, contractors, supply chains, and assets to be ready to meet the 2035, 2040 and 2045 deadlines of SB 100 and SB 1020, while also meeting its requirement to serve safe, reliable, affordable energy. Moreover, it is significantly more cost-effective to establish small hydrogen pilots at existing assets to understand the fuel today rather than wait until the last minute (2042) and spend hundreds of millions of dollars on a technology that SDG&E is wholly unfamiliar with and has not proven or vetted – as Los Angeles Department of Water & Power (LADWP) intends to do with the Scattergood combine cycle power plant.[1774]

Finally, Cal Advocates is mistaken in claiming that the project "does not meet the Commission's guidelines and standards set in D.22-12-057."[1775] D.22-12-057 directed the IOUs to file an application (or amend an application) to propose "pilot programs to test hydrogen blending in natural gas at concentrations above the existing trigger level, as ordered in this decision."[1776] D.22-12-057 is not relevant to the Palomar Hydrogen Systems funding request as the Palomar program is not evaluating standards for hydrogen injection on the state's common carrier natural gas system, and testing gas line integrity is not the goal of the program. All blending will be done "behind the fence" at Palomar just prior to the point of combustion and will be isolated from the natural gas grid and limited to 1-2% hydrogen blend by volume in the existing natural gas turbines.

1772 California Air Resources Board. 2022 Scoping Plan for Achieving Carbon Neutrality. Nov. 16, 2022. AB 32 GHG Inventory Sectors Modeling Data Spreadsheet 2022-SP-Pathways-Data-E3_0.XLSX, tab "Electricity." Available at: https://ww2.arb.ca.gov/resources/documents/2022-scoping-plan-documents.

1773 Ex. SDG&E-215 (Valero) at 81.

1774 *Id.* at 84 to 85.

1775 *Id.* at 85.

1776 D.22-12-057 at 68-69.

Therefore, Palomar Hydrogen Systems is not required to abide by the outcome of D.22-12-057 since it is not within scope.

TURN – TURN argues that "SDG&E has not done its homework to determine if there are unique learning opportunities associated with the pilot that could not be obtained by other less expensive means. Also, the costs of the project are not justified given the vague and speculative potential benefits."[1777] SDG&E disagrees.[1778] As demonstrated in Mr. Valero's testimony, the unique learning opportunities associated with the pilot could not be obtained by less expensive means, this pilot is actually cost-minimizing and prudent, and the benefits are concrete, not speculative. The benefits of the Hydrogen Systems at Palomar program are understood and tangible, and there is no replacement for developing a real-life hydrogen project.

TURN also argues that the project produces a "miniscule amount of hydrogen relative to the amount of natural gas used at Palomar. Thus, the project is hardly a good pilot for testing and understanding the process and issues relating to large-scale fuel blending at SDG&E's large gas-fired generating stations."[1779] SDG&E agrees that blending 1-2% hydrogen is a small percentage by volume, but Palomar is a very large power plant at 588 MW. Therefore, the quantity of hydrogen that will be produced by the onsite electrolyzer on a mass basis, at up to 500 kg/day, is significant enough to allow SDG&E to understand the process and many of the issues related to higher percentages of hydrogen fuel blending. There will be important learnings to SDG&E with the prudent approach of beginning at a lower percentage and thus at less cost.

TURN also argues that the Palomar Hydrogen Systems project is "in reality, a fleet fueling project, not a project testing fuel blended fuels at Palomar."[1780] This is incorrect, as the main purpose of the program is to learn how to create hydrogen onsite at a generating facility and use it in multiple ways, especially for blending in the power plant. It would be much easier for SDG&E to develop a fleet vehicle fueling pilot at a location that is not an active generating asset. However, as blending the fuel is one of the core purposes of the program, SDG&E did not undertake that strategy.

[1777] Ex. TURN-06-R (Monsen) at 86.

[1778] Ex. SDG&E-215 (Valero) at 86-88.

[1779] Ex. TURN-06-R (Monsen) at 88.

[1780] *Id.* at 92.

CEJA - CEJA requests the denial of "$4.8 million" for the hydrogen fueling station at Palomar Energy Center.[1781] SDG&E believes this request is based on a misunderstanding of the dollar amount being requested for the project. The Palomar Hydrogen Systems is integrated as one single project for three separate hydrogen use cases (*i.e.*, vehicle fueling, fuel blending, and hydrogen gas for generator cooling), which all rely on common equipment, including but not limited to the common electrolyzer.[1782] Other equipment included in the $4.8 million is defined broadly as "remaining materials."[1783] The remaining materials include piping, hydrogen storage vessels, and compressors needed for the other applications, not just the fueling station. Therefore, defunding the $4.8 million necessary for the vehicle fueling station portion of the project would also remove funding for equipment necessary for the other aspects of the project, which CEJA is not seeking to deny.

In addition, CEJA claims that hydrogen vehicles have significant disadvantages compared with battery electric vehicles.[1784] However, hydrogen fuel cell electric vehicles play a key role in SDG&E's fleet decarbonization efforts, especially in times when the grid is down and battery electric vehicles are challenging to charge.[1785] It is likely that it is during these times when the team at Palomar will most require hydrogen light duty passenger vehicles to visit remote microgrids while they are operating during power outages. .

18.2.5.1.2 1EG003.000 Non-shared O&M Generation Plant Palomar

CEJA – CEJA proposes a reduction of TY 2024 O&M funds by $85,000 for the forecasted maintenance costs of the Palomar Hydrogen Fueling Station.[1786] This is related to CEJA's request to eliminate capital funding for the Palomar Hydrogen Fueling Station. As discussed above, SDG&E posits that the capital for the station is necessary. If it is funded, the related O&M in the amount of $85,000 is necessary in order to maintain the capital equipment. SDG&E recommends CEJA's adjustment be denied, and funding as originally presented by SDG&E in direct testimony be approved.

[1781] Ex. CEJA-01 (Vespa *et al.*) at 61.

[1782] Ex. CEJA-29, at 1-2.

[1783] Ex. SDG&E-14-CWP-E (Baerman) at 52-63.

[1784] Ex. CEJA-01 (Vespa *et al.*) at 90.

[1785] Ex. SDG&E-222-E (Alvarez) at Section III.C.

[1786] Ex. CEJA-01 (Vespa *et al.*) at 61.

18.2.5.1.3 1EG004.000 - Distributed Energy Facilities

TURN - TURN recommends a reduction of $895,000 to SDG&E's DEF O&M budget based on the assumption that only nine DEF's will be online at the end of 2024 instead of the 20 that SDG&E expects.[1787] However, there is no factual basis for TURN's assumption that SDG&E will be performing O&M on less than 20 DEFs. SDG&E's DEFs online today include: (1) Ramona Solar Energy Project; (2) Escondido BESS; (3) El Cajon BESS; (4) Miguel VRF BESS; (5) Miramar Top Gun BESS; (6) Kearny BESS; (7) Ramona Air Attack Base WMP Microgrid; (8) Fallbrook BESS; and (9) Westside Canal BESS.[1788] SDG&E's DEFs in-development and expected online in 2023 or 2024 include: (1) the Melrose BESS; (2) Pala Gomez-Creek BESS; (3) Boulevard BESS and Microgrid; (4) Clairemont BESS and Microgrid; (5) Elliot BESS and Microgrid; (6) Paradise BESS and Microgrid; (7) AES BESS asset at the Borrego Springs Microgrid; (8) AES HESS asset at the Borrego Springs Microgrid; (9) Cameron Corners WMP Microgrid; (10) Butterfield Ranch WMP Microgrid; and (11) Shelter Valley WMP Microgrid.[1789]

All of these resources are currently in-development, or even online today, or will be online by the end of 2024, if not earlier. As such, TURN's proposed cut from 20 DEFs down to 9 DEFs is unfounded and should be denied.

18.2.5.1.4 000080 Hybrid at Miramar Energy Facility

As set forth in Section 19 (Electric Generation), SDG&E seeks capital and O&M funding for the Hybrid at Miramar Energy Facility (MEF). The Hybrid at MEF project involves integrating a 10 MW/10 MWh BESS at each of the two existing gas turbines (total of 20 MW BESS).[1790] Additionally, this project will install new operational controls logic to optimize operational efficiency, reduce GHG emissions and water use between the combined use of both the existing gas turbines as well as the proposed battery energy storage units which together will allow the resource to reach nameplate capacity.[1791, 1792]

1787 Ex. TURN-06-R (Monsen) at 7.

1788 Ex. SDG&E-215 (Valero) at 90. The Fallbrook Bess went online in May 2023 and the Westside Canal BESS went online in June 2023.

1789 *Id*. at 91.

1790 Ex. SDG&E-15-R-E (Valero) at 33.

1791 "Nameplate capacity" is the maximum output of electricity a power plant can produce without exceeding design limits. Nameplate capacity is determined by the plant manufacturer.

1792 Ex. SDG&E-15-R-E (Valero) at 33; Ex. SDG&E-215 (Valero) at 95-96.

TURN - TURN recommends that the Commission deny the funding request, claiming that SDG&E is "bypassing the Commission's Integrated Resource Planning (IRP) process,"[1793] that the net benefit is uncertain, and that the federal Investment Tax Credit (ITC) may make a third-party bid less expensive.

SDG&E disagrees with TURN's assertion that SDG&E is proposing to add new utility-owned generating projects, or that SDG&E is circumventing the IRP process, with its Hybrid proposal.[1794] Rather, the proposed Hybrid at MEF, and its corresponding BESS, will be integrated units, with the gas turbine and battery integrated and sharing the existing CAISO meter.[1795] In addition, SDG&E disagrees that the benefits offered by the Hybrid are uncertain. As Mr. Valero testified, the hybrid configuration enhances the performance of a traditional gas peaker plant by adding a battery which will improve performance while lowering emissions. The proposed project would enhance the two simple-cycle gas turbines at MEF with two 10 MW / 10 MWh batteries (one each per unit). The benefits the proposed project is expected to provide includes reducing emissions at each turbine, reducing operating hours of the electric generators, and reducing water consumption. Emission and water reductions will come from less use of the electric generators by replacing some of the generation with battery energy. Adding batteries to each gas peaker plant will result in the peaker plants each reaching their nameplate capacity of 49 MW, or a full combined interconnect capacity of 98 MW, and will allow the plant to more optimally participate in the CAISO spinning reserve market. When the Hybrid at MEF is providing spinning reserve, it can be done without using any fuel which makes it a GHG free resource.[1796]

TURN also mistakenly suggests that "a third-party storage alternative [might] prove more cost-effective for ratepayers than a utility-owned project" because TURN wrongly believes that "federal law requires that utilities normalize the [Investment Tax Credit] rather than being allowed to flow through the benefits to customers."[1797] To the contrary, for the ITC applicable to new energy storage, the Inflation Reduction Act provided an election for utilities to opt out of the

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[1793] Ex. TURN-06-R (Monsen) at 42, 44-45.

[1794] Ex. SDG&E-215 (Valero) at 92-94.

[1795] *Id*. at Appendix B, Data Request TURN-SEU-026, Question 10e and Appendix B, Data Request PAO-SDGE-029-MW5, Question 12a.

[1796] *Id.* at Appendix B, Data Request TURN-SEU-026, Question 10e and Data Request PAO-SDGE-029-MW5, Question 12a.

[1797] Ex. TURN-06-R (Monsen) at 56.

normalization requirements that generally apply to ITCs.[1798] SDG&E is already taking advantage of the ITC this year on multiple standalone utility-owned storage projects which are providing emergency capacity pursuant to multiple Commission decision and resolutions.[1799] TURN's suggestion that a third party may offer a better price based on a differing entitlement to the ITC is based upon a misunderstanding of the law.

CCAs - The CCAs argue that the Commission should delineate the Hybrid at MEF project into a separate Power Charge Indifference Adjustment (PCIA) vintage than the remainder of the MEF costs.[1800] The CCAs assert that the upgrades include the addition of 20 MW of new BESS and therefore represent a new commitment on behalf of SDG&E's bundled customers.[1801] The CCAs' request should be denied as set forth in greater detail in Section 19.2 as the vintaging treatment is unreasonable and would violate clear Commission direction regarding the vintaging of UOG resources and related capital investments.

In addition, many of the factual assumptions made by the CCAs to support their proposal are incorrect. For example, SDG&E disagrees with the CCAs' statement that the modification to the MEF represent a new commitment on behalf of SDG&E's bundled customers.[1802] First, the proposed 10 MW/10 MWh battery per turbine (for a total of 20 MW/20 MWh) at the Hybrid are not separately metered by CAISO from the MEF turbines. Instead, they are integrated as one to optimize the plant.[1803]

Additionally, the CCAs' statement "…the potential incremental generation output of Miramar and the BESS dispatching to CAISO separately from the existing generation plant…" is incorrect.[1804] The BESS cannot be dispatched separately by CAISO and, as stated above, the gas turbine and battery at each unit will be integrated and share the existing CAISO meter.[1805]

1798 Section 13102(f)(5) of the Inflation Reduction Act revised Internal Revenue Code Section 50(d)(2) to read "Section 46(f) (relating to limitation in case of certain regulated companies). At the election of a taxpayer, this paragraph shall not apply to any energy storage technology (as defined in section 48(c)(6))," subject to various provisos.

1799 *See* SDG&E's Advice Letter (AL) 4187-E titled "Advice Letter Filed Notifying Commission of Federal Investment Tax Credit Claim."

1800 Ex. JCCA-01 (Georgis) at 15.

1801 *Id*. at 23-24.

1802 Ex. SDG&E-215 (Valero) at 95-97.

1803 *Id*. at Appendix B, Data Request PAO-SDGE-124-MW5, Question 5.

1804 Ex. JCCA-01 (Georgis) at 24.

1805 Ex. SDG&E-215 (Valero) at Appendix B, Data Request TURN-SEU-026, Question 10e.

Integration of the BESS will not involve a new CAISO resource identification, meter or interconnection – all of which would be necessary for a new CAISO resource – rather, the plant was modeled as a single dispatchable resource unit.[1806] Likewise, the CAISO generator resource data template (GRDT) for the Miramar plant will not change from "generator" status with the integration of the BESS, whereas a new stand-alone energy storage resource would be given a CAISO designation of non-generating resource. Finally, the proposed facility upgrades will not increase the nameplate capacity of the resource. As such, SDG&E is not expanding capacity and there is no benefit only on behalf of and for bundled customers as the CCAs assert in their testimony.[1807]

SDG&E's proposed Hybrid at MEF project is meant to enhance the performance of the traditional gas peaker plant, which is to the benefit of all customers, regardless of them being bundled or unbundled, because the project will reduce emissions, reduce water use and allow each unit to reach nameplate capacity.[1808] For MEF, reducing criteria air pollutant emissions (*e.g.*, NO_x, CO, particulate matter) is explicitly to the benefit of all customers, regardless of them being bundled or unbundled, because the MEF is located in the local San Diego basin. As such, criteria air pollutant reductions will benefit all customers within SDG&E's service territory, but especially those in the local area of the MEF. Furthermore, the enhancements SDG&E is proposing advance state policy by lowering GHG emissions, which is the goal of SB 32,[1809] and increase reliability,[1810] which the state needs as more extreme heat conditions lead to increased electricity demand.[1811] The MEF provides valuable energy to the CAISO grid, and eliminating the derate which constrains MEF today due to local area emission permit constraints will provide value,

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1806 *See* Ex. JCCA-01 (Georgis) at Attachment AMG-2 SDG&E Response to Data Request CCAS-SDG&E-013, Question 13.03 (pp. 102-105 of PDF).

1807 Ex. JCCA-01 (Georgis) at 15, 23-24.

1808 Ex. SDG&E-215 (Valero) at Appendix B, Data Request PAO-SDGE-029-MW5, Question 12a.

1809 SB 32 ordered a reduction in economywide emissions of 40% below 1990 levels by 2030.

1810 D.18-10-019, as modified by D.20-01-030 at p.16 states "These costs were previously approved by us for the benefit of all then bundled service customers and continue to provide reliability benefits."

1811 *See* the Phase 2 Decision, D.21-12-015, Directing Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company to Take Actions to Prepare for Potential Extreme Weather in the Summers of 2022 and 2023 at p. 5 and *see* the Integrated Resource Plan Decision, D.23-02-040, Ordering Supplemental Mid-Term Reliability (2026-2027) Procurement and Transmitting Electric Resource Portfolios to California Independent System Operator for 2023-2024 Transmission Planning Process at p. 6.

capacity and energy for California when it is needed most (*e.g.*, the summer months, but especially during extreme heat events).

Finally, under the CCAs' proposal, the enhancements proposed by the Hybrid at MEF project, and their corresponding costs, would burden only bundled customers,[1812] and the CCAs' proposal to delineate those costs into separate PCIA vintages other than the resource vintage it is in today would disincentivize IOUs from making these types of enhancements, which are in the public interest as stated above.

18.2.5.1.5 Miguel VRF BESS

The CCAs recommend that the Commission order SDG&E to make adjustments to the functionalization of distribution-related battery revenues in this GRC.[1813] Specifically, the CCAs recommend to functionalize all battery related costs and revenues related to the Miguel VRF BESS to the distribution function.[1814] SDG&E agrees with the CCAs that CAISO net revenues pursuant to the Miguel VRF BESS, or any forthcoming distribution-related batteries, should offset any capital distribution-related expense, whether the capital-related costs are authorized in the GRC proceeding or elsewhere.

However, SDG&E is not authorized to book CAISO charging and discharging (sales) costs and revenues related to the Miguel VRF resource into distribution rates and corresponding balancing account(s) to offset capital-related costs.[1815] As such, SDG&E requests the Commission authorize the CCAs' recommendation to book CAISO related costs and revenues related to all distribution-related batteries, present or future, to SDG&E's Electric Distribution Fixed Cost (EDFCA) Balancing Account (BA) to properly off-set any distribution-related capital costs by allowing SDG&E to amend its ERRA BA and EDFCA BA preliminary statement.

18.2.5.2 Information Technology (IT) Projects

18.2.5.2.1 00920AU Local Area Distribution Controller

Local Area Distribution Controller (LADC) is a software and hardware solution that enables the distribution grid operator to monitor, manage and control the component resources of a

[1812] Ex. JCCA-01 (Georgis) at 11 states "Although the issue of customers departing to CCA service will also impact Pacific Gas & Electric Company (PG&") and SCE, the scale of that impact is not expected to reach the same level as for SDG&E which is expected to reach 90% by the end of 2024."

[1813] Ex. JCCA-01 (Georgis) at 14.

[1814] *Id.*

[1815] Ex. SDG&E-215 (Valero) at Appendix B, Data Request CCAS-SDGE-013, Question 13.01c.

microgrid.[1816] The LADC is a key component of the successful deployments of microgrids operated by SDG&E. This distributed microgrid controller is necessary to augment and interoperate with SDG&E's existing advanced distribution management system and supervisory control and data acquisition system. The LADC will coordinate the control of DERs and conventional grid management devices (*e.g.*, capacitors, switches) to ensure reliable operation during both island and grid-connected scenarios.

The funding request for the LADC project will cover the remaining costs to deploy the LADC at microgrid sites, Cameron Corners, Ramona, and Borrego Springs, for a total of roughly 7 MW of controllable load across three distinct microgrid sites. As stated above, the LADC provides necessary visibility and controls to support the safe and reliable operation of microgrids.

18.2.5.2.2 00920Y Local Area Distribution Controller 2022-2023

The funding request for the LADC 2022-2023 project will cover the costs necessary to deploy the LADC at four microgrid sites that received final Commission approval following the filing of the GRC.[1817] In addition, the funding request also supports integrating the AES systems into the LADC once it is commissioned at the Borrego Springs Microgrid. This funding request will add approximately 46.9 MW of controllable load under LADC management. As discussed above, the LADC provides necessary electric grid support and flexibilities.

18.2.5.2.3 00920L Local Area Distribution Controller 2023-2024

The funding request for the LADC 2023-2024 project will cover the costs necessary to deploy the LADC at two future microgrid sites that are currently under development.[1818] This funding request will add roughly 5.8 MW of controllable load under LADC management. As discussed above, the LADC provides necessary electric grid support and flexibilities.

UCAN – UCAN recommends that funding for SDG&E's three LADC budget codes should be denied.[1819] SDG&E disagrees with the UCAN's distorted statements alleging (1) no benefit from the LADC over the project's useful life; (2) not operating the DER in a way that maximizes

1816 Capital Costs for the forecasted years 2022, 2023, and 2024 for IT projects that support the LADC are sponsored by Mr. William J. Exon and set forth in Section 27 (Information Technology).

1817 Clairemont, Paradise, Boulevard and Elliot microgrids were approved by the Commission approval pursuant to Resolution E-5219 dated June 23, 2022.

1818 Butterfield Ranch and Shelter Valley microgrids are currently under development.

1819 Ex. UCAN-01-E (Woychik) at 293.

the value of the assets or the LADC; and (3) SDG&E not having the experience of managing a large portfolio of DERs optimized by the selected LADC.[1820,1821]

The LADC provides a multitude of benefits including connecting and simplifying remote control, while being vendor agnostic related to the resource type within the microgrid boundary to SDG&E's ADMS, and delivering a familiar control set to operators who normally control and supervise assets at the voltage level consistent with the microgrid the LADC is operating. Additionally, without the LADC, an engineering team operating the microgrid with limited experience and operational visibility would need to drive to sites and perform many steps manually with precision timing. All of that is assuming the conditions of the emergency permit travel. Finally, the LADC provides valuable cybersecurity advantages that cannot be met through interconnecting SDG&E's systems with third-party battery energy storage vendor's user interfaces, and cybersecurity is an essential part of safe and reliable utility operation.

SDG&E further disagrees with UCAN's assertion that the LADC provides no value.[1822] As stated above, without the LADC, the microgrid which the LADC is helping to control would require a team of on-site operators to function. Not only does the LADC minimize personnel time on site at the applicable microgrid, it also analyzes all dependent parameters until conditions are met to safely operate the microgrid and condenses actions down to a handful of operator steps from a remote location (*i.e.*, SDG&E's distribution control center).

Finally, SDG&E disagrees with UCAN that SDG&E does not have experience with the DERs the LADC operates.[1823] SDG&E's Distribution Operations team already remotely operates SDG&E's microgrids utilizing the installed LADC via SDG&E's ADMS user-interface; this program would expand the LADC network. In addition, SDG&E's Distribution Operations team controls and operates a very large portfolio of sites (upwards of 1000), but all of them are not LADC. As such, UCAN's assertion that SDG&E has no operational experience with DERs is wrong.

1820 *Id*. at 292.

1821 Ex. SDG&E-215 (Valero) at 98-99.

1822 *Id*.

1823 *Id*.

18.2.5.3 Fleet Vehicle Request – Vehicle Additions

SDG&E's DER Engineer and ACT department staff manage multiple projects throughout SDG&E's service territory.[1824] The use of a company fleet vehicle, especially if multiple staff can carpool, is more efficient and can reduce GHG emissions. Additionally, SDG&E's capital projects are increasing in volume which increases the need for staff to be onsite to oversee interconnection-, engineering- or construction-related activities. As such, the DER Engineering department is requesting one fleet vehicle in 2022, and the ACT department is requesting one fleet vehicle in 2022 and 2023 (for a total of 3 vehicles).

TURN - SDG&E disagrees with TURN's assertion that the additional fleet vehicles for Clean Energy Innovations are not needed.[1825] While there are no incremental FTEs associated with this request, the Vehicle Addition to the Fleet is needed by existing ACT staff to be onsite to oversee interconnection-, engineering- or construction-related activities related to the multitude of inflight utility-owned battery energy storage assets pursuant to the Governor's Proclamation of a State of Energy.[1826, 1827] Additionally, the DER Engineering department utilizes fleet vehicles to provide backup support to customers impacted by PSPS and to maintain and operate SDG&E's Borrego Springs Microgrid. As such, the three incremental fleet vehicles are valuable, especially to allow for GHG reduction when team members can carpool.

19. Electric Generation (SDG&E only)

19.1 Introduction

19.1.1 Summary of Costs

Exhibits SDG&E-14-E (Baerman), SDG&E-14-WP (Baerman), SDG&E-14-CWP-E (Baerman) and SDG&E-214 (Baerman) support SDG&E's TY 2024 forecasts for O&M for non-shared services, and capital costs for the forecast years 2022, 2023, and 2024 associated with the Electric Generation area for SDG&E.[1828] The following tables summarize these costs.

[1824] Ex. SDG&E-15-R-E (Valero) at 35.

[1825] Ex. SDG&E-215 (Valero) at 100.

[1826] *See* Executive Department State of California, Proclamation of a State of Emergency, dated July 30, 2021, p. 2. Available at: https://www.gov.ca.gov/wp-content/uploads/2021/07/Energy-Emergency-Proc-730- 21.pdf.

[1827] *See* Resolution E-5193 and Resolution E-5219.

[1828] In addition, the Clean Energy Innovations testimony of Fernando Valero (Exs. SDG&E-15-R-E (Valero), SDG&E-15-WP-E (Valero), SDG&E-15-CWP-E (Valero), and SDG&E-215 (Valero))

Non-Shared O&M Summary of Costs

ELECTRIC GENERATION (In 2021 $)			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
Generation Plant[1829]	36,308	40,506	4,198
Administration	268	303	35
Total Non-Shared O&M	**36,576**	**40,809**	**4,233**

Capital Expenditures Summary of Costs

ELECTRIC GENERATION (In 2021 $)				
Generation Capital	**2021 Adjusted-Recorded (000s)**	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
1. Capital Tools & Test Equipment	50	86	86	86
2. Palomar Energy Center	8,862	19,251	18,751	8,501
3. Desert Star Energy Center	9,879	6,864	6,864	6,864
4. Miramar Energy Facility	1,008	2,201	11,300	27,853
5. Cuyamaca Peak Energy Plant	281	495	495	495
6. Ramona Solar Plant	0	55	55	55
7. Palomar Hydrogen Systems	1,224	8,423	7,855	0
Total Capital	**21,304**[1830]	**37,375**	**45,406**	**43,854**

19.1.2 Summary of Activities

Electric Generation is responsible for the safe and reliable operation and maintenance of the Generation Plant and Distributed Energy Facilities.[1831] Costs are included for new distributed energy facilities including additional employees to support these assets. Also, costs are included for cybersecurity and atypical and special power plant projects. The Electric Generation testimony

provide additional support and justification for the Palomar Hydrogen Systems project and the Hybrid at Miramar Energy Facility project that are presented in the Electric Generation area. SDG&E provides additional support and justification for these two projects in Section 18.2 (SDG&E Clean Energy Innovations) above.

1829 This category includes O&M for the Palomar Energy Center, Desert Star Energy Center, Miramar Energy Facility, Cuyamaca Peak Energy Plant, and SDG&E's Distributed Energy Facilities. *See* Ex. SDG&E-14-E (Baerman) at 9.

1830 This figure excludes the 2021 adjusted-recorded amount of $22.322 million for the PEC Advanced Gas Path project (budget code 200040) as SDG&E is not requesting funds for that budget code going forward. Including this amount would reflect a total 2021 adjusted-recorded amount of $43.625 million. *See, e.g.,* Ex. SDG&E-14-E (Baerman) at 14.

1831 Ex. SDG&E-14-E (Baerman) at 1.

covers three primary areas: (1) Generation Plant, (2) Distributed Energy Facilities; and (3) Administration.

19.1.2.1 Generation Plant

SDG&E owns and operates two combined-cycle generating facilities: (i) the Palomar Energy Center in Escondido, CA, and (ii) the Desert Star Energy Center in Boulder City, NV. SDG&E also owns and operates two peaking plants: (i) Miramar Energy Facility in San Diego, CA, and (ii) Cuyamaca Peak in El Cajon, CA.[1832] As set forth in the tables above, SDG&E is requesting O&M and capital funding for all of its generation facilities.

In addition, SDG&E is requesting capital funding for specific projects/enhancements at the Palomar Energy Center and the Miramar Energy Facility. The Palomar Hydrogen Systems project is a multi-use hydrogen pilot installed at the Palomar Energy Center to allow SDG&E to gain experience with fuel blending for electric generation, hydrogen fuel cell vehicles, and generator cooling for the electric generation maintenance and operations crews. This pilot focuses on demonstrating multiple use cases of electrolytically produced hydrogen to support decarbonizing natural gas-powered plant operations.[1833] The Hybrid at Miramar involves installing a 10 MW/10 MWh BESS at each of the two existing gas turbines (total of 20 MW BESS). Additionally, this project will install new operational controls logic to optimize operational efficiency, reduce GHG emissions and water use between the combined use of both the existing gas turbines as well as the proposed battery energy storage units.[1834]

Forecasting for Generation Plant O&M is largely based on a 5-year average.[1835] This method was selected because it allows for inclusion of a variety of planned (*e.g.*, scheduled maintenance outages and repairs) and unplanned but typical (*e.g.*, steam valve damage, combustion turbine component failures, auxiliary equipment failures) maintenance events and provides a more representative history of recorded spending.

A 5-year average is also generally used to forecast capital expenditures relating to SDG&E's generation facilities and plants.[1836] The average has been adjusted by removing some

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1832 *Id*. at 2-3.

1833 Ex. SDG&E-15-R-E (Valero) at 32.

1834 *Id*. at 33.

1835 Ex. SDG&E-14-E (Baerman) at 10-12. For Desert Star, forecasting for labor and non-labor is based on a five-year average for O&M expenses including the Long Term Service Agreement (LTSA).

1836 *Id*. at 16.

large, one-time, capital projects from the history. This method is appropriate because it reflects the operational needs of the assets, through the averaging period. With the exception of the Palomar Hydrogen Systems project and the Hybrid at Miramar Energy Facility project, SDG&E does not propose a specific list of capital projects, but instead will plan, schedule and perform capital projects, as appropriate, to best support the safe and reliable operation for Generation facilities.

For the Miramar Plant Operational Enhancements (which include the Hybrid at Miramar), the 5-year average was selected because it represents a reasonable foundation for projecting capital project needs as it includes a variety of planned and unplanned capital projects, and provides the longest history of recorded spend. However, Years 2023 and 2024 include adjustments to the forecast to add the Hybrid project at Miramar Energy Facility.[1837]

For the Palomar Hydrogen Systems, SDG&E utilized a zero-based forecast method based on general project construction cost (*e.g.*, quotes on machinery), construction and the most recently available labor costs.[1838] The forecast method used for load research sub metering is zero-based. The forecast is based on general project construction costs (*e.g.*, quotes on machinery) and construction costs at the Palomar power plant.

19.1.2.2 Distributed Energy Facilities (DEF)

At the time the GRC was filed, SDG&E owned and operated five battery energy storage systems (BESS) as part of its fleet (i) **the Escondido BESS** (120 megawatt-hour energy storage system with a maximum output of 30 megawatts for up to 4 hours); (ii) **the El Cajon BESS** (rated at 30 megawatt-hours with a maximum output of 7.5 megawatts for up to 4 hours); (iii) **the Kearny BESS** (two lithium-ion battery systems each rated at 40 megawatt-hours with a maximum output of 10 megawatts for up to 4 hours), (iv) **the Miguel Vanadium Redox Flow BESS** (rated at 8 megawatt-hours with a maximum output of 2 megawatts for up to 4 hours), and (v) **the Top Gun BESS** (rated at 120 megawatt-hours with a maximum output of 30 megawatts for up to 4 hours). SDG&E also owns and operates the **Ramona Solar Energy Project**, which is built with fixed photovoltaic panels and can produce up to 4.32 megawatts. Operations and maintenance personnel based out of the Palomar Energy Center provide all plant services to these facilities.[1839]

[1837] Ex. SDG&E-14-CWP-E (Baerman) at 30.

[1838] *Id*. at 53.

[1839] Ex. SDG&E-14-E (Baerman) at 2-7.

SDG&E is also in the process of developing and/or completing the following DEFs:[1840]

- **The Borrego Springs Microgrid** was constructed by the SDG&E Advanced Clean Technology department. It uses a combination of technologies to support the microgrid: a lithium-ion BESS rated at 14.6 megawatt-hours with a maximum output of 7.3 megawatts for 2 hours and a 1 megawatt hydrogen electrolyzer to produce fuel for over 8 hours of output via a 250 kilowatt fuel cell to supply a local 12 kilovolt distribution circuit serving the desert community of Borrego Springs.[1841]
- **The Butterfield Ranch Microgrid** will be constructed to support the Wildfire Mitigation Program. The site combines a lithium-ion BESS rated at 2.5 megawatt-hours with a maximum output of 600 kilowatts and a 650 kilowatts (alternating current) solar power plant.
- **The Cameron Corners Microgrid** was constructed to support the Wildfire Mitigation Program. The site combines an Iron Flow BESS rated at 2.4 MWh with a maximum output of 540 kilowatts and an 875 kilowatts (alternating current) solar power plant.
- **The Fallbrook BESS** was constructed pursuant to AB 2514 and uses lithium-ion technology. This energy storage system is rated at 160 megawatt-hours with a maximum output of 40 megawatts for up to 4 hours. The Fallbrook BESS became operational in May 2023.
- **The Melrose BESS** will be constructed to support the Emergency Reliability Order Instituting Rulemaking (OIR) R.20-11-003. The energy storage system uses two lithium-ion batteries each rated at 40 megawatt-hours with a maximum output of 10 megawatts. The combination provides a total of 80 megawatt-hours with a maximum output of 20 megawatts.
- **The Pala-Gomez Creek BESS** will be constructed to support the Emergency Reliability OIR R.20-11-003. The energy storage system uses lithium-ion

1840 *Id.*

1841 The Borrego Springs Microgrid will include both a BESS and HESS asset. (*See* Ex. SDG&E-215 (Valero) at 91.

technology and is rated at 60 megawatt-hours with a maximum output of 10 megawatts for up to 6 hours.

- **The Ramona Microgrid** was constructed to support the Wildfire Mitigation Program. The site uses lithium-ion technology rated at 2 megawatt-hours with a maximum output of 500 kilowatts. The Ramona Air Attack Base Microgrid became operational in January 2022.
- **The Shelter Valley Microgrid** will be constructed to support the Wildfire Mitigation Program. The site combines a lithium-ion battery rated at 3.25 megawatt-hours with a maximum output of 700 kilowatts and an 800 kilowatt (alternating current) solar power plant.
- **The Westside Canal BESS** was constructed to support the Emergency Reliability OIR R.20-11-003. This energy storage system uses lithium-ion technology and is rated at 524 megawatt-hours with a maximum output of 131 megawatts for up to four hours. The Westside Canal BESS became operational in June 2023.
- **The Boulevard BESS and Microgrid** will be constructed to support to enhance reliability starting summer of 2022 and/or 2023 pursuant to the Microgrid OIR (R.19-09-009). This circuit-level energy storage microgrid uses lithium-iron phosphate technology and is rated at 50.5 megawatt-hours with a maximum output of 10 megawatts for up to four hours.
- **The Clairemont BESS and Microgrid** will be constructed to support to enhance reliability starting summer of 2022 and/or 2023 pursuant to the Microgrid OIR (R.19-09-009). This circuit-level energy storage microgrid uses lithium-iron phosphate technology and is rated at 29 megawatt-hours with a maximum output of 9 megawatts for up to four hours.
- **The Elliott BESS and Microgrid** will be constructed to support to enhance reliability starting summer of 2022 and/or 2023 pursuant to the Microgrid OIR (R.19-09-009). This circuit-level energy storage microgrid uses lithium-iron phosphate technology and is rated at 50.5 megawatt-hours with a maximum output of 10 megawatts for up to four hours.
- **The Paradise BESS and Microgrid** will be constructed to support to enhance reliability starting summer of 2022 and/or 2023 pursuant to the Microgrid OIR

(R.19-09-009). This circuit-level energy storage microgrid uses lithium-iron phosphate technology and is rated at 50.5 megawatt-hours with a maximum output of 10 megawatts for up to four hours.

Operations and maintenance personnel based out of the Palomar Energy Center will provide all plant services to these facilities.

The O&M request for Distributed Energy Facilities consists of labor and non-labor costs.[1842] The labor component includes salaries for supervision, support staff and maintenance and operations personnel. The non-labor component includes, but is not limited to, outside services, spare parts, miscellaneous consumables and maintenance activities. Maintenance activities are performed while the plant is operating and during planned maintenance outages. Forecasting for labor and non-labor is done using a base year method because the limited available historical costs are not representative of current and future costs. This method was selected because it allows for inclusion of a variety of planned (*e.g.*, scheduled maintenance outages and repairs) and unplanned but typical maintenance events that are expected to occur at these facilities.

SDG&E also uses a 5-year average to forecast capital expenditures related to it Distributed Energy Facilities consistent with the forecast methodology used for Generation Plants.[1843]

19.1.2.3 Administration

Generation Plant Administration provides managerial oversight and analytical support for the generating fleet. The O&M request for Administration includes labor and non-labor costs. The labor component includes administrative salaries. The non-labor component includes, but is not limited to, travel, supplies, consulting, and other miscellaneous administrative activities. Forecasting for labor and non-labor is based on a 5-year average.[1844]

19.1.3 Summary of Differences

The following tables summarize SDG&E's Electric Generation O&M and capital forecasts versus other parties' recommendations.[1845]

[1842] *Id.* at 13.

[1843] *See, e.g.*, Ex. SDG&E-14-CWP-E (Baerman) at 45 (Ramona Solar Plant capital expenditures employes a 5-year average.)

[1844] Ex. SDG&E-14-E (Baerman) at 7 and 14.

[1845] Ex. SDG&E-214 (Baerman) at 1.

Summary of Differences in O&M

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	**36,576**	**40,809**	**4,233**
CAL ADVOCATES[1846]	**36,576**	**38,929**	**2,353**
TURN[1847]	**34,560**	**37,335**	**2,775**
CEJA[1848]	**36,576**	**40,809**	**4,233**
CCAs[1849]	**36,576**	**40,809**	**4,233**

Summary of Differences in Capital

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	**37,375**	**45,406**	**43,854**	**126,635**	
CAL ADVOCATES	**16,811**	**24,759**	**37,540**	**79,110**	**(47,525)**
TURN	**18,219**	**17,709**	**13,448**	**49,337**	**(77,298)**
CEJA[1850]	**37,375**	**40,606**	**43,854**	**121,835**	**(4,800)**

19.2 SDG&E's Response to Parties' General Recommendations

19.2.1 Forecast Methodology

TURN -TURN takes issue with Electric Generation's overall forecast methodology. TURN proposes that SDG&E's "unadjusted baseline forecast for capex and O&M expenses should reflect 6 years of data."[1851]

1846 Cal Advocates did not provide Base Year 2021 information; therefore, the table above reflects the SDG&E Electric Generation O&M forecast for 2021.

1847 Ex. TURN-06-R (Monsen) at 10. TURN does not separate its O&M forecast recommendations for SDG&E Electric Generation (Ex. SDG&E-14-E (Baerman)) and SDG&E Clean Energy Innovations (Ex. SDG&E-15-R-E (Valero)) in its testimony. The summary table above reflects TURN's proposed changes to Electric Generation (Ex. SDG&E-14 (Baerman)).

1848 CEJA does not recommend a reduction to Electric Generation O&M; therefore, the table above reflects the SDG&E Electric Generation O&M forecast.

1849 The CCAs do not provide a specific reduction for O&M costs and therefore the table above reflects the SDG&E Electric Generation O&M forecast.

1850 CEJA recommends a reduction of $4.8 million in capital spending related to the Palomar Hydrogen project but does not specify any other capital reduction or the timing of the reduction. In the table above the $4.8 million reduction is reflected in 2023. Years 2022 and 2024 reflects the SDG&E Electric Generation capital forecast.

1851 Ex. TURN-06-R (Monsen) at 11.

SDG&E disagrees with TURN's proposal.[1852] Electric Generation's GRC forecasts were developed according to the Rate Case Plan, which does not contemplate the use of 2022 recorded data; as such, the forecasts were not developed using that information. While recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others. Although SDG&E provided 2022 recorded data in the spirit of cooperation, the utility is not permitted to revise its forecasts using that data, either up or down, once the application is filed. Using 2021 as the base year to prepare the forecast is most appropriate and consistent with the TY 2024 GRC framework, where the forecast should be based on a specific moment of time rather than being updated continuously. Therefore, the Commission should reject TURN's proposal that SDG&E's O&M and capital forecasts should reflect six years of data, including 2022 recorded data.

19.2.2 Classification of Battery Assets

The CCAs recommend that the Commission order SDG&E to make adjustments to the functionalization of distribution-related battery revenues in this GRC.[1853] SDG&E agrees with the CCAs. Please refer to Section 18.2 (SDG&E Clean Energy Innovations) for a detailed discussion of this issue.

19.2.3 Vintaging of Proposed Capital Investment in the Hybrid at Miramar Facility

The CCAs challenge the vintaging for purposes of cost recovery through the PCIA of the proposed capital investments in the Miramar Energy Facility (MEF), the "Hybrid at Miramar" project.[1854] The cost of the Hybrid at Miramar project will be placed in the same vintage as the underlying MEF resource.[1855] SDG&E disagrees with the CCAs, as discussed below. Please also refer to Section 18.2 (SDG&E Clean Energy Innovations) for additional discussion of this issue.

19.2.3.1 Resource Vintaging and the PCIA

Prior to the advent of CCA service, most customers within the state received bundled electric service[1856] from the IOUs. A critical aspect of providing this service was procurement of

[1852] Ex. SDG&E-214 (Baerman) at 6.

[1853] Ex. JCCA-01 (Georgis) at 14.

[1854] *Id.* at 5.

[1855] *Id.*

[1856] "Bundled" service refers to the bundle of energy commodity, distribution and transmission services. When a customer departs bundled service, it continues to receive distribution and transmission the resource capacity[1857] needed to ensure reliable electric service to customers. The IOUs met the need for electric resource capacity (and other compliance requirements) by entering into power purchase agreements (PPAs) and by acquiring utility-owned generation (UOG) resources on behalf of their bundled service customers. Growth in CCA service has resulted in a shifting of the customer composition within each IOU's service territory – for example, customers in SDG&E's service territory (other than those receiving direct access service) are now split between three different load-serving entities (LSEs) rather than being served solely by SDG&E.[1858] However, the need for resource capacity within the region has not diminished, indeed it has only grown over time.[1859] SDG&E's PPAs and UOG resources continue to play a key role in meeting resource adequacy needs within the region and in ensuring electric system reliability statewide.

In 2002, the Legislature adopted AB 117[1860] and approved customer choice in retail electric procurement service (*i.e.,* the commodity portion only). In doing so, the Legislature recognized the risk that permitting customers to depart bundled service to be served by a CCA could "strand"[1861] resources that the IOUs had procured in good faith to serve bundled load.[1862] Instituting customer choice also presented a risk to remaining bundled service customers, who could be saddled with additional costs as the result of other customers' departure for CCA service. Two measures were adopted to address these concerns. First, "vintaging" rules were adopted to specify what resource costs departing customers would remain responsible to pay after their departure from bundled service. Second, the Legislature mandated that bundled service customers

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service from SDG&E but receives commodity service from a direct access provider or CCA. Such customers are referred to as "departed load" customers.

1857 "Capacity" refers to the physical capacity of a power plant to generate power, measured as megawatts available for generation. "Capacity" is distinct from the electric power itself. Capacity is not a tangible, delivered product; it is a regulatory construct that is applied to establish the outer parameter for how much power is available to the CAISO to be dispatched to serve customers during a given timeframe. Capacity contracts impose a "must-offer" obligation on generators, which means that the generator is contractually required to offer its electricity into the CAISO market during the contracted period. This ensures that the CAISO has sufficient bids available to dispatch resources to serve system load reliably. The Commission imposes capacity procurement requirements on all load-serving entities (LSEs) through its Resource Adequacy (RA) program.

1858 *See* D.21-06-035 at 56, Table 6.

1859 *See, e.g.,* D.23-02-040 at 2.

1860 AB 117, (Stats. 2002, Ch. 838).

1861 An asset is "stranded" when a public policy change or other event outside the control of the IOU renders the asset unneeded or uneconomic.

1862 *See* Pub. Util. Code Section 366.2(d)(1).

must remain “indifferent” if other customers elect to depart bundled service – *i.e*., bundled service customers must pay no more or no less than they otherwise would have in the absence of the load departure.[1863]

The resource “vintaging” rules adopted by the Commission in D.08-09-012 operate to ensure that departed load customers do not improperly shift to remaining bundled service customers the obligation to pay the cost of resources procured prior to their departure. The Commission defines vintaging as “the method by which new resource obligations are determined for specific customers considering when those customers depart or choose alternative energy providers.”[1864] When customers depart bundled service, they are placed in a “vintage” based upon the month and year of their departure.[1865]

The vintaging framework developed in D.08-09-012 establishes that departed load customers remain responsible for the costs of PPAs that have been executed and UOG resources where construction has begun prior to their specified departure date.[1866] In essence, the vintaging framework puts resource commitments into one of two categories: (1) existing resources – *i.e.,* PPAs that have been executed and UOG resources where construction has begun *before* the specified departure date; and (2) post-departure resources – *i.e*., PPAs executed and UOG construction that begins *after* the specified departure date. Customers in each vintage remain obligated to pay the costs of resources that are in the “existing” category at the time of their departure but are not obligated to pay the costs of resources that are in the “post departure” category. This means that every vintage pays a different PCIA rate that reflects the costs of the specific PPAs and UOG resources included in that vintage (hence, removal of a resource cost from a particular vintage could lower the overall cost of that vintage). Bundled customers are placed in the most recent vintage for cost recovery purposes.[1867]

D.08-09-012 does not state or even imply that once a UOG resource is assigned to a particular vintage, *future* costs associated with prudent maintenance and/or upgrades to the UOG

1863 Pub. Util. Code Sections 365.2, 366.2 and 366.3.

1864 D.08-09-012 at 39.

1865 *Id*. at OP 10.

1866 *Id*. at 61, 66.

1867 The PCIA rate for each vintage is set annually in the IOUs’ respective Energy Resource Recovery Account (ERRA) proceedings. *See generally,* A.22-05-025, *Application of San Diego Gas & Electric Company for Approval of Electric Procurement Revenue Requirements and Forecasts 2023 Electric Sales Forecasts, and GHG-Related Forecasts*.

resources would be excluded from that assigned vintage and placed in a new vintage. Indeed, it would be counter-intuitive and unreasonable to do so since it is beyond dispute that after the Commission approves a UOG project, the utility must continue to make reasonable capital investments in the resource over time to maintain it in a manner that optimizes its functionality and is consistent with the policy goals of the state. Excluding such costs from the assigned vintage would create a perverse incentive to avoid reasonable UOG maintenance and upgrade activity and would cause harm to remaining bundled service customers (either through improper shifting of maintenance/upgrade costs to them or through non-optimized resource management). Assigning a new vintage to each set of maintenance/upgrade costs would also introduce significant complexity into the vintaging and cost recovery process. Thus, D.08-09-012 is properly understood as establishing a presumption that reasonable ongoing capital investment costs undertaken to properly maintain and upgrade a UOG resource in a particular vintage must *also* be included in that same vintage.

The discussion of treatment of ongoing UOG costs included in D.18-10-019 confirms this conclusion. D.18-10-019 addressed, among other things, CCAs' concerns regarding "ongoing" costs related to UOG resources and the question of whether a capital investment in a UOG resource might trigger a need for "re-vintaging" of the UOG resource. The decision acknowledges that investment in a UOG resource could theoretically trigger a need to re-vintage but finds that such re-vintaging would be appropriate only where the "new investments in an old power plant . . . represent[s] ***such a significant overhaul*** of the facility as to justify a 're-vintaging' of the facility."[1868] In other words – harmonizing this finding with the vintaging framework adopted in D.08-09-012 – re-vintaging is appropriate only in the rare situation where the capital investment in question represents such a significant overhaul of the UOG resource that it effectively creates a *new* resource that must be placed into a new vintage. Absent this circumstance, the capital investment should be vintaged according to the original assigned vintage of the UOG resource.

Proper vintaging of resources is a key element of the PCIA methodology, which is the methodology used to ensure compliance with the statutory cost indifference mandate. The PCIA mechanism fairly allocates eligible IOU resource portfolio costs between bundled service customers and departed load customers. Under the existing PCIA construct adopted in D.18-10-019, the IOU uses capacity and other attributes from the resources in its portfolio to comply with

[1868] D.18-10-019 at 135 (emphasis added).

the Commission's procurement mandates. It then offers the remaining capacity and other attributes in its portfolio to other market participants, including CCAs, who buy capacity and other attributes from the IOU's resource portfolio to meet compliance requirements associated with departed load.[1869] The PCIA methodology allocates the "above-market" costs of the IOU resource portfolio. In other words, the methodology assumes that the resources in each PCIA vintage have a market value that may be less than or greater than the total cost of the resources in the vintage and allocates only the "above-market" portion of portfolio costs, if any, to both departed load and bundled service customers. The more capacity and attributes that are sold (or allocated) to CCAs and other market participants, the lower the cost of the PCIA, since the PCIA charge reflects only the "above-market" cost of the PCIA-eligible resource portfolio (*i.e.*, the cost remaining once portfolio attributes have been sold or allocated to market participants).

To derive the "above-market" cost to be allocated, the methodology calculates the total cost of the IOU's PCIA-eligible portfolio (the PPA costs + UOG revenue requirement) in each vintage and subtracts (a) the value of the RA capacity and other attributes used to meet bundled service customers' compliance requirements; (b) the revenue from sale (or allocation) of capacity to departed load customers and/or other market participants; and (c) the revenue from sale of energy and ancillary services through the CAISO market. The total of (a) through (c) is the portfolio market value. If the market value of the resources in a given vintage exceeds the total portfolio cost, all customers in that vintage receive an equal credit. If the market value of the resources in that vintage is *less* than the total portfolio cost, all customers in the vintage are allocated an equal share of the "above-market" cost of the portfolio resources included in the vintage:

Total Portfolio Cost [*PPA + UOG cost*]

<u>– **Portfolio Market Value** *[(a) through (c)*]</u>

"Above-Market Cost" [*PCIA charge*]

Departed load customers <u>*and*</u> bundled service customers pay the PCIA charge.[1870] And this remains true regardless of the level of load departure within each IOU's service territory. **It is important to note that the degree of load departure affects neither the functionality of the**

[1869] Attributes may be allocated rather than sold in certain instances. *See, e.g.,* D.21-05-030 at 16-40.

[1870] Departed load customers pay the PCIA charge as a line item on their bill. Bundled service customers pay the PCIA charge through their generation rate (the amount of the PCIA charge is shown separately on bundled customers' bills).

PCIA nor the amount of the PCIA charge paid by each vintage. Regardless of the proportion of customer load served by SDG&E versus other LSEs, the PCIA methodology will continue to operate just as it does today to fairly allocate above-market costs of PCIA-eligible resources in SDG&E's resource portfolio to both bundled service and departed load customers. Thus, for example, if SDG&E served only one percent of load in its service territory, the PCIA methodology would continue to proportionally allocate above-market costs (or credits) to bundled and departed customers for as long as SDG&E has eligible UOG resources and PPAs in its portfolio. In such a circumstance, SDG&E would simply use less capacity and other attributes to meet compliance requirements associated with its bundled load and would offer more excess capacity and other attributes available under its PPAs and UOG resources to market participants; importantly, these resources would continue to be available to support regional and statewide reliability.

19.2.3.2 Vintaging of the MEF Capital Investment

The CCAs recommend that the revenue requirement associated with the Hybrid at Miramar project "be separated from the overall Miramar Energy Facility" and assigned a 2024 PCIA vintage, and further that the Commission issue a finding that the Hybrid at Miramar project upgrades "are made only on behalf of and for the benefit of SDG&E's current bundled customers."[1871] The CCAs request should be rejected. The vintaging treatment proposed by the CCAs is unreasonable and would violate clear Commission direction regarding the vintaging of UOG resources and related capital investments. In addition, the CCAs' claim regarding the purported lack of benefits conveyed to departed load customers by the Hybrid at Miramar project is inapposite and is also factually incorrect.

As detailed in the direct and rebuttal testimony of Mr. Valero and discussed in Section 18.2, the proposed Hybrid at Miramar project would integrate 20 MW of battery energy storage into the existing Miramar generating facility and install new operational controls logic to optimize operational efficiency of the resource, which together will allow the resource to reach nameplate capacity.[1872] [1873] These actions are consistent with Commission direction to increase the availability of resource capacity within the state by "hybridizing" existing gas-fired resources through the addition of energy storage and improving operating efficiency of generating

1871 Ex. JCCA-01 (Georgis) at iii-iv and 8.

1872 "Nameplate capacity" is the maximum output of electricity a power plant can produce without exceeding design limits. Nameplate capacity is determined by the plant manufacturer.

1873 Ex. SDG&E-15-R-E (Valero) at 33; Ex. SDG&E-215 (Valero) at 95-96.

resources.[1874] The Hybrid at Miramar project will also reduce GHG emissions associated with the Miramar facility and decrease water usage.[1875]

It is important to note as a threshold matter that the CCAs do *not* argue that the proposed upgrades to the Miramar facility are not in the public interest or that SDG&E has failed to meet its burden of demonstrating by a preponderance of the evidence that the costs involved in the Hybrid at Miramar project are reasonable. Rather, the CCAs concern is related *solely* to allocation of the costs of the upgrade. The CCAs assert that bundled service customers alone should bear the burden of the revenue requirement associated with the hybridization and improved efficiency of the Miramar facility.[1876] As support for their position, the CCAs point out that due to load departure, SDG&E will soon provide retail electric service to only 10 percent of load within its distribution service territory.[1877] The CCAs also argue that including ongoing UOG resource improvement costs in the original vintage assigned to the resource rather than a new vintage will result in "a situation where customers who have departed bundled service will potentially continue to pay for SDG&E's UOG costs in perpetuity . . ."[1878] Finally, the CCAs allege that the proposed Hybrid at Miramar project will *only* benefit bundled service customers and offers no benefit to departed load customers. The CCAs' claims lack merit and should be rejected.

The starting point for evaluation of the CCAs' claims regarding the Hybrid at Miramar project and whether the vintaging of the associated costs must be adjusted is the Commission's existing guidance concerning vintaging of resource costs and preserving cost indifference for bundled service customers. As noted above, D.08-09-012 establishes the general principle that when customers elect to depart bundled service, they must continue to pay the cost of existing resources procured on their behalf – *i.e.,* PPAs that have been executed and UOG resources where construction has begun *before* their specified departure date.[1879] D.08-09-012 does not indicate that once a UOG resource is assigned to a particular vintage, *future* costs associated with prudent maintenance and/or upgrades of the UOG resources must be excluded from that assigned vintage

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1874 *See, e.g.,* D.21-06-035 at 20 (noting that the primary purpose of the order "is to require the LSEs to develop new clean energy resources to address growing resource adequacy needs for new generating, non-generating, ***and hybrid resources***.") (Emphasis added).

1875 Ex. SDG&E-15-R-E (Valero) at 33; Ex. SDG&E-215 (Valero) at 96.

1876 Ex. JCCA-01 (Georgis) at iii.

1877 *Id*. at i.

1878 *Id*. at iii.

1879 D.08-09-012 at 61 and 66.

and assigned a new vintage. As discussed above, doing so would be contrary to the public interest and would violate cost indifference principles, thus it has historically been the case that UOG maintenance/upgrade costs are included in the original resource vintage.[1880]
D.18-10-019 confirms correctness of this approach, observing that while investment in a UOG resource could theoretically trigger a need to re-vintage, such re-vintaging would be appropriate only where the "new investments in an old power plant . . . represent[s] ***such a significant overhaul*** of the facility as to justify a 're-vintaging' of the facility."[1881] In other words re-vintaging is appropriate only in the rare situation where a capital investment in an existing resource effectively creates a *new* resource that must be placed into a new vintage.

This is clearly not the case here. As Mr. Valero explained, the integration of the battery energy storage system (BESS) and installation of new operational controls logic will improve operational efficiency and allow the Miramar resource to achieve its stated nameplate capacity (*i.e*., the upgrades will eliminate factors that caused the resource to provide less capacity than expected).[1882] These changes to the existing resource can hardly be characterized as ***such a significant overhaul*** of the facility that they effectively create a *new* resource that must be placed into a new vintage. Indeed, integration of the BESS will not involve a new CAISO resource identification, meter or interconnection – all of which would be necessary for a new CAISO resource – rather, the plant was modeled as a single dispatchable resource unit.[1883] Likewise, the CAISO generator resource data template (GRDT) for the Miramar plant will not change from "generator" status with the integration of the BESS, whereas a new stand-alone energy storage resource would be given a CAISO designation of non-generating resource. The proposed facility upgrades will not increase the nameplate capacity of the resource.[1884] Thus, the capital investment associated with the Hybrid at Miramar project cannot be fairly characterized as a "new" project

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[1880] *See, e.g*., Ex. JCCA-01 (Georgis) at Attachment AMG-2, SDG&E Response to Data Request CCAS-SDG&E-013, Question 13.02 (pp. 99-102 of PDF).

[1881] D.18-10-019 at 135 (emphasis added).

[1882] *See, e.g*., Ex. SDG&E-215 (Valero) at 96:10-12 (". . . eliminating the derate which constrains MEF today due to local area emission permit constraints will provide value, capacity and energy for California when it is needed most [*e.g*., the summer months, but especially during extreme heat events].").

[1883] *See* Ex. JCCA-01 (Georgis) Ex. JCCA-01 (Georgis) at Attachment AMG-2, SDG&E Response to Data Request CCAS-SDG&E-013, Question 13.03 (pp. 102-105 of PDF).

[1884] Tr. V8:1417:6-8 (Valero).

and should not be assigned a new vintage; rather, the cost of the project should be vintaged according to the original assigned vintage of the Miramar facility.

The arguments offered by the CCAs to challenge this conclusion are unpersuasive. The fact that SDG&E serves a minority of load in the region is not dispositive of the vintaging question. Neither D.08-09-012 nor D.18-10-019 suggest that the vintaging of UOG investments is tied to the amount of load served by the IOU. Vintaging is determined *solely* on the basis of whether the UOG resource was in existence at the time of departure and whether the proposed upgrade represents such a significant overhaul of the facility that it effectively creates a new resource. Similarly, as noted above, the level of load served by the IOU does not impact allocation of cost through the PCIA. As discussed above, the PCIA will operate to fairly allocate above-market costs of eligible resources whether SDG&E serves 10 percent, 1 percent, or 80 percent of load. So long as SDG&E has PCIA-eligible resources in its portfolio, departed load customers are obligated to pay the above-market costs of the resources included in their vintage. The suggestion underlying this argument by the CCAs appears to be that since SDG&E serves a minority of load in the region, it should not bother to take the necessary steps to increase the efficiency of the Miramar facility. This notion is contrary to the public interest and, indeed, is entirely inconsistent with the Commission's express direction to all LSEs to make every effort to optimize existing capacity resources to increase available RA capacity and thereby protect electric service reliability.[1885]

The CCAs' second argument – that including ongoing investments in UOG resources in the original vintage assigned to the resource rather than in a new vintage will result in departed load customers continuing to pay resource costs "in perpetuity" – also misses the mark. First, the CCAs exaggerate the burden placed on departed load customers. PPAs included in the IOUs' PCIA-eligible resource portfolios will eventually expire and UOG resources will eventually retire; the idea that departed load customers will continue to pay the above-market costs of these resources *forever*[1886] is without record support. More to the point, the basic premise of the CCAs' argument is that it is generally unfair for departed load customers to pay the cost of resources included in the IOUs' portfolios after they depart bundled service and (purportedly) no longer benefit from them.

1885 *See, e.g.*, D.23-02-040 at 6-10.

1886 "In perpetuity" is defined as "for all time: forever." Merriam-Webster Dictionary, available at https://www.merriam-webster.com/dictionary/in%20perpetuity.

However, as discussed above, this issue was laid to rest years ago with the adoption of the current vintaging and cost allocation rules.[1887] The distinction asserted in this case by the CCAs – *i.e.*, its focus on the incremental cost of the resource upgrade as distinguished from the cost of the UOG resource itself – does not make its position any more viable. The suggestion that the Commission should find it objectionable for departing load customers to pay resource upgrade costs even where the Commission has deemed it appropriate for departing load customers to pay the cost of the underlying UOG resource, is illogical and without support.

As noted above, it is beyond dispute that after the Commission approves a UOG project, the IOU must continue to make reasonable capital investments in the resource over time to maintain it in a manner that optimizes its functionality and is consistent with the policy goals of the state. Excluding such costs from the assigned vintage would create a perverse incentive to avoid reasonable UOG maintenance and/or upgrade activity and would cause harm to remaining bundled service customers. Thus, D.08-09-012 is properly understood as establishing a presumption that reasonable ongoing capital investment costs undertaken to properly maintain and upgrade UOG resources in a particular vintage must also be included in that same vintage. As the Commission suggested in D.18-10-019, while it is hypothetically possible that the costs of upgrading a PCIA-eligible UOG resource could be placed in a new vintage in a unique (and unlikely) scenario where the upgrade essentially creates a new resource, the circumstances in *this* case clearly do not come close to meeting that standard. Rather, the proposed Hybrid at Miramar project involves changes to the resource that are fully integrated with the existing UOG facility and the existing nameplate interconnection capacity of the facility.

Finally, the CCAs' claim that the proposed Hybrid at Miramar project will *only* benefit bundled service customers and offers no benefit to departed load customers should be rejected as inapposite and erroneous.[1888] "Benefits to departed load customers" is not the standard that must be applied to determine the appropriate vintaging of the Hybrid at Miramar project costs. Rather, as discussed above, the standard that is applied to determine the proper vintaging of UOG and maintenance/upgrade costs related to UOG is: whether the underlying UOG resource was in existence at the time of departure of the relevant vintage group and whether the proposed upgrade represents such a significant overhaul of the facility that it effectively creates a new resource.

[1887] *See*, D.18-10-019, D.08-09-012.

[1888] *See, e.g.*, Ex. JCCA-01 (Georgis) at iii.

Applying this standard, it is clear that the costs associated with the Hybrid at Miramar project is properly included in the same vintage as the Miramar facility itself.

While the question of whether the Hybrid at Miramar project conveys benefits to departed load customers is not determinative of vintaging of the related costs, it is clear that the Hybrid at Miramar project *does* convey benefits to departed load customers. As detailed by Mr. Valero and noted above, the proposed project will allow the Miramar resource to achieve its nameplate capacity, which is a clear benefit to all customers in the region given the current scarcity of resource capacity and the resulting threat to electric system reliability.[1889] Increased availability of resource capacity from the MEF resource will increase the total amount of capacity available to the market, which will better enable the CCAs to meet the Commission's resource adequacy (RA) program requirements and avoid compliance penalties.[1890] If the additional MEF capacity is sold to CCAs and/or other market participants, it will reduce the amount of the PCIA paid by the CCAs since market revenues are netted against the total portfolio cost in calculating the PCIA charge. This too will benefit the CCAs. In addition, the proposed project will reduce criteria pollutants and GHG emissions and water usage, which plainly benefits the entire region because the MEF is located in the local San Diego basin.[1891] Thus, the suggestion by the CCAs that the Hybrid at Miramar project benefits only bundled service customers is without merit.

19.2.4 Proposed Vintaging Framework for Future GRC Proceedings

The CCAs request that the Commission adopt a "new vintaging framework" applicable to UOG resources that pre-defines "the various circumstances under which certain UOG revenue requirements should shift from a historical vintage (*e.g.*, 2009 or 2020 vintages) to a more recent vintage (*e.g.*, 2024 vintage)" for purposes of cost recovery through the PCIA.[1892] While the

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1889 Ex. SDG&E-215 (Valero) at 96:10-12 (". . . eliminating the derate which constrains MEF today due to local area emission permit constraints will provide value, capacity and energy for California when it is needed most [*e.g.*, the summer months, but especially during extreme heat events]."); Tr. V8:1417:6-8 (Valero).

1890 SDG&E notes, for example, that SDCP has faced significant financial penalties for failure to comply with Commission RA procurement requirements. *See, e.g.*, Resolutions ALJ-442, ALJ-432. It has offered the affirmative defense that "it was 'impossible for SDCP to procure the necessary resources at any price' and that the 'principal cause' of SDCP's deficiencies was **'a well-documented lack of available supply in the capacity market**….'" Resolution ALJ-442 at 4 (emphasis added); *see also* Resolution ALJ-432 at 4 ("SDCP asserts an affirmative defense that it was 'impossible' for it to obtain the necessary RA resources").

1891 Ex. SDG&E-215 (Valero) at 96:2-9.

1892 Ex. JCCA-01 (Georgis) at iv:8-11.

vintaging framework proposed by the CCAs in the instant case would be limited to use in future SDG&E GRC proceedings,[1893] SDG&E notes that an identical UOG vintaging framework was separately proposed by CCA parties in Pacific Gas & Electric Company's (PG&E's) GRC proceeding, Application (A.) 21-06-021, and vintaging issues have been raised in the preliminary stage of Southern California Edison Company's (SCE's) GRC proceeding, A.23-05-010.

SDG&E also notes as a threshold matter that the CCAs' request that the Commission adopt in this proceeding a vintaging framework applicable *only* to SDG&E makes little sense and is contrary to the statewide approach to vintaging issues taken by the Commission in R.17-06-026. The fact that the CCAs have raised similar vintaging issues in all three IOU GRCs reinforces the conclusion that the issues involved here should be considered on a statewide basis. It is clear that matters of statewide relevance are more properly addressed in a statewide proceeding, where a proper record can be developed and all stakeholder interests can be considered, rather than in a utility-specific rate application.[1894] Considering the CCA-sponsored re-vintaging framework proposal in three separate GRC proceedings could result in three separate and inconsistent outcomes; customers of one IOU may be disadvantaged and regulatory certainty would be undermined. Thus, the Commission should not consider the CCAs' proposed "SDG&E-only" re-vintaging framework in this GRC proceeding.

Considered on its merits, the CCAs' proposal is deficient and also represents an improper collateral attack on prior Commission decision, as discussed below. The CCAs' proposed new framework for vintaging UOG resources would impose the following specific limitations on recovery of UOG-related costs from departed load customers through the PCIA:

1) Once the UOG resource reaches its original end-of life date, costs could no longer be recovered through the PCIA from departed load customers in the relevant vintage year.[1895]
2) Certain pre-defined changes to a UOG resource implemented <u>*prior to*</u> the resource's original end-of-life date – *e.g.*, changes in the purpose or use of a plant, capacity

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1893 *Id.* at 32.

1894 *See, e.g.,* D.13-05-010 at 647-648 ("Since that proposed settlement in A.12-04-024 addresses issues similar to those in the Sustainable SoCal Program, it is inappropriate to decide the outcome of A.12-04-024 through a decision in this GRC.").

1895 Ex. JCCA-01 (Georgis) at 33:10-15 ("the original end of life of each asset sets an end date for cost recovery from its original vintage assignment") and 33:9 – 37:20.

> expansions, and/or extension of the expected life of the facility – would bar continued cost recovery through the PCIA unless SDG&E could demonstrate that the changes benefitted departed load customers.[1896]

In the second of these scenarios, when a capital investment is proposed for a UOG resource that has not yet met its end-of-life date, SDG&E would be required to provide information to support a determination regarding the appropriate new vintage. While the CCAs suggest that their new vintaging framework is intended *solely* to prompt SDG&E to provide information necessary to justify recovery of costs through a particular vintage,[1897] this characterization of the CCAs' vintaging framework proposal is misleading. The proposed vintaging framework would establish informational requirements but it would *also* operate to establish new requirements regarding pre-defined end dates for recovery of UOG-related costs from departed load customers. Thus, the proposal does far more than merely establish informational requirements. Moreover, the informational requirements proposed by the CCAs are themselves problematic inasmuch as they would appear to create a burden of proof related to vintaging of investment in a UOG resource that is not supported by law; neither D.08-09-012 nor D.18-10-019 require the IOU to affirmatively justify including proposed UOG resource capital investments in the same vintage as the underlying UOG resource or to prove that departed load customers will benefit from such investments.

The CCAs' proposal to establish a vintaging framework for use in future SDG&E GRC proceedings should be rejected. Both components of the proposed vintaging framework are inconsistent with Commission precedent and violate the statutory cost indifference mandate. As discussed below, the Commission has made clear that it will not impose arbitrary or automatic cut-off dates for cost recovery of UOG resources. It has also expressly held that the question of whether to modify the vintage of a UOG resource owned by an IOU must be considered on a case-by-case basis "in utility specific proceedings where we can consider facts *specific to those resources*."[1898]

The first component of the CCAs' vintaging framework – the proposal to establish an automatic end date for PCIA cost recovery related to UOG resources – is directly contrary to the direction provided by the Commission in D.18-10-019 and would violate statutory cost

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1896 *Id*. at 37:21-38:16.

1897 *See, e.g.*, *id*. at iv:5-8.

1898 D.20-01-030 at 16 (emphasis added) (citation omitted).

indifference principles. To establish this automatic end date, the CCAs propose an "expected life" test:

> At the time the vintage date for each resource was established, SDG&E had determined the expected life of the asset – the time period over which the asset would be used and useful to its bundled customers, and over which ongoing capital investments and operation expenses would be incurred for this resource to serve that customer base. . . . Thus, any extension of the facility's life beyond that original determination represents a new commitment made by the utility to continue expenditures to support this resource beyond what was originally planned. *This new commitment is made as of the date of the decision to extend the resource's life, and it is made on behalf of the utility's bundled customers base at the time of that decision*."[1899]

In other words, the CCAs propose that once the end-of-life date originally specified for a UOG resource at the time of approval is reached, continued cost recovery from departed load customers is barred after that point. However, this proposal disregards statutory cost indifference requirements[1900] as well as the Commission's prohibition on automatic termination of cost recovery through the PCIA.

The Commission explicitly addressed automatic termination of PCIA cost recovery in D.18-10-019, when it considered the lawfulness of an existing 10-year limitation on recovery of UOG costs through PCIA,[1901] as well as a separate proposal to establish a sunset date or impose a fixed time limit on recovery of resource costs from departed load customers through the PCIA.[1902] The Commission concluded that automatic termination of cost recovery from departed load customers creates the potential for unlawful cost shift to bundled service customers, and rejected the proposed limitations.[1903] Nonetheless, the CCAs propose to do exactly what the Commission indicated in D.18-10-019 could not be done. The CCAs' proposed "end-of-life date" cost recovery cut-off would operate to *automatically* exclude SDG&E's UOG resource costs from the PCIA despite D.18-10-019's clear direction that re-vintaging and elimination of PCIA cost recovery must be considered on a case-by-case inquiry based on "facts specific to those resources."[1904] The CCAs' proposal is not supported by law; it violates the Commission's clear prohibition on

[1899] Ex. JCCA-01 (Georgis) at 36 (emphasis added).
[1900] Pub. Util. Code Section 365.2, 366.2 and 366.3.
[1901] D.18-10-019 at 54-59.
[1902] *Id*. at 80-82.
[1903] *See id.* at 59.
[1904] D.20-01-030 at 16 (citation omitted).

automatic termination of PCIA cost recovery and creates risk of unlawful cost shift to bundled service customers. It could also unfairly discriminate against SDG&E's bundled customers to the extent the framework is applied solely to SDG&E rather than statewide. For these reasons, the CCAs' proposal should be rejected.

The second component of the CCAs' proposed vintaging framework is similarly problematic. The CCAs propose that certain specific changes to a UOG resource would impose a burden on SDG&E to prove that departed load customers would receive benefits from the changes to the UOG resource. Specifically, if SDG&E were to propose a change in (i) the underlying purpose or use of the facility; (ii) a "significant capacity expansion" (the CCAs do not indicate what degree of capacity expansion would be considered "significant"); or (iii) an extension in the expected life of the facility, SDG&E would be required to show that the proposed change to the UOG resource would benefit departed load customers. If SDG&E was unable to meet this burden, the change would be deemed a "significant" change[1905] to the facility and the cost of either the entire UOG resource or the proposed capital investment would be treated as a "new" resource commitment and assigned a new PCIA vintage.[1906] Even if SDG&E *could* prove that the "significant change" benefitted departed load customers, costs could still be removed from the PCIA and instead allocated to all customers in the region through the Commission's separate Cost Allocation Mechanism (CAM) rather than to the relevant vintages through the PCIA.[1907]

This proposal by the CCAs is deficient in multiple respects. First, neither D.08-09-012 nor D.18-10-019 require a finding that departed load customers benefit from a proposed capital investment to determine the proper vintaging. While D.18-10-019 points out that departed load customers can continue to benefit from resources even after their departure from bundled service,[1908] this is not the basis for a vintaging determination. Rather, the relevant question for determining the correct vintage is the whether the resource was in existence at the time of load departure and whether the capital investment at issue effectively creates a new resource that necessitates a new vintage. Thus, the CCAs' claim that SDG&E must prove that departed load

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[1905] "Significant" changes would include: (i) a change in the underlying purpose or use of the facility *for the benefit of bundled customers*; (ii) a significant capacity addition to the resource's original committed capacity *for the benefit of bundled customers*; or (iii) any extension in the expected life of the facility. Ex. JCCA-01 (Georgis) at 37:25 through 38:3 (emphasis added).

[1906] *Id*. at 38:12-16.

[1907] *Id.* at 40.

[1908] *See* D.18-10-019 at 59 (discussing cost recovery for PG&E's Humbolt plant).

customers would benefit from specified changes to a UOG resource in order to recover the related costs imposes a standard that is not supported by law. More broadly, the suggestion by the CCAs that SDG&E must affirmatively justify application of standard vintaging rules at the time it makes its cost recovery request is misguided. D.08-09-012 establishes the vintaging rules that apply to UOG resources – it is not necessary for SDG&E to justify compliance with these rules. Likewise, D.18-10-019 establishes that ongoing investment in UOG resources are not considered "new" commitments unless they represent ***such a significant overhaul*** of the facility that they effectively create a *new* resource that must be placed into a new vintage;[1909] absent this circumstance, SDG&E is not required to propose a new vintage or to defend its adherence to the D.08-09-012 vintaging construct.

The CCAs' proposal to potentially shift cost recovery from the PCIA to the CAM is equally problematic. The CCAs do not address the impact that shifting recovery of costs associated with the relevant UOG resources from the PCIA to CAM would have on customers who are obligated to pay CAM costs but are not obligated to pay the costs of the UOG resource's original PCIA vintage. Nor do the CCAs explain why allocating UOG costs to customers who would not otherwise be obligated to pay them would be reasonable.

The CCAs assert that the Commission has recognized "the need to develop a framework to ensure that [ongoing UOG] costs are equitably allocated."[1910] The exact opposite is true. The Commission flatly rejected the CCAs' claim that a re-vintaging "test" or "framework" such as that proposed here (and separately in PG&E's GRC and likely in SCE's GRC) should be developed in Phase 2 of the PCIA proceeding.[1911] After issuance of D.18-10-019, several CCAs – including Solana Energy Alliance, a current member of CEA and joint sponsor of the vintaging framework in this proceeding[1912] – filed an Application for Rehearing (AFR)[1913] challenging the findings contained in D.18-10-019 and making essentially the same arguments that are offered here by the CCAs. The AFR argued that:

1909 *Id*. at 135 (emphasis added).

1910 Ex. JCCA-01 (Georgis) at 18:23-24 (citation omitted).

1911 *See* D.20-01-030 at 16.

1912 Solana Energy Alliance is now a member of CEA. *See* Merger Notification available at: https://thecleanenergyalliance.org/wp-content/uploads/2021/01/CEA_SEA-Notification_FINAL-for-website.pdf.

1913 Application of California Community Choice Association, CleanPowerSF and Solana Energy Alliance for Rehearing of Decision 18-10-019, filed in R.17-06-026 on November 19, 2018.

- UOG capital investments made after load has departed *only* benefit remaining bundled service customers and therefore the related costs should not be recovered from departing load;[1914] and
- The Commission should order development of a re-vintaging "test" to be applied when UOG capital investments are proposed.[1915]

The Commission was not persuaded by the CCAs' claims regarding the need for a re-vintaging test and reiterated that "the issue of whether individual procurement costs should be excluded from the PCIA calculation ***should be addressed in utility specific proceedings where we can consider facts specific to those resources***."[1916] Thus, the arguments offered by the CCAs in the instant case to support their proposed vintaging framework have already been addressed and rejected in the context of the PCIA proceeding and should likewise be rejected here.

The CCAs plainly disagree with the Commission's direction in D.08-09-012, D.18-10-019, and D.20-01-030, but the mere existence of a contrary view is not sufficient to upset the Commission's reasoned conclusions regarding the appropriate approach to PCIA cost recovery and vintaging of ongoing UOG capital investments. The CCAs' proposal would significantly alter the analytical approach to resource vintaging established under D.08-09-012 and D.18-10-019. The CCAs ask the Commission to do in the instant proceeding what it declined to do in the PCIA proceeding – pre-define the circumstances where PCIA cost recovery for UOG resources terminates for departed load customers and impose upon SDG&E the burden of demonstrating that departed load customers benefit from proposed capital investments in UOG resources. The CCAs' attempt to "take another bite at the apple" and establish through this proceeding requirements that the Commission declined to adopt in the PCIA proceeding, and that would apply *solely* to SDG&E, is improper. The Commission's prior determinations are conclusive and the attempt by the CCAs to revisit those determinations in the instant proceeding in the hopes of achieving a more favorable outcome is inappropriate. The CCAs' proposal represents an impermissible collateral attack on prior decisions issued by the Commission that should be soundly rejected.

Section 1709 of the Public Utilities Code establishes that "[i]n all collateral actions or proceedings, the orders and decisions of the commission which have become final shall be

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[1914] *Id*. at 33.

[1915] *Id*. at 35.

[1916] D.20-01-030 at 16 (emphasis added) (citation omitted).

conclusive." The Commission has defined a collateral attack as "an attempt to invalidate the judgment or order of the Commission in a proceeding other than that in which the judgment or order was rendered."[1917] Under Commission Rules of Practice and Procedure, parties may challenge a Commission determination only by filing an application for rehearing or a petition for modification.[1918] Collateral attacks on Commission decisions are prohibited.[1919] The California Supreme Court has observed that "conclusiveness [of prior orders] arises by operation of law. It is the order and not the reasons for it that establishes its effectiveness."[1920] Adherence to this principle is necessary to protect the integrity of the Commission's decision-making process and to preserve regulatory certainty.

The CCAs' vintaging framework proposal violates the statutory cost indifference principle established under Sections 365.2, 366.2 and 366.3, is inconsistent with Commission precedent set forth in D.08-09-012, D.18-10-019 and D.20-01-030, represents an unlawful collateral attack on prior Commission decision, and is contrary to the public interest. Accordingly, it should be rejected in its entirety.

19.3 SDG&E's Response to Parties' Non-Shared O&M Proposals

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	**36,576**	**40,809**	**4,233**
CAL ADVOCATES	**36,576**	**38,929**	**2,353**
TURN	**34,560**	**37,335**	**2,775**
CEJA	**36,576**	**40,809**	**4,233**
CCAs	**36,576**	**40,809**	**4,233**

19.3.1 Overall TY 2024 O&M Forecast

TURN - TURN takes issue with the Test Year 2024 O&M forecast for Electric Generation. TURN recommends reducing the O&M forecast by $2 million based on removing what it considers to be "anomalous expenses."[1921]

[1917] D.07-04-017 at 8 (citation omitted).

[1918] *See* Rules 16.1 and 16.4.

[1919] *See, e.g.,* D.08-04-063, D.07-10-015, D.07-04-017, and D.07-03-047.

[1920] *People v. Western Air Lines, Inc.,* 42 Cal.2d 621, 632-633 (1954).

[1921] Ex. TURN-06-R (Monsen) at 28-29.

SDG&E disagrees with TURN's recommendation.[1922] Based on the elaborate analysis of the actual expenditures and cherry picking of specific material and service costs across all generating facilities, TURN has deemed anomalous as any expense that has fluctuation. As stated in response to TURN inquiry,[1923] fluctuations in year-over-year expenditures are typical for generating facilities. Consumption of materials and services are a reflection of the operations and maintenance of the facilities and cannot be specifically forecasted. To mitigate the unpredictability and fluctuations, SDG&E selected a 5-year average as the base forecast for 2022 through 2024. This method averaged all years, 2017 through 2021, reducing the effect of the low and high spend years. Using the 5-year average method accounts for these fluctuations and therefore provides a reasonable foundation for the 2022through 2024 forecast. As such, the Commission should find SDG&E's five-year average is the most representative of future operations costs.

19.3.2 Palomar Labor O&M Costs

Cal Advocates - Cal Advocates states that they do not oppose the six full-time equivalent (FTE) positions that were requested; however, they oppose the overtime estimate of $180,000 associated with the four new operations technician positions.[1924]

SDG&E disagrees with Cal Advocates proposed reduction.[1925] SDG&E has reiterated that the overtime estimate is in line with historical data.[1926] Additionally, in response to Cal Advocates inquiry SDG&E explained that operations technicians are required to work a rotating shift schedule with twelve-hour shifts.[1927] Because of this shift schedule, overtime is built into their overall compensation. For these reasons, SDG&E's request for the additional $180,000 associated with the new hires is reasonable.

19.3.3 Palomar Non-Labor Costs

Cal Advocates - Cal Advocates recommends the removal of $270,000 associated with the long-term service agreement (LTSA) related to the Palomar Hydrogen Systems project.[1928]

[1922] Ex. SDG&E-214 (Baerman) at 9.
[1923] *Id.,* at Appendix F, TURN-SEU-050 Q6.
[1924] Ex. CA-05 (Weaver) at 14.
[1925] Ex. SDG&E-214 (Baerman) at 9-10.
[1926] Ex. SDG&E-214 (Baerman) at Appendix B, PAO-SDG&E-MW5-007, Question 6a.
[1927] *Id*. at Appendix E, PAO-SDG&E-131-MW5, Question 4.
[1928] Ex. CA-05 (Weaver) at 14-15.

SDG&E disagrees with Cal Advocates proposed reduction. Please refer to Section 18.2 (SDG&E Clean Energy Innovations) for detailed discussion of the Palomar Hydrogen Systems project.

19.3.4 Cybersecurity

Cal Advocates - Cal Advocates recommends the removal of $500,000/year associated with Industrial Control System (ICS) for Palomar and $500,000/year associated ICS for Desert Star due to SDG&E not developing or implementing a new ICS.[1929]

SDG&E disagrees with Cal Advocates' proposed reduction as SDG&E is not requesting funds to develop and implement a new ICS at Palomar and Desert Star.[1930] Rather, SDG&E is requesting funds for essential steps to maintain and increase resilience against future cyber-attacks. Improving cyber security is not a one-time solution. The forecast is based on assumptions and rapidly evolving threats in cyber security. At this time, SDG&E does not know all the measures that it will be required to take to meet best practices. The requested funds will be used to harden the ICS against known and unknown cyber security threats as well as maintain compliance with new and changing requirements from agencies such as the North American Electric Reliability Corporation (NERC), Western Electricity Coordinating Council (WECC), Department of Homeland Security (DHS), and internal SDG&E IT/Cybersecurity directives. It is for these reasons that SDG&E continues to support the need for additional funds for Palomar and Desert Star. In addition to O&M expenses, the ICS cybersecurity projects have capital expenses, which are discussed below.

TURN - TURN recommends a reduction of $293,000 for O&M costs related to cybersecurity to remove what it deems "double-counting."[1931]

SDG&E disagrees with TURN's recommendation.[1932] SDG&E is requesting funds in addition to historical spend to maintain and increase resilience against relevant future cyber-attacks. Improving cyber security is not a one-time solution. At this time, SDG&E does not know all the measures it will be required to take to meet future best practices. The forecast is based on assumptions and rapidly evolving threats in cyber security.

1929 *Id.* at 14.

1930 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Questions 3a and 3b; *id*. at Appendix D, PAO-SDG&E-071-MW5, Question 1.

1931 Ex. TURN-06-R (Monsen) at 38 and Table 28.

1932 Ex. SDG&E-214 (Baerman) at 11.

19.3.5 Distributed Energy Facilities (DEF)

Cal Advocates - Cal Advocates states that they do not oppose the seven FTE positions that were requested for DEF operations and maintenance. However, they oppose the overtime estimate of $270,000 associated with the four new operations technician positions and the three maintenance technicians.[1933]

SDG&E disagrees with Cal Advocates proposed reduction.[1934] As stated in response to Cal Advocates inquiry, SDG&E reiterated that the overtime estimate is in line with historical data.[1935] Additionally, in response to Cal Advocates inquiry SDG&E explained that the operations technicians are required to work a rotating shift schedule with twelve-hour shifts.[1936] Because of this shift schedule, overtime is built into their overall compensation. In addition to the rotating shift schedule, Operations and Maintenance Technicians are responsible for staffing maintenance outages at all generating facilities. The maintenance outages may last from one to six or more weeks and may require 24 hours a day work activity. Maintenance Technicians are also required to respond to callouts and emergency maintenance requirements that frequently occur after normal business hours and on weekends, which may require overtime. For these reasons, SDG&E continues to support the need for the additional $270,000 associated with the new hires.

Cal Advocates also states that they recommend a reduction to the DEF non-labor forecast of $120,000 due to using a different methodology for the forecast for asset maintenance.[1937]

SDG&E disagrees with the alternate methodology used by Cal Advocates. SDG&E forecasted the asset maintenance needs based on the historical average for three assets.[1938] With the addition of 17 new assets, SDG&E continues to support that increasing the expected costs from a historical average of $23,000/year to $30,000/year is reasonable given that the O&M requirements for forecasted assets cannot be precisely predicted, in addition to the supply chain challenges and the rising prices of support services.

TURN - TURN recommends a reduction of $1.229 million in 2022, $0.895 million in 2023 and $0.895 million for O&M related to the operation and maintenance of the DEF's based on its

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[1933] Ex. CA-05 (Weaver) at 18.
[1934] Ex. SDG&E-214 (Baerman) at 11-12.
[1935] *Id.* at Appendix B, PAO-SDG&E-MW5-007 Q10.
[1936] *Id.* at Appendix E, PAO-SDG&E-131-MW5 Q4.
[1937] Ex. CA-05 (Weaver) at 18.
[1938] Ex. SDG&E-14-WP (Baerman) at 34.

assumption that only nine DEFs will be online at the end of 2024 instead of SDG&E's expectation that 20 DEFs will be online.[1939]

There is no factual basis for TURNs assumption that only 9 DEFs will be online in 2024.[1940] Please refer to Section 18.2 (SDG&E Clean Energy Innovations) for discussion of the timing of DEF assets coming online. Regarding the use of $30,000 for the forecast of maintenance needs, SDG&E based this estimate on the historical average for three assets.[1941] With the addition of 17 new assets, SDG&E continues to support that increasing the expected costs from a historical average of $23,000/year to $30,000/year is reasonable given that the O&M requirements for forecasted assets cannot be precisely predicted, in addition to the supply chain challenges and the rising prices of support services.

19.4 SDG&E's Response to Parties' Capital Proposals

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	**37,375**	**45,406**	**43,854**	**126,635**	
CAL ADVOCATES	**16,811**	**24,759**	**37,540**	**79,110**	**(47,525)**
TURN	**18,219**	**17,709**	**13,448**	**49,337**	**(77,298)**
CEJA	**37,375**	**40,606**	**43,854**	**121,835**	**(4,800)**
CCAs	**37,375**	**45,406**	**43,854**	**126,635**	**0**

19.4.1 Overall Capital Forecast

TURN - TURN recommends reducing the Capital forecast by $3.5 million based on removing what it considers to be "anomalous expenses".[1942]

SDG&E disagrees with TURN's recommendation.[1943] As described in the direct testimony of Daniel Baerman:

> SDG&E does not propose a specific list of capital projects, but instead will plan, schedule, and perform capital projects, as appropriate, to best support the safe and reliable operation for Generation plants. To effectively meet this goal, SDG&E will use a general capital project budget, rather than proposing specific projects. The

1939 Ex. TURN-06-R (Monsen) at 77-79, and Table 36.

1940 Ex. SDG&E-214 (Baerman) at 12.

1941 Ex. SDG&E-14-WP (Baerman) at 34.

1942 Ex. TURN-06-R (Monsen) at 29-30, and Table 22.

1943 Ex. SDG&E-214 (Baerman) at 13.

general capital budget allows flexibility and adaptability in capital projects to meet the current and future plant needs.[1944]

SDG&E does not intend to repeat completed capital projects as TURN suggests in their analysis.[1945] Rather, using the 5-year average provides a reasonable foundation for determining future expenditures as it includes capital projects of varying scope and spend. This method averages the costs of all projects for 2017 through 2021, which reduces the effect of the low and high spend years. SDG&E continues to support that using the 5-year average is the most representative for future operations.

19.4.2 Palomar Energy Center – Flamesheet Combustor

Cal Advocates - Cal Advocates state that they oppose the Flamesheet Combustor because there are no requirements for SDG&E to install a Flamesheet Combustor, there will be no reduction in Nitrogen Oxide (NOx) emissions, and there are no material cost savings associated with aqueous ammonia.[1946]

SDG&E disagrees with Cal Advocates' recommendation. As stated in response to Cal Advocates inquiry, the Flamesheet Combustor project will provide improvements in the combustion of natural gas that will allow Palomar to burn up to 60% hydrogen in the gas system and reduce the emission down to 5ppm Nitrogen Oxide (NOx).[1947] Currently, SDG&E uses General Electric's gas control valve schedule that only allows up to 5% hydrogen mix in the natural gas stream and no reduction of current NOx limits. SDG&E continues to support that completion of this project will prepare the facility to properly combust higher mixes of hydrogen fuel.

TURN – TURN also recommends that the Commission reject SDG&E's request to include the Flamesheet Combustor in capex because SDG&E provided no evidence that this project would reduce costs to ratepayers, would reduce NOx, and has no basis for assuming that hydrogen will be used at the plant.[1948] For the same reasons stated in rebuttal to Cal Advocates above, SDG&E disagrees with TURN's recommendation to reject the request for the Flamesheet Combustor.

1944 Ex. SDG&E-14-E (Baerman) at 15.

1945 Ex. TURN-06-R (Monsen) at 30-31.

1946 Ex. CA-05 (Weaver) at 23.

1947 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 3e.i.

1948 Ex. TURN-06-R (Monsen) at 41-42.

19.4.3 Palomar Energy Center – Infinite Cooling

Cal Advocates - Cal Advocates opposes the Infinite Cooling project due to there being no requirements for SDG&E to install an Infinite Cooling system and there being no cost benefit analysis to adequately support ratepayer funding of this project.[1949]

SDG&E disagrees with Cal Advocates' recommendation.[1950] As stated in response to Cal Advocates inquiry, the Infinite Cooling Water Panel uses proprietary technology to capture water from cooling tower plumes that can be re-used for cooling or other plant uses.[1951] Their technology could potentially save up to 100 million gallons of water a year. Currently as water evaporates in these cooling towers, vapor is rejected out and can for a visible white plume. The remaining water is the system also becomes more concentrated in contaminants and needs to be purged (blowdown). Water evaporation during summer is currently around 1 million gallons per day which is rejected to the atmosphere. Further, cost-benefit analysis is not a requirement in GRCs for the Commission to determine the reasonableness of a certain project. Accordingly, SDG&E continues to support the completion of this project.

19.4.4 Cybersecurity

Cal Advocates - Cal Advocates recommends a reduction of $2 million for forecast years 2022, 2023 and 2024 related to the ICS for Palomar and Desert Star.[1952]

SDG&E disagrees with Cal Advocates' recommendations as SDG&E is not requesting funds to develop and implement a new ICS at Palomar and Desert Star.[1953] Rather, SDG&E is requesting funds for essential steps to maintain and increase resilience against relevant future cyber-attacks. Improving cyber security is not a one-time solution. The forecast is based on assumptions and rapidly evolving issues in cyber security. At this time, SDG&E does not know all the measures that it will be required to take to meet best practices. The requested funds will be used to harden the ICS against known and unknown cyber security threats as well as maintain compliance with new and changing requirements from agencies such as the North American Electric Reliability Corporation (NERC), Western Electricity Coordinating Council (WECC),

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1949 Ex. CA-05 (Weaver) at 25.

1950 Ex. SDG&E-214 (Baerman) at 15.

1951 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 3e.ii.

1952 Ex. CA-05 (Weaver) at 27.

1953 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Questions 3a and 3b; *id.* at Appendix D, PAO-SDG&E-071-MW5 Question 1.

Department of Homeland Security (DHS), and internal SDG&E IT/Cybersecurity directives. It is for these reasons that SDG&E continues to support the need for additional funds for Palomar and Desert Star.

TURN - TURN recommends a reduction of $537,000 for capital related to cybersecurity to remove what it deems "double-counting."[1954]

SDG&E disagrees with TURN's recommendation.[1955] SDG&E is requesting funds in addition to historical spend to maintain and increase resilience against relevant future cyber-attacks. Improving cyber security is not a one-time solution. At this time, SDG&E does not know all the measures that it will be required to take to meet best practices. The forecast is based on assumptions and rapidly evolving issues in cyber security.

19.4.5 Miramar Energy Facility

Cal Advocates - Cal Advocates recommends using a modified 4-year average forecasting methodology. However, their proposed methodology would remove the anomaly in 2020 for major equipment failures.[1956] SDG&E disagrees with Cal Advocates' recommendation.[1957]

For their modified 4-year average, Cal Advocates used data from the lowest 4 years, 2017 through 2019, and 2021, and omitted the high year, 2020.[1958] SDG&E explained that fluctuations in year over year expenditures are typical for the generating facilities and are primarily a reflection of the condition of the equipment and the scope of needed enhancements or replacements.[1959] To mitigate these fluctuations, SDG&E selected a 5-year average as the base forecast for 2022-2024. This method averaged the costs for all years, 2017 through 2021, reducing the effect of the lower spend in 2017 and the higher spend in 2020. Using the 5-year average method accounts for these fluctuations, and therefore provides a reasonable foundation for the 2022-2024 forecast. SDG&E continues to support that using the 5-year average is the most representative for future operations. Although major equipment failures are unpredictable, they are not out of the realm of possibility and should be included in the forecast.

[1954] Ex. TURN-06-R (Monsen) at 38 and Table 28.

[1955] Ex. SDG&E-214 (Baerman) at 16.

[1956] Ex. CA-05 (Weaver) at 29.

[1957] Ex. SDG&E-214 (Baerman) at 16.

[1958] Ex. CA-05 (Weaver) at 29.

[1959] Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 6.

19.4.6 Hybrid at Miramar Project

Cal Advocates - Cal Advocates recommends an adjustment to the Labor Hybrid at Miramar project due to no new employees being hired for this project.[1960]

SDG&E disagrees with Cal Advocates' recommendation.[1961] The Hybrid MEF project will require the effort of 8.3 FTEs. The 8.3 FTEs are not included in the O&M labor request because they will charge to the capital project while they manage the project during development and construction.

TURN - TURN recommends that the Hybrid at Miramar should be removed from SDG&E's capital expenditure request and be proposed through a stand-along application.[1962] SDG&E disagrees with this recommendation. Please refer to Section 18.2 (SDG&E Clean Energy Innovations) for detailed discussion of this project.

19.4.7 Palomar Hydrogen Systems

Cal Advocates, TURN and CEJA all take issue with SDG&E's request for funding for the Palomar Hydrogen Systems. Cal Advocates recommends $0 for 2022, 2023 and 2024 regarding the Palomar Hydrogen Systems forecast due to the lack of benefits the Palomar Hydrogen System project would have, such as a very low reduction of GHG emissions, intermittent use of 1% hydrogen blend, and the fueling of only three hydrogen vehicles.[1963] TURN recommends that the Palomar Hydrogen System be rejected by the Commission.[1964] CEJA takes issue with capital forecast for the hydrogen vehicle refueling station at Palomar costing $4.8 million. CEJA also recommends reducing hydrogen fueling station maintenance costs by $85,000.[1965]

SDG&E disagrees with Cal Advocates, TURN and CEJA's recommendations. Please refer to Section 18.2 (SDG&E Clean Energy Innovations) for further discussion of the Palomar Hydrogen Systems project. In addition, please refer to Section 18.2 (SDG&E Clean Energy Innovations) regarding CEJA's recommendation to deny the hydrogen vehicle refueling station at Palomar and associated maintenance costs.

1960 Ex. CA-05 (Weaver) at 29-31.

1961 Ex. SDG&E-214 (Baerman) at 17.

1962 Ex. TURN-06-R (Monsen) at 53.

1963 Ex. CA-05 (Weaver) at 32.

1964 Ex. TURN-06-R (Monsen) at 88-89.

1965 Ex. CEJA-01 (Saadat) at 89.

19.5 Conclusion

SDG&E's generating facilities are susceptible to year over year fluctuations in operation and maintenance expenses as evidenced by the historical spend. SDG&E is confident that by using primarily 5-year historical averages for the capital and O&M forecasts, Electric Generation is presenting the most accurate forecast possible by including the highs and lows of expenditures as experienced over the 5-year historical period. As the generating fleet grows with the addition of new DEFs our workforce must also expand to ensure safe and reliable operations and maintenance, as well as administrative and support functions for all facilities. It is also important for Electric Generation to implement new and emerging technologies with projects such as the Palomar Hydrogen System and the Hybrid at Miramar. Lastly, a pre-determined vintaging framework, such as that proposed by the CCAs, should be rejected because each investment must be assessed individually to fairly allocate the costs according to its drivers. In conclusion, SDG&E believes that the Commission should adopt the Electric Generation forecast as presented.

20. Electric Distribution (SDG&E Only)

20.1 Electric Distribution – Capital Projects

SDG&E's Electric Distribution Capital testimonies and workpapers, supported by witness Oliva Reyes, describe and justify SDG&E's forecasted Electric Distribution capital expenditures.[1966] They provide a detailed and thorough examination of SDG&E's distribution capital forecasts, including the portfolio of projects, major cost drivers, and areas of new and expanded focus as SDG&E endeavors to meet California's climate goals, promote sustainability, and modernize the grid to support ongoing electrification. SDG&E's Electric Distribution Capital is responsible for a portfolio of projects and programs required to provide safe, reliable, and resilient service to SDG&E customers. SDG&E is committed to safety and prioritizes work to comply with applicable laws and regulations, to provide system integrity, and to promote reliability in accordance with that commitment.

The portfolio of projects described in Ms. Reyes's testimony and workpapers is justified and reasonable to meet the safety and reliability needs of SDG&E's customers, employees, and communities. With very limited exception, intervenors do not object to the reasonableness or

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[1966] *See* Exs. SDGE&E-11-R-E (Reyes); SDG&E-211 (Reyes); Ex. SDG&E-11-CWP-R (Reyes).

necessity of the projects described by Ms. Reyes,[1967] and they should be approved in their entirety. Intervenors generally object to SDG&E's forecasts based either on opinions regarding the timing of work or differences in forecasting methodology. SDG&E's forecasting approach, as described in Ms. Reyes' testimony and workpapers, is consistent with past Commission practices, promotes SDG&E's ability to prioritize safety and reliability, and should be authorized as reasonable.

SDG&E's Electric Distribution Capital testimonies detail summaries for 105 supporting workpapers, each of which provided a detailed forecasting methodology and justification as to the reasonableness of the method. The workpapers also include significant background information to support the forecasts which make up SDG&E's total electric distribution capital forecasts of $438,049, $532,595, and $425,949 in ratepayer funded (Non-Collectible) dollars for 2022, 2023, and 2024, respectively.[1968] SDG&E's forecasts are broken down across the 11 categories below:

Table 20.1
Summary of Forecasts by Category

ELECTRIC DISTRIBUTION (In 2021 $)			
Categories of Management	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
A. CAPACITY/EXPANSION	23,793	21,442	17,977
B. EQUIP/TOOLS/MISC	2,542	2,542	2,542
C. FRANCHISE	44,112	70,370	88,512
D. MANDATED	31,943	33,761	33,761
E. MATERIALS	28,827	30,255	31,755
F. NEW BUSINESS	69,603	60,381	58,435
G. OVERHEAD POOLS	169,428	196,603	152,003
H. RELIABILITY/IMPROVEMENTS	77,681	130,398	68,343
I. SAFETY & RISK MANAGEMENT	22,310	32,343	33,025
J. DER INTEGRATION	0	0	0
K. TRANSMISSION/FERC DRIVEN	12,689	12,331	11,185
Total CAPITAL	**482,928**	**590,426**	**497,537**
NON-COLLECTIBLE (NC)	438,049	532,595	425,949
COLLECTIBLE (CO)	44,879	57,831	71,588

[1967] TURN's objects to the authorization of the North Harbor Cable Replacement Project, which is addressed *infra* at Section 20.1.4.4.1. UCAN makes wholesale objections to the authorization of reliability projects and advocates for alternative support for Distributed Energy Resources (DER). *See* UCAN-01-E (Woychick) at 269, *et. seq.* As discussed in Section 20.1.4.6, UCAN's proposals lack merit or support and should be disregarded.

[1968] Ex. SDG&E-11-R-E (Reyes) at xvi. Ms. Reyes also provides information on the Collectible portion of forecasts to be recovered from third parties, if applicable. The Collectible portion is necessary for calculating the proper allocation of overhead amounts to these projects, but the fully loaded Collectible amounts are not included in SDG&E's requested revenue requirement.

Intervenors' summary positions on SDG&E's total (Non-Collectible) capital requests are compared to SDG&E's in the following table:

Table 20.2
Comparison of Intervenor Recommendations

TOTAL CAPITAL[1969] - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	**$438,049**	**$532,595**	**$425,950**	**$1,396,594**	**$0**
Cal Advocates	**$403,022**	**$418,682**	**$453,099**	**$1,274,803**	**$(121,791)**
TURN[1970]	**$438,049**	**$513,144**	**$406,305**	**$1,357,498**	**$(39,096)**
CUE[1971]	**$438,049**	**$532,595**	**$478,351**	**$1,448,995**	**$52,401**
UCAN[1972]	**$430,468**	**$519,010**	**$411,062**	**$1,360,540**	**$(36,054)**
FEA[1973]	**$438,049**	**$532,595**	**$409,009[1974]**	**$1,379,653**	**$(16,941)**

20.1.1 Risk Informed Funding Requests

SDG&E's forecasted Electrical Distribution Capital request supports SDG&E's commitment to mitigate risks associated with hazards to customer, employee, and community safety, and to address infrastructure integrity and system reliability. In developing SDG&E's requests, the company prioritized key safety risks identified in SDG&E's RAMP Report to assess which risk mitigation activities Electric Distribution Capital currently performs and what incremental efforts are needed to further mitigate these risks. Ms. Reyes's testimony discusses the

1969 Forecasts reflect only Non-Collectible Dollars, as Collectible (CO) dollars are not included in Rate Base. IT Project costs are not included within the totals, because they are being addressed in the rebuttal testimony of William J. Exon (Information Technology, Ex. SDG&E-225-E).

1970 The Utility Reform Network (TURN) only proposed decreases to SDG&E electric-related capital expenditures for 2023 and 2024 and did not address proposed 2022 forecasts. Therefore, the forecasts above assume TURN did not take issue with SDG&E's forecast for 2022 while reflecting proposed expenditure decreases for 2023 and 2024.

1971 The Coalition of California Utility Employees (CUE) only proposed increases to SDG&E electric-related capital expenditures for 2024 and did not address proposed 2022 and 2023 forecasts. Therefore, the forecasts above assume CUE did not take issue with SDG&E's forecasts for 2022 and 2023, while reflecting proposed expenditure increases for 2024.

1972 The Utility Consumers' Action Network (UCAN) did not provide a total summary of recommended increases or reductions to SDG&E's electric distribution capital forecasts. The reductions noted in Table 1 are estimates based on a review UCAN's testimony.

1973 The Federal Executive Agencies (FEA) only proposed decreases to SDG&E electric-related capital expenditures for 2024 and did not address proposed 2022 and 2023 forecasts. Therefore, the forecasts above assume FEA did not take issue with SDG&E's forecasts for 2022 and 2023, while reflecting proposed expenditure decreases for 2024.

1974 The reductions FEA recommends are not attributed to a specific spending category, as they merely recommend a broad five-year historical average forecast methodology.

RAMP activities represented and supported by SDG&E's Electric Distribution Capital request, namely: Electric Infrastructure Integrity and Incident Involving an Employee.[1975]

Electric Distribution Capital investments are designed to meet SDG&E's safety, reliability, and customer services objectives by developing capital investment mitigation efforts that aggressively address identified risks.[1976] SDG&E's Electric Capital Distribution GRC request includes $109,188, $152,247, and $114,730 in RAMP related requests for 2022, 2023, and 2024 respectively.[1977] SDG&E's non-RAMP requests support other key areas of SDG&E's duty to serve, including but not limited to capacity projects that support emerging business and electrification and climate goals, maintenance activities, and new business to facilitate expansion of the economic region.

20.1.2 Request for Regulatory Accounts (Litigated Project Costs Memorandum Account)

SDG&E requests approval of a Litigated Project Costs Memorandum Account (LPCMA) LPCMA to record capital-related costs associated with projects that are intended to qualify as a collectible project to be recovered from third-party customers (*e.g.*, Contributions in Aid of Construction from a local governmental entity) instead of ratepayers, but later are deemed by a court to be non-collectible from third-party customers. As further described in Section 10.2.2.2, *supra*, establishment of the LPCMA would allow the Companies the opportunity to litigate whether the third-party customer should bear the cost at issue, while preserving the ability to later seek recovery of the incremental capital-related costs from ratepayers associated with the projects that can no longer be collected from a third-party customer if the litigation is unsuccessful. For the reasons addressed in Section 10.2.2.2. and Ms. Reyes's rebuttal testimony,[1978] the LPCMA should be approved.

20.1.3 SDG&E's Request and General Issues

SDG&E's Electric Distribution Capital requests are reasonable, fully justified, and support SDG&E's aim to achieve operational excellence while providing safe and reliable electrical service to customers at a reasonable cost. The Commission should find SDG&E's forecast

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[1975] Ex. SDG&E-11-R-E (Reyes) at 7. A narrative summary of the forecasted RAMP-related activities addressed by Ms. Reyes is discussed at Ex. SDG&E-11-R-E at 8-24.

[1976] Ex. SDG&E-11-R-E (Reyes) at 17.

[1977] Ex. SDG&E-11-R-E (Reyes) at 7.

[1978] Ex. SDG&E-211 (Reyes) at 24.

reasonable and fully justified in that the activities: (1) enhance the delivery of clean, safe, and reliable electric service to customers; (2) promote compliance with operational laws, codes, and standards established by local, state, and federal authorities; (3) support SDG&E's commitment to mitigate risks associated with hazards to customer/public and employee/contractor safety, infrastructure integrity, and system reliability; (4) are reasonable in light of anticipated reliability and operational needs; (5) respond to projected customer and system growth and customer/locality requests; (6) support the transition to clean energy; and (7) support regulatory compliance with evolving construction regulations designed to promote safety and preservation of environmental and cultural resources.[1979]

While certain parties provide specific recommendations to capital programs—as further discussed below—others offered non-specific, "broad brush" recommended reductions that fail to consider Ms. Reyes's Revised Direct Testimony and the complexities of SDG&E's electric distribution portfolio.[1980] Very few parties dispute or deny the overall need for, purpose, and reasonableness of the various capital project proposals offered by SDG&E. Without additional support for and details regarding overly generalized reduction requests, there is no basis for the Commission to consider them.

20.1.3.1 SDG&E's Forecasts Are Justified

While they do not contest the priority, purpose, or need for any of the capital programs proposed by SDG&E, FEA and CUE express concerns that SDG&E has spent less than the amounts authorized for Electric Distribution Capital in its prior GRC. Based on this misunderstanding, FEA and CUE make alternative recommendations—namely adjustments to SDG&E's forecasting methodology (FEA) and the implementation of a new investment incentive mechanism (CUE), further addressed below. As addressed by Ms. Reyes, the notion that SDG&E

1979 *See, e.g.,* Ex. SDG&E-11-R-E (Reyes) at 23.

1980 Ex. SDG&E-211 (Reyes) at 3. *See*, *e.g.*, SDG&E-211 at 21-22 (Discussing errors in UCAN's proposed reductions and UCAN's overall failure to present cohesive justification for a comparison between SDG&E's electric distribution capital proposals and UCAN's proposals regarding Energy Efficiency and Demand Response. Additionally, "UCAN makes sweeping statements calling for a shift toward CSOM DERs but fails to identify what that investment should be and how it should be directed. Because UCAN does "not contest the scope and projected costs of the projects themselves or the forecast methods that were utilized" it fails to respond to SDG&E's arguments justifying its requests.").

is underspent in distribution capital projects is misplaced and unfounded, and both CUE and FEA's recommendations should not be adopted by the Commission.[1981]

As addressed by Mr. Folkmann, FEA's arguments contort the Commission's longstanding approach to ratemaking through a forecasted process.[1982] To the extent there is an underspend associated with SDG&E's electric distribution capital, the Commission should not penalize SDG&E *in the future* for spending less than forecasted *in the past*. Nor does the Commission employ formula ratemaking based on actual costs.

But the significance of the underspend alleged by FEA does not actually exist. Through an overly simplified and incorrect comparison of Commission-approved funding amounts and actual SDG&E electric distribution capital spend for years 2012-2021, FEA attempts to establish that SDG&E may not achieve its forecasted spending.[1983] Ms. Reyes and Mr. Folkmann[1984] both explain that FEA's analysis of SDG&E's electric distribution capital costs rests upon inaccuracies and flawed assumptions, including a response to a data request taken out of context and lacking important information and perspective.[1985] SDG&E's Risk Spending Accounting Report (RSAR)[1986] reporting adds additional perspective—demonstrating that SDG&E is in fact significantly *overspent* in several areas due to reprioritization of funding necessary for investments in safety and other operations, including but not limited to gas operations and information technology.[1987] CUE also fails to acknowledge this reprioritization by limiting its review of the RSAR.[1988]

By failing to take all relevant information into account, FEA and CUE are making an inaccurate comparison of spending that results in a falsely inflated amount of historical overspending. There are two primary misunderstandings that, when clarified, justify SDG&E's forecasting methodologies and negate the need for an additional reporting mechanism.

1981 Ex. SDG&E-211 (Reyes) at 17-19.

1982 *See* D.20-01-002 at 8; Section 6, *infra.*

1983 Ex. FEA-01 (Smith) at 8:12-14.

1984 Section 6, *infra*.; Ex. SDG&E-201 (Folkmann) at 7.

1985 Ex. SDG&E-211 (Reyes) at 18, Ex. SDG&E-201 (Folkmann) at 7.

1986 *See,* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/risk-spending-accountability-reports.

1987 *See generally,* Rebuttal Testimony of Bruce Folkmann for additional discussion of SDG&E's RSAR reporting. Ex. SDG&E-201 at 8.

1988 Ex. CUE-02 (Earle) at 9.

First, the authorized costs and actual historical spend numbers used by FEA are based on two different GRC frameworks (*i.e.*, universes of activity). The 2019 and 2024 GRCs differ in composition. Specifically, in the Test Year 2019 GRC, the Electric Distribution areas included items that are no longer included in Electric Distribution Capital, including Wildfire Mitigation and Clean Energy Innovations.[1989] By comparing Test Year 2019 authorized costs that include areas ultimately not otherwise included in actual spend numbers (and not thus not reflected in SDG&E's data request response to FEA), FEA overstates the authorized to actuals spending difference.

Second, the authorized costs and historical expenses in the data request responses do not just differ in GRC framework, they also differ in the presentation of dollars. The authorized capital costs in the data request response are presented in nominal dollars, while the historical actuals that FEA used in its comparative analysis were presented in in 2021 constant dollars. Again, the Commission may look to the total RSAR filing for a more comprehensive and consistent representative comparison between authorized and actual spend. The RSAR affords transparent reporting addressing the same type of data (actual vs. authorized), but in the same framework and dollars, making it an apples-to-apples comparison. Using the RSAR framework, it is readily apparent that the amount of the purported underspend is significantly overstated in FEA's testimony and should be disregarded.

Because their position is based on flawed reasoning, it would be unreasonable to rely on FEA's analysis to support a five-year average forecasting methodology, rather than the forecasting methodology proposed by SDG&E. SDG&E also disagrees with FEA's proposed forecast methodology of a five-year average because it fails to acknowledge the diverse portfolio of projects described in Ms. Reyes's testimony as well as inflationary pressures. Further, a historical average using any number of lagging years is simply inapplicable to the various projects or programs based on specific unit cost estimates, unique scope, specialized scope, or emergent scope where historical lagging metrics are not available nor adequate to generate a forecast based on prior averages.[1990]

1989 Ex. SDG&E-211 (Reyes) at 18.

1990 *See, e.g.*, Ex. SDG&E-11-R-E (Reyes) at 31; Ex. SDG&E 211 (Reyes) at 19.

Roughly 72% of SDG&E's forecasts for electric distribution capital are zero-based and do not rely on historical spending in their development.[1991] Zero based forecasts are reasonable and justified for these projects because, while SDG&E uses information gained from recently completed similar projects, SDG&E has also forecasted costs based on specific project needs. Utilizing only a historical average as a methodology would not render more accurate results and could even result in unjust and unreasonable delays or postponement of reasonable and necessary projects or programs.

The Commission has already recognized the necessity and reasonableness of zero-based forecasts when costs cannot be estimated by using a simplified historical methodology.[1992] Such forecasts are justified because the "specific needs for each project are better taken into account and incorporated into the forecast as opposed to basing costs on budget history."[1993] As with the case for many unique capital projects, SDG&E's "project-specific evidence is more appropriate" to calculate forecasts and should be adopted without modification.[1994]

20.1.3.2 A Long Term Investment Replacement Plan and Steady State Replacement Programs are Unnecessary

CUE generally supports SDG&E's GRC Application but takes issue with an "apparent lack of long-term planning for infrastructure replacement" in advocating for a Long-Term Investment Replacement Plan (LTIR).[1995] While SDG&E agrees that long-term planning is important to address assets with extended service periods, the very nature of an LTIR is outside the scope of this GRC and fundamentally falls outside the GRC process, which is limited to the current cycle.[1996] CUE acknowledges that development of such a plan has "not been a typical GRC activity in the past,"[1997] and the Commission should maintain that ratemaking precedent.[1998]

1991 Ex. SDG&E-211 (Reyes) at 20.

1992 For instance, the Commission previously found prior zero-based forecasting methods "appropriate because [like here] certain historical costs have been shifted to other cost centers." (D.19-05-051 at 53).

1993 D.19-05-051 at 203-204.

1994 *Id.* at 201-202 (rejecting then ORA's statistical models for PSEP pressure test and replacement projects based on five years of historical cost data in favor of SoCalGas's zero-based proposal addressing "more specific details for each project.").

1995 Ex. CUE-01 (Earle) at 1.

1996 *See*, Scoping Memo at 4-5.

1997 Ex. CUE-01 (Earle) at 1:7-8.

1998 Ex. SDG&E-211 (Reyes) at 15-16.

Moreover, an LTIR is not necessary in light of SDG&E's existing comprehensive asset management strategy. SDG&E's Asset Management Policy aligns the Company's corporate strategy and objectives, reinforces SDG&E's commitment to safety and service quality, and fosters risk-informed operating decisions and investment allocations. In addition, SDG&E has Asset Management Plans that detail the electric distribution underground and overhead strategies. These plans are a comprehensive overview of SDG&E's overhead and underground electric distribution assets and related life cycle management processes.[1999] SDG&E continues to identify and prioritize equipment modernizations and replacements on its distribution system as that equipment nears the end of its life expectancy for optimal performance.[2000] SDG&E's asset planning policy and plans belie CUE's absurd contention that "SDG&E appears to have no plans beyond next year."[2001] Simply because those plans are outside of the GRC scope does not mean they do not exist.[2002]

CUE's LTIR proposal further denies SDG&E the flexibility to "reprioritize [] authorized funds in order to ensure safe and reliable operations" where necessary.[2003] This flexibility facilitated SDG&E's ability to respond to important safety concerns, including wildfire mitigation and cybersecurity, over the course of the prior GRC cycle. The Commission and stakeholders also have existing mechanisms to understand ongoing spend related to these issues and any reprioritizations of work, including the Risk Spend Accountability Reporting (RSAR) process. CUE's recommendation for the development of a LTIR Plan is therefore unnecessary and redundant to existing resources and reporting.[2004]

1999 Ex. SDG&E-211 (Reyes) at 15; *See also* Ex. SDG&E-31-R-E (Deremer) at 3.

2000 Ex. SDG&E-211 (Reyes) at 17.

2001 Ex. CUE-01 (Earle) at 8.

2002 For the same reasons, the Commission should also decline to adopt CUE's proposals for a Distribution Infrastructure Replacement Plan. CUE proposed this additional plan in rebuttal testimony and did not afford SDG&E adequate opportunity to respond, however, as with the LTIR, a long-term distribution infrastructure plan does not fall within the scope of the GRC and should be pursued via an alternative proceeding, if deemed necessary at all.

2003 *See* Resolution E-4464 (May 10, 2012) at 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

2004 Ex. SDG&E-211 (Reyes) at 16.

CUE also proposes to increase the forecast amounts for four specific electric distribution capital programs by a total of $52.401 million.[2005] CUE recommends these increases based on the need to replace existing aging high-risk equipment to reach a steady-state replacement rate based on useful life.[2006] As explained by Ms. Reyes, CUE's proposed forecast increases are unnecessary and fail to address or consider other limitations that affect projects and need to be factored into the analysis.[2007] Maintenance and repair are essential elements of safe operations, but SDG&E's current forecasts take these needs into account to the greatest extent possible. SDG&E's proposals better balance existing process and resource constraints while appropriately meeting infrastructure replacement rates to maintain the company's high standard of reliability and safety for its customers, ultimately resulting in just and reasonable costs for customers. For these reasons, the Commission should approve its forecasts without modification.

20.1.3.3 A Safety and Reliability Investment Incentive Mechanism (SRIIM) is Unwarranted in Light of Existing Reporting and Transparency

CUE also proposes the creation of a SRIIM, similar to that in place for Southern California Edison, for SDG&E. While recognizing that "[w]ithin a particular program area spending less than authorized may be justified by moving resources to an area that becomes more urgent," and "[t]he Commission has long supported such flexibility for utilities,"[2008] CUE advocates for a more restrictive incentive mechanism that is both unnecessary and redundant to existing reporting, and has already been rejected by the Commission as such.[2009] Because the RSAR and other accountability reports already provide an adequate tool to provide transparency in spending and for parties to use in the GRC process to understand prospective forecasts, there is no basis (nor is there an adequate factual record) to authorize or establish a SRIIM for SDG&E.

2005 Ex. CUE-01 (Earle) at 2:4-19; and at 3:1-12. The four impacted programs are SDG&E 214 – Distribution Transformers, 238 – Planned Cable Replacements, 14249 – SF6 Switch Replacements, and 17255 – Tee Modernization.

2006 Ex. CUE-01 (Earle) at 5:20-22.

2007 Ex. SDG&E-211 (Reyes) at 17 ("These factors may add significant time to each work order and include, but are not limited to, city and county permits that are required during the design process, potential material shortages, and environmental issues that must be addressed during construction.")

2008 CUE-02 (Earle) at 9.

2009 As CUE first addressed the SRIIM in rebuttal testimony, it was also inappropriate to raise the possibility of implementing such a new program when SDG&E had no opportunity to provide a response outside of briefing.

Further, the Commission has already recognized that a SRIIM-like mechanism is unnecessary considering existing reporting. In the SMAP OIR, Cal Advocates proposed an "RSAR Action Plan," requiring the utilities to utilities "provide detailed plans discussing how they would complete RSAR-eligible safety and reliability activities that were authorized but incomplete,"[2010] similar to SCE's existing SRIIM. Finding the Action Plan unnecessary, the Commission noted that "[t]he IOUs already must report and describe variances at the individual program level within the RSAR. … The cumulative tracking will identify programs that have chronic spending variances."[2011] Based on the RSAR "improvements" and the new requirement that IOUs "track cumulative expenditures throughout the GRC cycle and the completion of each program,"[2012] the Commission declined to implement the additional reporting and accountability requirements proposed in the Action Plan.

The same is true here. CUE's underlying basis for its SRIIM proposal is based on a flawed series of facts and assumptions. As previously addressed in Section 20.1.3.1, SDG&E is not significantly underspent in its authorized capital projects. Further, the SRIIM as proposed fails to support the necessary flexibility that utilities need to reprioritize projects as need arises to address safety and reliability. And finally, the RSAR reporting now required by the Commission renders a SRIIM redundant and overly burdensome. For these reasons, the Commission should decline to adopt any SRIIM mechanism for SDG&E.

20.1.4 Specific Program Forecasts

For purposes of brevity, SDG&E does not believe it necessary to address programs and forecasts that were uncontested or undisputed by intervenors. SDG&E has met its burden regarding these programs and the associated forecasts, and they should thus be approved without modification.

20.1.4.1 Franchise: Rule 20B Underground Conversions

SDG&E's Franchise category of projects describes required work to perform municipal overhead to underground conversion work in accordance with SDG&E's franchise agreements. Ms. Reyes describes the three subcategories of Franchise projects in her direct testimony, namely Rule 20A conversion projects, Rule 20B conversion projects, and street and highway

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2010 D.22-10-002 at 41.

2011 D.22-10-002 at 40-41.

2012 *Id*.

relocations.[2013] Each of SDG&E's forecasts for franchise projects is reasonable and justified and should be approved.

Cal Advocates does not take issue with any of the underlying projects addressed in SDG&E's Franchise proposals. The Commission, however, should decline to accept Cal Advocates' recommendation to adopt a lower forecast associated with Rule 20B conversion projects.[2014] Cal Advocates fails to take into account the need for flexibility given the multiple project schedules. Franchise project schedules and completion dates are continuously evaluated and revised based upon numerous factors specific to each project, including permitting and required authorizations. SDG&E anticipates that many projects may incur immaterial forecast changes which will ultimately be negligible from a total forecast perspective, *i.e.,* some projects will be ahead of schedule, while others will potentially be delayed.[2015] When viewed at a set moment in time, it may appear that some projects are delayed, however the exact opposite may be the case at a given point in the future.

SDG&E's requested revenue related to franchise projects follows a consistent forecast methodology to account for delays and project acceleration. Due to this reasonable approach, the Commission should adopt SDG&E's Franchise forecasts related to Rule 20B conversion projects.

20.1.4.2 Overhead Pools

Overhead Pools reflect the costs that originate from central activities, which are allocated to different capital projects such as costs for engineering capacity studies, reliability analysis, and preliminary design work (among others). Many of these costs cannot be attributed to a single capital project and are therefore spread to projects that are ultimately constructed and placed into service. These central activity costs are referred to as "pooled costs." Ms. Reyes describes the four pools associated with SDG&E's electric distribution capital activities in her direct testimony.[2016] These four pools perform various functions and are comprised of planners,

[2013] Ex. SDG&E-11-R-E (Reyes) at 48.

[2014] Ex. CA-06 (Wilson) at 11:21-28 through 12:1-4. The revised forecast Cal Advocates proposes is $22.379 million for 2022, $15.994 million for 2023, and $23.642 million for 2024. Ex. CA-06 (Wilson) at 4:8-13.

[2015] Ex. SDG&E-211 (Reyes) at 26.

[2016] Ex. SDG&E-11-R-E (Reyes) at 82-83.

designers, engineers, support personnel, managers, supervisors, dispatchers, field employees, clerical employees, and contract administrators.[2017]

SDG&E's Test Year 2019 GRC authorized SDG&E's Overhead Pools forecasting methodology but concluded that the authorized forecasts should be reduced based on the amount of capital projects authorized in the Test Year 2019 Decision.[2018] In addition, the Commission found it reasonable to apply a one-way balancing account treatment to the funding authorized for Overhead Pools (Overhead Pools Balancing Account, OPBA) to ensure that funds associated with engineering, reliability analysis, preliminary design work, etc. relating to specific capital projects that are cancelled or postponed are not reassigned to other areas.[2019] Based on SDG&E's improvements in forecasting and pool cost management, for Test Year 2024, the Commission should remove the one way balancing treatment of SDG&E's Overhead Pools costs and authorize SDG&E's forecast without modification.

20.1.4.2.1 One Way Balancing of Overhead Pools is Counterproductive and Disincentivizes Potential Efficiencies

As Ms. Reyes addresses in her direct testimony, efficient planning at the conceptual and beginning stages of a construction project are of the utmost importance.[2020] When a project is in its preliminary phase, it is important to encourage engineers and designers to be creative in order to enable them to develop projects that are more efficient and beneficial, and thus less costly to implement. One-way balancing treatment of Overhead Pools constrains the planning and design process as it limits the amount of time engineers and designers can dedicate to developing project improvements and efficiencies prior to the construction phase. Additionally, capping Overhead Pool costs with one-way balancing treatment fails to account for the growth in capital projects and does not permit SDG&E the resources that may be necessary to address new risk and reliability areas as they arise.[2021]

SDG&E has demonstrated that the company's pool expenses have been managed effectively and in proportion to the associated capital project expenditures in an analysis that

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[2017] D.19-09-051 at 286.

[2018] *Id*. at 287.

[2019] *Id*.

[2020] Ex. SDG&E-11-R-E (Reyes) at 84.

[2021] Ex. SDG&E-211 (Reyes) at 28.

spanned over a 7-year historical period from 2015-2021.[2022] The study clearly shows that the Compound Annual Growth Rate (CAGR) of the four pools combined was almost identical to the CAGR of their capital project base during the same time period (11.1% vs. 11.2% respectively).[2023] If the pools were not managed effectively, the data would have shown a significant deviation between the CAGR of the pool expense vs. capital base.

Additionally, throughout the Test Year 2019 GRC cycle, SDG&E has continued to refine and enhance its capital cost tracking, reporting and forecasting models, processes and methodologies. Significant improvements have resulted in tighter cost controls, increased transparency, and accountability across the Electric Distribution Capital portfolio. This includes the Overhead Pools, which are a function of the direct capital costs they support.[2024] Thanks to these enhancements, there is no longer a concern that funds associated with engineering, design work, and reliability analysis—among other areas—"relating to specific capital projects that are cancelled or postponed are [] reassigned to other areas."[2025] Given the improvements in forecasting and SDG&E's proven track record in effective management of its Overhead Pools expenses, the Commission should adopt SDG&E's recommendation to remove one-way balancing for Overhead Pools, and decline Cal Advocates' recommendation that the Overhead Pool Balancing Account remain in place.[2026]

20.1.4.2.2 SDG&E's Overhead Pools Forecasts are Reasonable

SDG&E's Overhead Pool costs are managed in proportion to its capital expenditures during the year.[2027] SDG&E proposes that the Commission adopt this pro-rated approach to determining appropriate pool change as a function of change to the underlying capital base of each pool. This is important because cost profiles vary widely across projects, and any $1 reduction in capital project spend rarely results in an equivalent same $1 reduction in pool activity.[2028]

2022 Ex. SDG&E-211 (Reyes) at 29. *See also*, Ex. SDG&E Ex. 11-R-E (Reyes) at 86 (Table demonstrating that although the average annual loading rate for each of the individual pools may move up and down on a short-term basis, it has nonetheless remained fairly constant over time.)

2023 Ex. SDG&E-11-CWP-R (Reyes) at 478 and 83.

2024 Ex. SDG&E-11-R-E (Reyes) at 85.

2025 D.19-09-051 at 287.

2026 Ex. CA-06 (Wilson) at 18.

2027 Ex. SDG&E-11-R-E at 86.

2028 Ex. SDG&E-211 at 27.

Additionally, other factors also impact the relationship between direct capital and overhead pools such as lead times required for engineering activities that precede the physical construction of a project. The timing of these preceding costs may differ from timing of costs associated with the physical construction. The Commission has already generally found SDG&E's overhead pools forecast methodology to be reasonable.[2029]

Because the Commission should adopt the entirety of SDG&E's electric distribution capital forecasts as reasonable, there is no justification to reduce SDG&E's associated forecasts for overhead pools. The overhead pools reductions recommended by Cal Advocates appear to germinate from their underlying objection to the associated capital projects, and not from a specific objection to the specific overhead pool request. If the projects are authorized, the corresponding pool amount should also be authorized. If the Commission authorizes the underlying project, but adopts Cal Advocates' overhead pools recommendation, it would be tantamount to funding the capital spend without authorizing the central activities necessary to support, scope, and plan that project.[2030] Assuming the Commission continues to support SDG&E's pro-rated approach to determining reasonable Overhead Pools forecasts—which Cal Advocates does not appear to oppose—it should review and authorize SDG&E's Overhead Pools forecast based on the projects authorized in the Commission's final decision.

20.1.4.3 SDG&E's Reliability and Improvements Proposals Are Reasonable

Safe, reliable electric service lies at the heart of SDG&E's mission. As customer expectations about the availability of service continues to increase, and more customers electrify to meet additional needs such as cooking and transportation, it is imperative that SDG&E maintain and improve its infrastructure in a proactive fashion. As Ms. Reyes explains, delaying responsive action could result in a decline in reliability and an increased number of customer complaints, regulatory fines, and higher long-term repair costs.[2031] SDG&E continues with its effort to improve reliability through the proactive replacement of end-of-life substation distribution circuit

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[2029] D.19-09-051 at 287. SDG&E notes that in the Direct Testimony of Garrick Jones (Errata), TURN "does not object that tis time to the continuation of SDG&E's use of the OH Pools ratemaking approach, and "recommends that the Commission should require SDG&E to reduce its Overhead Pool Expense for any commission-decided reduction to SDG&E's GRC capital forecast as it did in the 2019 GRC." Ex. TURN-7-R-2 (Jones) at 3-4.

[2030] Ex. SDG&E-211 (Reyes) at 28.

[2031] Ex. SDG&E-11-R-E (Reyes) at 93.

breakers, along with the installation of additional Supervisory Control and Data Acquisition (SCADA) devices and other advanced technologies. With modern circuit breakers, additional fault indicating, sectionalizing, and circuit automation devices, the ability to restore customers' service improves and outage times can be reduced, and reliability improved.

Only TURN and UCAN object to specific reliability proposals for electric capital distribution. UCAN's requests that the Commission entirely deny certain requests based on unclear reasoning and a general statement that SDG&E has not met its burden[2032] does not pass muster and should be disregarded. TURN's recommendations regarding the North Harbor proposal are further addressed below.

With respect to the underlying forecasting methodologies, the Commission should approve SDG&E's proposals as the most reasonable approach to efficient management. Should the Commission adopt Cal Advocates' recommended changes to SDG&E's forecast and adjust the methodology based on project completion date, it would limit SDG&E's ability to maintain the flexibility to perform projects as schedules and resources allow, an approach that is better facilitated by SDG&E's requested forecast. The Commission has explicitly recognized that "new programs or projects may come up, others may be cancelled, and there may be reprioritization. This process is expected and is necessary for the utility to manage its operations in a safe and reliable manner."[2033] It is for these reasons that "utilit[ies] [are] allowed the flexibility to reprioritize the authorized funds in order to ensure safe and reliable operations."[2034]

It is vital to highlight that Cal Advocates does not propose any adjustments to the original total forecast estimates for any of the 15 Reliability and Improvements projects.[2035] The projects themselves are reasonable and there is no basis for a reduction in the associated forecasts. Cal Advocates does not question *if* SDG&E's forecasts should be authorized, they simply address the

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2032 *See* Ex. UCAN-01-E (Woychick) at 277-278.

2033 D.11-05-018 at 27.

2034 Energy Division, Safety-Related Spending Accountability Report for Southern California Edison (May 2017) (Safety Report) at 10, available at *http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/Safety/SCESafety-RelatedSpending.pdf*; *see* also Resolution E-4464 (May 10, 2012) at 7 ("Under GRC ratemaking, the utilities are given an authorized revenue requirement to manage various parts of their utility business. Recognizing that the utilities may need to re-prioritize spending and spend more or less in a particular area of their business, the Commission affords them substantial flexibility to decide how much to spend in any particular area.").

2035 Ex. CA-06 (Wilson) at 25.

when. Project schedules are subject to change, delays, supply constraint problems, and deferral of projects based on prioritization. SDG&E anticipates that many projects may have minor scheduling changes that will ultimately be negligible from an aggregate perspective (some projects will be ahead of schedule while others will potentially be delayed). It is beneficial to both SDG&E and its customers to maintain flexibility in prioritizing work and Cal Advocates' proposal for a "uniform" shift in assumed construction starting points[2036] limits that flexibility. SDG&E's requested forecasts facilitate its ability to perform projects and schedules and resources allow and should be approved.

20.1.4.3.1 The North Harbor Underground Cable Replacement Program is Necessary for Continued Reliability to Critical Infrastructure

The North Harbor Underground Cable Replacement Program is justified and necessary to replace the aging infrastructure supporting a hub of San Diego's commerce and infrastructure at the San Diego International Airport. The scope of the project is reasonable given the scale of the importance of the airport and the need to address its resiliency. The improvements implemented as part of this project will bolster each circuit's reliability and improve safety by utilizing the latest engineering standards.[2037]

The Commission should decline to adopt TURN's recommendations regarding North Harbor as they are rooted entirely in conjecture regarding potential but unsubstantiated microgrid construction. SDG&E acknowledges microgrids have been proven to support grid resiliency and can support large critical load temporarily in the event of an outage,[2038] but there is no evidence that the San Diego Airport is installing a microgrid with enough capacity to allow them to leave the grid entirely for anything but a short duration, if that. As of 2019 the San Diego Airport has installed a 2 MW/5 MWH system with 5.5 MW of solar capacity.[2039] This system has been shown to only support 40% of the airport's existing monthly electricity costs and fails to take into account

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2036 Ex. CA-06 (Wilson) at 25.

2037 Ex. SDG&E-11-R-E (Reyes) at 120 (For example, the existing conduit contains asbestos and many of the existing manholes and handholds do not have sufficient space to safely work, impacting not only safety, but service restoration).

2038 Ex. SDG&E-211 (Reyes) at 34.

2039 Ex. SDG&E-211 (Reyes) at 34. Renewable Energy World (June 27, 2019) (Available: https://www.renewableenergyworld.com/storage/san-diego-airport-installs-2-mw4-mwh-storage-system-to-complement-existing-pv-array/#gref).

the ongoing airport expansion which could result in additional demand for electricity, as well as larger impacts of prolonged unplanned outages.[2040]

Because of the importance of maintaining reliability for the San Diego Airport should be prioritized to prevent the cascading impacts to customers and the local economy, it would also be unreasonable to deny the project simply because it has a relatively lower RSE and cost-benefit ratio.[2041] These calculations do not consider the economic impact of a prolonged outage for one of the largest commercial customers in the North Harbor region as well as the impacts such an outage could have on thousands of stranded travelers. Given the critical nature of ongoing reliability for the airport (as well as the four other distribution circuits associated with this project),[2042] the Commission should authorize it without modification.

20.1.4.4 SDG&E's Safety and Risk Management Proposals are Generally Unopposed and Should be Approved

SDG&E has justified its requests to address the mitigation of safety and physical system security risks. Among other things, these programs increase safety by replacing aging infrastructure which is prone to failure and aim to upgrade SDG&E facilities which either facilitate training or directly impact the safe operation of the electric system.[2043] SDG&E's proposals, including its Tee Modernization and SF6 Switch Replacement forecasts, balance resource constraints while maintaining the company's high standard of reliability and safety for its customers.[2044] Further, there is no need for detailed, mandatory schedules related to plans for removal or replacement of all SF6 switches, as proposed by CUE.[2045] CUE's proposals limits SDG&E's flexibility to prioritize projects as needed for safety and reliability, and SDG&E's forecast represents a reasonable balance between costs and the need to replace SF6 switches at this time.

Further, as previously discussed, SDG&E has an existing comprehensive asset management policy that aligns the company's corporate strategy and objectives, reinforces

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[2040] As TURN's own testimony and the supporting article discusses, airports "fuel the economic vitality of a community," and power outages can result in the cancellation of hundreds of flights, thousands of stranded passengers, the loss of tens of millions. Ex. TURN-07 at Attachment 3.

[2041] Ex. SDG&E-211 (Reyes) at 35.

[2042] Ex. SDG&E-11-R-E (Reyes) at 120.

[2043] Ex. SDG&E-11-R-E (Reyes) at 149.

[2044] *See,* Ex. SDG&E-211 (Reyes) at 38-39.

[2045] Ex. CUE-01 (Earle) at 12.

SDG&E's commitment to safety and service quality, and fosters risk-informed operating decisions and investment allocations. In light of SDG&E's asset management strategy, CUE's recommendations are unnecessary and should not be adopted by the Commission.

20.1.4.5 SDG&E's Capacity and Expansion Projects Are Reasonable and Necessary

SDG&E has met its burden to justify its capacity and expansion proposals through Ms. Reyes's testimonies and workpapers. Other than UCAN, no parties object to the substance of these projects—Cal Advocates supports a slight modification based upon use of an average historical percentage, which SDG&E opposes.[2046]

The Commission should disregard UCAN's proposals as unreasonable and unfounded. As described by Ms. Reyes, UCAN incorrectly references the cost of SDG&E's programs which provide new or enhanced distribution switching capabilities.[2047] UCAN's assertion that SDG&E's 2019-2021 budget codes associated with switching totaled $478 million represents a complete misunderstanding of fact— these programs add to approximately $78.5 million.[2048] UCAN proceeds to errantly argue that this "massive increase in circuit switching (upgrades)" eliminates the need for "a blanket fund for reconstruction and extension of underground and overhead facilities." As UCAN clearly made errors calculating the cost of these budget codes and demonstrates a general misunderstanding of the programs themselves, their arguments regarding capacity and expansion projects should be disregarded in their entirety.

Ms. Reyes's Rebuttal Testimony further discusses various errors in UCAN's calculations, assumptions, and factual assertions.[2049] These include factual and numerical errors and fundamental misunderstandings regarding the purpose and justification for proposed programs. Further, UCAN's proposed reductions put SDG&E at risk for violations and force customers to accept service disruptions.[2050] UCAN's overly general, often incoherent reasonings and otherwise blanket allegations that SDG&E has not met its burden should be disregarded and the Commission should adopt SDG&E's proposals regarding capacity projects.

[2046] Ex. SDG&E-211 (Reyes) at 40.

[2047] Ex. SDG&E-211 (Reyes) at 42; Ex. UCAN-01-E (Woychik) at 272-273.

[2048] Ex. SDG&E-211 (Reyes) at 42.

[2049] Ex. SDG&E-211(Reyes) at 42-44.

[2050] Ex. SDG&E-211 (Reyes) at 43.

20.1.4.6 The Commission Should Adopt SDG&E's Materials Forecasts

It would be inappropriate to adopt Cal Advocates recommended reductions related to transformers because use of historical costs fails to reflect the current market. SDG&E provided Cal Advocates with current, average market prices for transformers derived from recent purchase orders across vendors and stock numbers.[2051] As explained by Ms. Reyes, the increase cost per unit is driven by several factors, including but not limited to:

- Extra costs associated with seeking alternative supply due to general industry high demand, resource constraints and supply chain disruption;
- Short supply of raw materials and skilled labor in the manufacturing sector;
- An increase in the demand for higher priced, larger rated transformers caused by applications for install of vehicle charging infrastructure.[2052]

SDG&E's transformers forecasts costs are founded in current pricing and decreasing funding levels would prohibit SDG&E from maintaining critical levels of inventory to address emergency needs and compliance.

Similar to their recommendations regarding SF6 switches and Tee replacements, CUE argues in favor of increasing the forecasts for distribution transformers and requiring SDG&E to develop plans and forecasts for distribution transformer replacement. As was the case with those aforementioned programs, SDG&E's forecasts facilitate its ability to keep stock levels and an optimum level and support program requirements.[2053] Further, SDG&E's asset management strategy obviates the need for prescribed plans for transformer replacement.

Because these forecasts are reasonable and justified, they should be approved without modification.

20.1.4.7 SDG&E's Calculation of New Business Forecasts is Reasonable

Cal Advocates makes various recommended reductions in categories related to SDG&E's New Business proposals.[2054] As explained in Ms. Reyes's rebuttal testimony, there are several

[2051] Ex. SDG&E-211 (Reyes) at 45-46.
[2052] Ex. SDG&E-211 (Reyes) at 46.
[2053] Ex. SDG&E-211 (Reyes) at 47.
[2054] Ex. CA-07 (Kaur) at 32-33.

reasons to reject Cal Advocates proposed forecasting methodology.[2055] Namely, Cal Advocates' generalized assumptions regarding the percent collectible are incorrect, as variation in percent collectible can change significantly from year to year based on timing of customer payments received. These fluctuations are not within SDG&E's control and should not influence the associated forecast. SDG&E's New Business forecasting methodology is consistent with that used in and approved by the Commission in prior rate cases and should be approved.[2056]

It also appears that Cal Advocates' calculations may also be based on information that included both direct and indirect costs, which would lead to an erroneous conclusion and an unjustified forecast. GRC forecasts are based upon direct costs only, which results in inflation of the collectible percentages. Table 15 of Ms. Reyes's Rebuttal Testimony provides the more accurate collectible percentages and justifies SDG&E's forecasting approach.[2057] For these reasons, the Commission should adopt SDG&E's New Business forecasts without modification.

20.1.5 Conclusion

SDG&E remains committed to maintaining a reliable electric system while balancing an overall portfolio of projects and programs through a risk-informed approach. SDG&E's electric capital distribution forecasts represent the best, most feasible, and reasonable approach to promote safety, reliability, and resiliency for the upcoming Test Year. The substantial amount of detail supporting SDG&E's forecasts, as well as the general lack of opposition to the forecasted projects from intervenors, supports a Commission determination approving SDG&E's electric distribution capital proposals and forecasts.

20.2 Operations and Maintenance (O&M)

SDG&E's Electric Distribution Operations and Maintenance (ED O&M) testimony and workpapers, supported by witness Tyson Swetek, describe and justify SDG&E's forecasted ED O&M costs for non-shared services for the forecast year 2024.[2058] SDG&E is requesting the Commission adopt SDG&E's ED O&M TY 2024 forecast of $130,956,000.[2059] Mr. Swetek's testimony presents the costs forecasted to operate and maintain SDG&E's electric distribution system in a safe and reliable manner, to comply with applicable laws and regulations, and to

2055 Ex. SDG&E-211 (Reyes) at 47-54.

2056 Ex. SDG&E-211 (Reyes) at 48.

2057 Ex. SDG&E-211 (Reyes) at 48.

2058 Exs. SDG&E-12-R-E (Swetek), SDG&E-12-WP-R-E (Swetek), and SDG&E-212 (Swetek).

2059 Ex. SCG-401/SDG&E-401 (Hom) Update Testimony (July 2023) at Attachment B, B-7.

provide system integrity and reliability in accordance with SDG&E's commitment to safety. The O&M electric distribution costs are broken down into 17 primary cost categories, two of which comprise the majority (61.6%) of the overall forecast. The two major categories are Electric System Operations (31.3%) and Electric Regional Operations (30.2%). Each specific work category is described in greater detail in the testimony and workpapers.

Mr. Swetek's testimony also provides business justification for several information technology (IT) capital projects, three memorandum accounts, and fleet vehicles needs related to SDG&E's electric operations.[2060] Mr. Swetek's testimony also presents SDG&E's Grid Modernization Plan (GMP) for review and evaluation pursuant to D.18-03-023.[2061]

In accordance with the Commission's risk-informed GRC framework, discussed *supra* in Section 9, Mr. Swetek also provided summaries of the RAMP-related costs supported in his testimony, as set forth in the table below.[2062] Mr. Swetek also provided a summary of SDG&E's safety culture as related to its ED O&M request, as part of his risk-informed direct testimony presentation.[2063]

Summary of RAMP O&M Costs[2064]

ELECTRIC DISTRIBUTION Summary of RAMP O&M Costs (In 2021 $)	**BY2021 Embedded Base Costs (000s)**	**TY2024 Estimated Total (000s)**	**TY2024 Estimated Incremental (000s)**
RAMP Risk Chapter			
SDG&E-Risk-2 Electric Infrastructure Integrity	1,289	1,192	-97
SDG&E-Risk-8 Incident Involving an Employee	2,448	2,700	252
Sub-total	**3,737**	**3,892**	**155**
RAMP Cross-Functional Factor (CFF) Chapter			
SDG&E-CFF-1 Asset Management	0	6	6
SDG&E-CFF-6 Records Management	921	921	0
Sub-total	**921**	**927**	**6**
Total RAMP O&M Costs	**4,658**	**4,819**	**161**

2060 *See generally* Ex. SDG&E-12-R-E (Swetek).

2061 *Id.* at Attachment C.

2062 Ex. SDG&E-12-R-E (Swetek) at 8-12.

2063 *Id.* at 14-16.

2064 CFF-related information in accordance with the March 30, 2022 Assigned Commissioner Ruling in A.21-05-011/-014 (cons.) is provided in the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03-2R-E/SDG&E-03-2R-E, Chapter 2).

Mr. Swetek testified how, in developing its request, SDG&E prioritized these key safety risks to assess which risk mitigation activities ED O&M currently performs and what incremental efforts are needed to further mitigate these risks.[2065] While developing the GRC forecasts, SDG&E evaluated the scope, schedule, resource requirement, and synergies of RAMP-related projects and programs to determine costs already covered in the base year and those that are incremental increases expected in the test year. Mr. Swetek testified how SDG&E's incremental request supports the ongoing management of these risks that could pose significant safety, reliability, and financial consequences.[2066]

20.2.1 Summary of SDG&E's Request and Parties' Proposals

SDG&E's ED O&M forecasts are organized within the work categories listed in the table below.[2067]

Non-Shared O&M Summary of Costs*

ELECTRIC DISTRIBUTION (In 2021 $)			
Categories of Management	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Reliability and Capacity	2,312	2,461	149
B. Construction Management	4,056	4,043	-13
C. Electric System Operations	30,151	41,026	10,875
C.1 ESO: GIS	922	922	0
D. ET&D: Operations Services	2,235	2,179	-56
E. ET&D: Substation C&O	6,786	5,809	-977
E.1 ET&D: Substation C&O: Relay & SCADA	3,576	3,708	132
F. Distribution Design and Project Management	820	1,305	485
G. Electric Regional Operations	35,359	39,666	4,307
H. Skills & Compliance Training	2,839	3,483	644
I. Service Order Team (SOT)	4,061	4,069	8
J. Electric Engineering	2,085	2,192	107
K. Troubleshooting	9,634	9,634	0
L. Portfolio & Project Management	487	512	25
M. Compliance Management	3,061	7,274	4,213
N. Officer	1,286	1,286	0
O. Regional Public Affairs	1,160	1,388	228
Total Non-Shared Services	**110,830**	**130,956**	**20,126**

2065 Ex. SDG&E-12-R-E (Swetek) at 8-11.

2066 *Id.*

2067 Ex. SCG-401/SDG&E-401 (Hom) Update Testimony (July 2023) at Attachment B, B-7; Ex. SDG&E-12-R-E (Swetek) at 16.

* N*ote: Totals may include rounding differences*

Intervenor testimony addressing SDG&E's ED O&M proposals were submitted by Cal Advocates, TURN, FEA and UCAN. The following table summarizes SDG&E's ED O&M compared the other parties' recommendations.[2068]

Summary of Differences in O&M

TOTAL O&M - Constant 2021 ($000)			
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**
SDG&E	$110,830	$130,956	$20,129
CAL ADVOCATES	$110,830	$114,986	$4,156
TURN	$110,830	$127,880	$17,050
FEA	$110,830	$115,850	$5,020
UCAN	$110,830	$131,795	$20,965

Not all parties made recommendations on all portions of SDG&E's ED O&M forecasts, and several areas were not challenged. SDG&E's responses to the parties' recommendations are set forth below, according to the work categories identified in the table above.

20.2.2 SDG&E's Response to Parties' General Recommendations

20.2.2.1 TURN's Concerns with New Fleet Vehicles

TURN recommends that the Commission "Eliminate the Vehicle Additions forecast at 100% for both utilities [SCG and SDG&E]" based on the argument that "...incremental vehicles are either mentioned in passing, with no quantification of the number of vehicles required, let alone substantive or trackable support for the forecast."[2069]

SDG&E disagrees with TURN's recommendation.[2070] SDG&E provided a summary of requested fleet vehicles and associated costs in the fleet workpapers of SDG&E witness Alvarez, Ex. SDG&E-22-R-R-2E (Alvarez).[2071] SDG&E did not provide a breakdown of fleet vehicles needed in each of the Electric Distribution cost categories and neither TURN nor any other intervenor requested further details on fleet vehicles needed to support Electric Distribution O&M activities. In response to TURN's concern for further details on new fleet vehicles, Mr. Swetek

2068 Ex. SDG&E-212 (Swetek) at 1, as updated per Ex. SCG-401/SDG&E-401 (Hom) Update Testimony (July 2023) at Attachment B, B-7.

2069 Ex. TURN-10-R (Jones) at 6 and 11.

2070 Ex. SDG&E-212 (Swetek) at 8-9.

2071 Ex. SDG&E-22-WP-R-2E (Alvarez) at 65.

provided details on fleet vehicles needed to support activities within SDG&E's Electric Distribution O&M testimony - *see* table below.[2072] The 22 vehicles identified in this summary represent a 4% increase to the fleet of vehicles currently utilized by business units within Electric Distribution.

Workpaper ID	# Vehicles	Identification in Fleet Workpapers[2073]
1ED002 – Construction Management	3	GRC Electric Ops 13-15
1ED006 – ET&D Substation C&O	6	GRC Electric Ops 1-6
1ED006.002 – ET&D Substation C&O (Relay & SCADA)	6	GRC Electric Ops 7-12
1ED008 – Electric Regional Operations	6	GRC Electric Ops 17-22
1ED014 – Project & Portfolio Management	1	GRC Electric Ops 16

20.2.3 SDG&E's Response to Parties' Non-Shared O&M Proposal

20.2.3.1 Reliability & Capacity

NON-SHARED O&M – Constant 2021 ($000)			
	3 Year Average	**Test Year 2024**	**Change**
SDG&E	$2,034	$2,461	$427
UCAN	$2,034	$2,054	$20

20.2.3.1.1 DIIS IT Projects and Interconnection Labor

UCAN submitted testimony addressing SDG&E's "proposed additional grid O&M budget for grid modernization and advanced interconnection and modeling ($1,300,502)."[2074] This reference includes $406,502 in O&M labor in Reliability and Capacity. UCAN recommends that this request be denied and the grounds that (i) the projects are "outmoded, inconsistent with the Commission's priorities, and appears unjustified;" and (ii) they are obsolete.[2075] UCAN also recommends that SDG&E's request for the funding of IT capital projects Distribution Interconnection Information System (DIIS) 6.0 – Rule 21 and New Energy Metering Enhancements and DIIS – Rule 21 and New Energy Metering Enhancements be denied on the

2072 Ex. SDG&E-212 (Swetek) at 9. The table includes references to sections of testimony and workpapers that describe the drivers of each vehicle need.

2073 Ex. SDG&E-22-WP-R-2E (Alvarez) at 65.

2074 Ex. UCAN-01-E (Woychik) at 241-242.

2075 *Id*.

grounds that "there are fewer proceedings now that involve interconnection requests, as related proceedings have been consolidated, and there is no evidence that interconnection requests are increasing, particularly in light of the expectation that solar PV incentives under NEM 3.0 will be decreasing."[2076] UCAN does not take issue with any other aspects of SDG&E's Test Year 2024 costs. UCAN's total recommendation for Test Year 2024 is $2,054,000. SDG&E disagrees with UCAN's recommendation on the following grounds.[2077]

SDG&E's Forecasted Headcount is Justified and Required - SDG&E's headcount is justified and required to meet mandated requirements, processes and programs and associated regulatory policy and reporting related to multiple ongoing proceedings, including Rule 21 (R.17-07-007), High DER (R.21-06-017), Distribution Resources Plans (DRP) (R.14-08-013), the Microgrid OIR (R.19-09-009), Emergency Load Reduction Program (ELRP) (R.20-11-003), Net Energy Metering (NEM) (R.14-07-002), and Net Billing (R.20-08-020).[2078] In particular, SDG&E's proposed headcount supports the anticipated increase in and complexity of customer requests to interconnect generation to the distribution system via Rule 21 and Wholesale Distribution Access Tariff (WDAT) interconnection agreements. The new headcount is required to timely process an increasing number of applications and customer requests, as well as to support the technical studies required for these projects. Technical studies are essential for ensuring SDG&E can maintain a safe and reliable grid with large numbers of USOM and CSOM DERs.

Further, the Integration Capacity Analysis (ICA) Portal has been mandated and requires new improvements and features. The Distribution Planning Process has grown in complexity because of requirements emerging from the DRP and because requirements that are expected to emerge from the High DER proceedings. More extensive analysis and data processing will be required, which, in turn, requires additional Full-time Employee Equivalent (FTEs). Technology can improve the accuracy of these processes, but the rate at which they have grown requires additional head count to ensure SDG&E can meet its customers' needs and requests. Simply put, the work items SDG&E's proposed additional FTEs will perform cannot be automated or replaced by technology. UCAN fails to address, let alone demonstrate, how technology can replace

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2076 *Id.* at 242.

2077 Ex. SDG&E-212 (Swetek) at 10-14.

2078 *Id*. at 10-11.

engineering analysis, or reduce headcount, and SDG&E disagrees with UCAN's recommendation to deny funding for additional FTEs.

UCAN Fails to Recognize the Importance of Expanding DIIS - SDG&E's DIIS is an online interconnection portal by which interconnection customers submit requests to SDG&E for interconnecting third-party generating facilities and energy storage/battery systems to SDG&E's distribution system via SDG&E's CPUC-jurisdictional Rule 21 tariff. Describing DIIS merely as a portal does not fully describe its complete functionality.[2079] In addition to providing an excellent end-customer online interface, DIIS is also an internal workflow management processing tool. It automates many previously manual administrative, technical, and communication steps as a project moves through the muti-step interconnection process, leading to the execution of an interconnection agreement and the achievement of in-service for the generating or storage facility.

The power of DIIS is unleashed as it interfaces with other systems within SDG&E, including operational systems, and financial/billing systems. DIIS also interfaces with systems used by the engineers in Distribution Planning to perform the screens and interconnection studies that are required to evaluate each interconnection request's unique impacts to the distribution system. As an end-to-end information system, DIIS creates benefits for both external customers as well as internal users. It serves as the customer-facing information system, allowing customers to view their interconnection requests, with the ability to visualize the status of each interconnection request in near-real time without having to call or email SDG&E personnel.

For internal users, DIIS is not only a tool used in the technical and administrative processing of large numbers of interconnection requests. DIIS also serves as the system of record, providing a "single source of truth" for interconnection request data. As such, DIIS has become a valuable data repository that allows SDG&E to answer the myriad of data requests for interconnection data that are received from the CPUC and intervenors.

For all the capabilities it already provides, DIIS will provide even greater value with expansion. Just like adding apps to a smart phone, DIIS was designed to be an expandable platform, where in Phase 2 SDG&E planned to incorporate additional workstreams beyond the initial build that incorporated the Net Energy Metering/Rooftop solar workstream. SDG&E's vision was to add additional workstreams, representing other types of interconnection requests, such as Rule 21 export, Rule 21 non-export, and Wholesale Distribution Open Access Tariff

[2079] *Id*. at 11-14.

(WDAT) interconnection requests. These other workstreams are more complex from a technical and administrative perspective, with many more steps to the process than the basic NEM projects and will equally benefit from the improved workflow management that DIIS Phase 1 platform established.

UCAN's request for denial is short-sighted and ignores these and other drivers. There are many more interconnection streams than just residential rooftop solar, with drivers that are completely unrelated to the sunset of NEM and implementation of the new Net Billing Tariff (NBT). UCAN's opinion that there will be a decline in interconnection requests due to the sunsetting of NEM is speculative. Even if under NBT there is a decline in the number of basic rooftop solar interconnection requests, other types of interconnections, be they in front-of-meter or behind-the-meter requests, are likely to continue to grow. Since these other interconnections are the more complex workstreams, incorporating them into DIIS will provide immediate additional benefits to both external and internal users.

UCAN bases its position on the fact that regulatory proceedings for legacy NEM are consolidating and completing. But this is only part of the story. While legacy NEM is sunsetting, UCAN completely ignores active regulatory proceedings for the other workstreams mentioned above, such as the current Rule 21 proceeding that has been active since 2017, as well as the High DER OIR, and Microgrid OIR, as well as ongoing Smart Inverter Working Group discussions, and other proceedings that are providing additional workstreams or adding complexity to existing workstreams. SDG&E will need to incorporate developments from these ongoing initiatives into DIIS as part of Phase 2. To leave DIIS Phase 2 unfunded would frustrate the utility's ability to continue to provide a best-in-class customer experience in the interconnection space. It would undermine SDG&E's ability to manage these other pieces of total flow of interconnection work over the next decade and beyond, leaving behind frustrated interconnection customers and developers, and taking a dramatic step back in the efficiency of the overall interconnection process for all users.

20.2.3.2 Electric Systems Operations

NON-SHARED O&M* - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	$30,150	$41,025[2080]	$10,875
CAL ADVOCATES	$30,150	$31,505	$1,355
FEA	$30,150	$35,730	$5,580
TURN	$30,150	$41,025	$10,875

*These costs do not include the GISS sub-workpaper (1ED003.001)

20.2.3.2.1 Storeroom Forecast Expenses

Cal Advocates, FEA, and TURN take issue and propose alternative approaches to forecasting expenses in Electric System Operations, particularly related to non-labor storeroom expenses. Each intervenor's concerns and forecast analysis are directly addressed below.

Cal Advocates - Cal Advocates takes issue with forecasting for non-labor expenses and recommends taking a 2021 base year cost of $27.116 million plus incremental non-storeroom activities, totaling $27.708 million. Cal Advocates' total recommendation for storeroom costs for Test Year 2024 is $32.427 million.[2081]

SDG&E disagrees with Cal Advocates' recommendation. SDG&E's forecast for storeroom costs provides an analysis that shows a strong correlation between SDG&E's infrastructure construction costs and storeroom costs that support those construction activities.[2082] The primary drivers within the overall storeroom costs are comprised of exempt gas and electric construction materials directly utilized on construction projects and freight required for material deliveries to construction and inventory warehousing sites. Specific inventory tracking and accounting to specific jobs is not necessary to prove this correlation given both the nature of the work and general trends observed. With this correlation established, it is reasonable to assume that storeroom costs will continue to increase at a linear rate with overall infrastructure construction within SDG&E.

2080 An adjustment to the TY2024 forecast may be warranted based on the Commission's final approved 2024 gas and electric infrastructure capital, which influences expenses related to management of Storerooms.

2081 Ex. CA-08 (Andresen) at 7 and 11.

2082 Ex. SDG&E-12-WP-R-2E (Swetek) at 42; Ex. SDG&E-212 (Swetek) at 15.

Cal Advocates' recommendation to fund SDG&E's storerooms at 2021 expense levels would underfund SDG&E storeroom operations. If Cal Advocates' approach was applied to funding for 2022 storeroom activities, its forecast of $25.1 million is far less than actual 2022 costs of $30.908 million. This results in a funding deficit of $5.8 million as compared to 2022 actuals. SDG&E contends that its proposed methodology is the more accurate and reasonable forecast method.

FEA - FEA proposes utilizing a base year 2022 forecast for Test Year 2024 for Electric System Operations of $35.730 million.[2083] FEA's alternate forecasting approach relies on three main arguments pertaining to the storeroom costs and a general argument summarized below.

1. SDG&E stated that 'the costs increase with total electric capital spend.' However, the Company [SDG&E] didn't simply base it on the total electric spend, but also based it on electric, gas, and wildfire capital spending.[2084]
2. "[T]he Storeroom costs do not appear to increase in correspondence with total electric capital spending. Base electric capital spending declined from 2017-2019 and increased in 2020 and 2021 but electric storeroom expense increased each year during this period…the [storeroom] costs have increased in each year from 2017-2022.[2085]"
3. "[T]he company's forecast over budgeted the actual cost in 2022, which supports a concern that the Company's forecast for the TY2024 may also be overstated."[2086]

FEA's assessment is flawed as it fails to consider both the use of and key elements of how the Storeroom cost accounts operate and simply reiterates the value of FEA's forecast.[2087] FEA fails to consider the activities that are supported by storerooms, timing of storeroom costs, and additional details of 2022 spending.

To address FEA's concern regarding SDG&E's inclusion of gas and wildfire forecasted capital spend in its O&M forecast for Storerooms, SDG&E clarified that Storerooms activities

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2083 Ex. FEA-01 (Smith) at 23.

2084 *Id.* at 21.

2085 *Id.* at 22.

2086 *Id.* at 23.

2087 Ex. SDG&E-212 (Swetek) at 15-17.

support both gas and electric infrastructure construction and wildfire hardening projects (which focus on electric infrastructure).[2088]

With respect to FEA's concern regarding the drop in storeroom costs when capital declined, it is important to highlight the fact that storeroom costs do not necessarily align perfectly with the timing of construction activities. For instance, truck stock is often replenished when mostly depleted, which often lags construction. Additionally, forecasted ramps in capacity needed for future construction activity can drive both truck stock and freight charges higher. Examples of activities to build that capacity include adding new contractor staging yards where incremental truck stock is supplied and also freight delivery of materials that may precede construction by several months. Additionally, the location of wildfire hardening construction staging yards are outside of SDG&E's traditional transportation network, leading to longer drive times and larger costs in freight. FEA's recommendation to utilize base-year 2022 forecast for Storeroom costs is unreasonable because it disregards the factors that drive future and incremental increases necessary to support SDG&E's capital plan.

When analyzing 2022 expenses, SDG&E also disagrees with FEA's concern that SDG&E's TY 2024 forecast is overstated. To the contrary, SDG&E's position is that its forecast for TY 2024[2089] is conservative. When comparing 2022 actual capital and Storeroom O&M expenditures to SDG&E's Storeroom forecast, the 2022 Storeroom expenses of $30.908 million equate to 3.1% of total capital infrastructure costs. The higher percentage of Storeroom costs to total capital spend is because of SDG&E's need to build capacity outside of its normal workforce and transportation network. Trending of Storeroom costs as a higher percentage of total capital makes SDG&E's current forecast conservative, creating the potential for overspend and not underspend. In this case, the potential for overspend is due to start-up costs causing spikes in spending needed to expand logistics capacity (*i.e.*, costs such as extra truck stock for new contractors, longer freight routes, and added delivery frequencies mentioned above) ahead of the capital construction. FEA also fails to identify that spend fell below the 2022 GRC submitted forecast primarily because total capital also fell below forecast. The trend of both total capital and Storeroom costs moving in-sync further reinforces the accuracy and reasonableness of SDG&E's Storeroom cost forecast model.

2088 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-001, Question 1.36 a-c.

2089 Ex. SDG&E-12-WP-R-E (Swetek) at 42.

TURN - TURN argues that "it is reasonable to adjust the forecast for any adjustments that the Commission makes to the electric distribution capital program."[2090] SDG&E agrees with TURN's assessment and agrees to adjust the calculation represented for its O&M storeroom costs once the CPUC approves a final capital plan for SDG&E.[2091]

20.2.3.2.2 IT Projects and Technology Related Labor

UCAN takes issue with the forecast workforce development labor expenses and IT projects within Electric System Operations. UCAN disputes the forecast O&M expenses of approximately $1,300,502 identified in SDG&E's Grid Modernization Plan (GMP).[2092] [2093] Of this total expense, $519,000 pertains to the forecast labor expense within Electric System Operations. This labor expense is intended to develop the workforce that will build and maintain technology supporting operation of the Electric Distribution system. UCAN also states that IT software, specifically SDG&E's planned Distributed Energy Resource Management System (DERMS) and Smart Grid Operations projects are only intended to support utility owned resources, is obsolete and unscalable.[2094] The labor expenses identified within this forecast disputed by UCAN consist of four main categories:

- System Operator Training Resources
- Engineering skills needed for advanced system modeling
- Technologists and Analysts to support the hardware and software comprising the SCADA head-end system
- Support staff for the Advanced Distribution Management System (ADMS)

It is important to recognize that SDG&E's SCADA system serves as the central nervous system for communicating with thousands of monitoring and control sites scattered throughout SDG&E's electric distribution system. Telemetry from SCADA is digested in the ADMS, which aggregates that data and provides Distribution System Operators an understanding of traffic and use of the electric system. DERMS is another system that integrates with ADMS to allow further input of telemetry from DER resources (both utility-side-of-meter DERs and customer-side-of-

2090 Ex. TURN-07-R-2 (Jones) at 7.

2091 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. TURN-SEU-032, Question 2a.

2092 Ex. UCAN-01-E (Woychik) at 241-242.

2093 Ex. SDG&E-12-R (Swetek), Appendix C at 20.

2094 Ex. UCAN-01-E (Woychik) at 305-308.

meter DERs) and provides the added capability of either directly controlling or scheduling those resources for use in mitigating electric distribution system issues. SDG&E disagrees with UCAN's recommendations and assertions for the following reasons.[2095]

<u>SDG&E's Investment in DERMS, SCADA and ADMS Technologies are Warranted to Support DER Adoption</u> - Continued growth and development within SDG&E's workforce and development of its IT systems are required not only to integrate an increasing quantity of data sources into ADMS and SCADA, but also to build new functionality to address increased complexity in managing the electric system caused by increasing amounts of DER resources on SDG&E's system.[2096] UCAN's assertion that technology and workforce development is unjustified and outmoded is incorrect. This statement implies that SDG&E's workforce capability investments are not required to prepare for customer adoption of DERs at scale. This is false. In SDG&E's view, denial of SDG&E's workforce development and technology investment will prevent development of foundational capabilities necessary to promote customer DER adoption, such as integration of customer DER telemetry into SDG&E systems to improve modeling, identifying and mitigating when a DER is causing adverse impacts to SDG&E's system, and developing forecasting capabilities necessary to schedule customer owned DERs.

SDG&E's labor and technology investments support both DER advancement and safety and reliability. Simply put, continued investment in SCADA and ADMS technologies is required for safe and reliable operation of SDG&E's system. The Smart Grid Operations Capital budget supports regular developer software upgrades, which provide new safety features and cybersecurity protection. Additionally, defunding the Electric Grid Small Capital would prevent necessary hardware replacement required to maintain the Transmission SCADA system in good working order. These investments are necessary to prevent vulnerability to catastrophic failure and subsequent degradation in SDG&E's ability to respond to emergencies on its electric system.

As new automated hardware is installed on SDG&E's electric system, the number of SCADA sites managed and supported continues to grow. In my revised direct testimony, I stated "There are approximately 2,386 SCADA field sites installed and the Company is forecasting an eight percent average annual increase based on a trending of the past three years of historic[al]

[2095] Ex. SDG&E-212 (Swetek) at 19-21.

[2096] *Id.* at 19.

data."[2097] Additional personnel are needed to integrate, maintain the connections to, and troubleshoot issues between those sites and SDG&E's SCADA and ADMS systems. In addition to all of these adverse impacts, denial of new resources may also cause stranded investment in utility automation infrastructure, thus threatening realizing the benefits that infrastructure provides.

SDG&E is Taking a Measured Approach to Investment in DERMS - UCAN expresses several concerns regarding SDG&E's planned DERMS.[2098] Those concerns are misplaced. SDG&E clarified in testimony that the enterprise DERMS IT solution it seeks to implement is different from prior installations of a localized DERMS or Local Area Distribution Controller (LADC).[2099] UCAN incorrectly assumes that SDG&E is implementing a system incapable of integrating with CSOM DERs. SDG&E continually monitors developments in the industry to understand capabilities of enterprise DERMS technologies and has found that all industry enterprise DERMS systems lack maturity (defined as having prior scaled installations) in the capabilities UCAN addresses. Additionally, UCAN itself admits that the Commission has included workshops and technical reports in its agenda including "Distribution System Operator roles and Responsibilities with a Proposed Decision by 2024."[2100] With high levels of uncertainty as to the incentive mechanisms, future roles between entities within a DERMS system, and Commission-led requirements, SDG&E chose to focus testimony justifying a DERMS system on near-term and known requirements and benefits that SDG&E can implement without further clarification. SDG&E also filed a roadmap with high-level descriptions inclusive of the capabilities UCAN alludes to in SDG&E's GMP.[2101]

SDG&E also clarified in testimony that near-term goals include DERMS integration with both utility and non-SDG&E commercial DERs that provide grid level export.[2102] Additionally, SDG&E further clarifies that it will require its software to have the capability to integrate with both customers and aggregators at scale, but will not focus on developing this capability in the initial installation due to the concerns listed above.

2097 Ex. SDG&E-12-R-E (Swetek) at 3-4.
2098 Ex. UCAN-01-E (Woychik) at 306.
2099 Ex. SDG&E-212 (Swetek) at 20-21.
2100 Ex. UCAN-01-E (Woychik) at 9.
2101 Ex. SDG&E-12-R-E (Swetek), Appendix C at 21-22.
2102 Ex. SDG&E-212 (Swetek) at 21.

20.2.3.3 Electric Regional Operations

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	$35,360	$39,668	$4,308
CAL ADVOCATES	$35,360	$36,004	$644
FEA	$35,360	$35,266	($94)
TURN	$35,360	$35,928	$568

20.2.3.3.1 Request for Additional Lineman

Cal Advocates and TURN both take issue with SDG&E's TY 2024 forecast for 8 linemen and 24 line assistants, arguing that SDG&E does not demonstrate that the increased labor costs are incremental to existing funding levels. These concerns are addressed below, showing that SDG&E's forecasted resource needs are reasonable and should be approved.

Cal Advocates - Cal Advocates asserts that SDG&E does not demonstrate that increased labor costs are incremental to existing funding. Cal Advocates argues that SDG&E is suggesting to replace employees that left SDG&E, with new employees that will be compensated at a lower hourly rate, which will not necessarily increase labor costs.[2103] Cal Advocates contends that because SDG&E's 2017 – 2021 labor expenses were relatively stable, a 5-year average should be used to calculate SDG&E's TY labor expenses.[2104] Cal Advocates does not oppose SDG&E's non-labor expense ERO forecast.

SDG&E disagrees with the position advocated by Cal Advocates for the simple reason that the 8 Lineman and 24 Line Assistants at issue are in fact forecasted as an incremental labor cost.[2105] SDG&E's base year forecast methodology inherently incorporates prior attrition due to the loss of lineman. SDG&E's request for 8 additional Lineman and 24 additional Line Assistants are incremental to the base year forecast and necessary to meet existing and future workload and reliability demands per year. SDG&E has provided evidence regarding Lineman loss, which explains that SDG&E does not track promotions and transfers of Lineman to other positions in the company.[2106] This evidence demonstrates an error in Cal Advocates' assumption that Linemen

[2103] Ex. CA-08 (Andresen) at 14.
[2104] *Id.* at 17-18.
[2105] Ex. SDG&E-212 (Swetek) at 22-23.
[2106] *Id*. at Appendix B, Data Request No. PAO-SDGE-093-RYD, Question 3.

attrition is solely the cause of data provided such as terminations, resignations, and retirements, which leads to incorrect conclusions regarding attrition rates. SDG&E does not track Linemen transfers into other job classifications, leaving a gap in data required to perform a thorough analysis. Additionally, Cal Advocates take further issue with SDG&E's system limitations regarding the way costs are settled in the accounting system, which prevent SDG&E from providing Cal Advocates requested information in labor costs allocated at the granular level broken down by each specific unique job category.[2107]

In lieu of the data that was not tracked, SDG&E provided clear data on the number of Lineman employed, showing a downward trend from 2017-2021.[2108] The table below demonstrates this trend. These facts, together with the study that SDG&E provided on necessary staffing levels that accounts for the capacity to manage a 5-year average of maintenance, and emergency repair needs, while performing 30% of SDG&E's capital construction.[2109] The study demonstrates the justification required to support hiring activities for this critical job classification. Continued development of this foundational resource allows the company to deliver safe, reliable, and consistent utility service to customers.

Job Code	2017	2018	2019	2020	2021	2022
Lineman	165	164	154	148	143	155

<u>TURN</u> - TURN recommends adopting the Base Year 2021 labor forecast with no increases and recommends adopting SDG&E's non-labor forecast, totaling $35.928 million in Test Year 2024. TURN argues that "SDG&E has not provided adequate evidence to support its claim that it needs an increase in funds to address attrition of linemen."[2110] SDG&E disagrees with TURN's recommendation for several reasons.[2111]

First, SDG&E needs to aggressively onboard labor to support safety and reliability. TURN does not directly dispute the need for trained and skilled utility Lineman. These resources are in high demand throughout the state of California and aggressive hiring is necessary to support the need to perform core Electric Regional Operations activities of inspection and maintenance,

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2107 *Id*. at Question 4.

2108 *Id*. at Question 4.

2109 *Id*. at Question 4.

2110 Ex. TURN-07-R-2 (Jones) at 8.

2111 Ex. SDG&E-212 (Swetek) at 24-26.

emergency and outage response, and infrastructure repair and replacement.[2112] Instead, TURN performs a flawed analysis on SDG&E's historical expenses and questions the current state of Linemen attrition.

Contrary to TURN's assumptions, in 2022, SDG&E's ERO costs were lower than authorized due to the change in its work mix, which is dependent upon timing of maintenance intervals. This reduced maintenance allowed reallocation of Linemen to complete more capital construction, resulting in a decrease in a net O&M labor costs. All of this occurred with SDG&E continuing to aggressively hire 10 Linemen and 21 Line Assistants within the year. SDG&E remains on-track with its aggressive hiring plan for Linemen. Additionally, although SDG&E saw reductions in O&M costs in 2022, it expects maintenance intervals to increase in future years, causing costs to average to SDG&E's forecast over time. This expectation is based on maintenance interval inspections occurring on a non-uniform ten-year cycle. "Approximately 95% of all wood poles are located in the non-HFTD and an increased number of poles will be due for inspection during the TY2024 forecast and post-test year periods than the previous five years."[2113]

As with Cal Advocates, TURN's position reflects an apparent misunderstanding of SDG&E's evidence explaining its need for Linemen. In particular, SDG&E responded to TURN's request to understand the net balance of Linemen in SDG&E's forecast,[2114] and TURN did not recognize that SDG&E does not track promotions and transfers within the Linemen workforce, making it difficult for them to interpret the numbers provided. TURN also points out that SDG&E did not appear to result in adverse impacts to customer service or performance in its maintenance functions.[2115] But the absence of adverse impacts does not prove that the requested resources are not needed. SDG&E was able to prevent a reduction in its customer service due to use of overtime within its existing workforce and contracted work.[2116] However, continued operation at this workforce level over time increases risk of sudden employee turnover, degradation of workforce skills, and eventual disruption to company operations. SDG&E believes that it is prudent to address this risk before associated adverse impacts become readily apparent, not after. Therefore,

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2112 *Id*. at Appendix B, Data Request No. PAO-SDGE-093-RYD, Question 4.

2113 Ex. SDG&E-12-R-E (Swetek) at 69-70.

2114 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. TURN-SEU-032, Question 3a-c.

2115 Ex. TURN-07-R-2 (Jones) at 9.

2116 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request TURN-SEU-032, Question 4ai.

SDG&E reiterates the need for continued hiring to address its year-over-year decreasing trend in its Linemen workforce.

Linemen are highly skilled construction workers and the cost to create Linemen is high. When hired, Line Assistants take an average of five years to become a Lineman. Similar to many other highly skilled trades, the training program is subject to high attrition rates (as much as 50%). Additionally, there are further risks in managing a reduced Linemen workforce. The needs to respond to disturbances on SDG&E's electric system are slowly growing as SDG&E's system ages. With the existing workforce resources reduced, there are fewer emergency responders that can respond to non-working hour emergencies, placing a larger strain on the existing workforce and causing further incentive to seek alternative employment opportunities. Increased workloads on a per Linemen basis means that the utility will have fewer opportunities to rotate staff to larger construction projects with a variety of construction types not seen during normally assigned maintenance activities, and where they refresh skills in those types of construction. Large construction projects require travel around SDG&E's service territory and may pull resources away from time sensitive or emergency repair activities. Thus, the utility believes it is necessary to maintain the staffing levels proposed in order to enable this work and promote flexibility in deploying resources to address needs.

20.2.3.3.2 Other Non-Labor Costs and Forecasting Methodology

<u>FEA</u> - FEA takes issue with and proposes an alternative approach to SDG&E's use of a 2021 Base Year estimate for its forecast. FEA instead recommends a five-year average forecast methodology, totaling $35.266 million in Test Year 2024. FEA supports their recommendation on the grounds that: (i) "A narrative response was provided describing how the non-labor increases were forecasted but no supporting documents were attached;"[2117] (ii) "Costs [have significantly] fluctuated with actual spending;"[2118] and (iii) "[costs] coming in significantly below authorized levels in each of the last five years (2017-2021)."[2119]

SDG&E disagrees with FEA's recommendation as their analysis contains multiple flaws.[2120] One fundamental error is FEA's reliance on an incorrect analysis comparing 2019

2117 Ex. FEA-01 (Smith) at 16.

2118 *Id.* at 19.

2119 *Id.*

2120 Ex. SDG&E-212 (Swetek) at 26-28.

authorized GRC expenses to the 2024 GRC historical spend and a misunderstanding of the nature of the Electric Regional Operations non-labor activities. SDG&E elaborates further and reiterates the accuracy of its revised Test Year 2024 forecast of $39.669 million.

SDG&E Provided Supporting Documentation for Non-Labor Increases **-** SDG&E's forecasted other non-labor incremental increase in 2022, 2023 and 2024 is the result of three main drivers.[2121] These drivers include SDG&E's request for non-labor costs related to the onboarding of new lineman, a program to mitigate safety concerns caused by costal contamination, and intelligent image processing to increase the quality of SDG&E's inspection program by leveraging and validating the capabilities of machine learning to drive down long-term costs. SDG&E's justification related to onboarding new linemen is associated with its justification for the labor itself. For both the coastal corrosion mitigation program, and the intelligent image processing, SDG&E clarifies that its goal is to start with a small program to gather detailed information and better understand the risks associated with both investments. Therefore, SDG&E does not have a robust amount of data to provide FEA, since the program is intended to collect data to analyze if future expansion of these programs makes sense. It appears that both Cal Advocates and TURN seem to agree with ERO's cautious non-labor request and approach, as they do not contest SDG&E's forecasted expenses in this area.

Analysis Comparing 2024 GRC Historical Costs to 2019 Approved Expenses **-** SDG&E disagrees with FEA's analysis because it inaccurately compares the 2019 GRC approved funding with historical spend filed in the 2024 GRC. The 2021 Base Year forecast methodology was chosen by SDG&E because it provides an appropriate baseline in staffing levels and labor rates from which to forecast future costs. SDG&E has seen a rapid increase in Linemen labor rates above and beyond industry cost escalation, meaning that utilizing a 3 or 5-year average forecast methodology would significantly understate expected costs and therefore would not be appropriate. Moreover, performing a direct comparison of year to year and/or year over year dollar values is inappropriate and may lead to incorrect conclusions due in part to the tracking of costs presented in the TY2019 GRC have changed in the TY 2024 GRC. These changes include the transferring of costs to new and/or different witness areas, *e.g.*, costs associated with wildfire activities, the inclusion of costs into a witness area that did not exist in the TY 2019 GRC, and the

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[2121] *Id.* at Appendix B, Data Request No. FEA-SDGE-001, Question 1.41.

reclassification of costs inside identified cost categories associated with organizational changes.[2122] Based upon these factors, in SDG&E's judgment the base year methodology provides the most accurate representation of future needs.

20.2.3.4 Skills and Compliance Training

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	$2,839	$3,483	$644
CAL ADVOCATES	$2,839	$2,839	$0
FEA	$2,839	$2,855	$16

20.2.3.4.1 Forecast Methodology

Both Cal Advocates and FEA take issue with SDG&E's forecast methodology for Skills and Compliance Training and provide alternative forecast methods.

Cal Advocates - Cal Advocates takes issue with SDG&E's forecast methodology for Skills and Compliance Training non-labor expenses but, notably, does not take issue with SDG&E's labor forecast expenses.[2123] Specifically, Cal Advocates "agrees with SDG&E's assessment that 'for non-labor, the base year provides an appropriate baseline in comparison to future targets for the organization as opposed to average or trend methodologies.'"[2124] Cal Advocates argues that "SDG&E did not provide documentation demonstrating that its 2021 recorded adjusted expenses were insufficient to address its TY activities for Skills and Compliance Training." Cal Advocates then assumes that "SDG&E should be able to reallocate embedded funding of $990,000 back to its Skills and Compliance Training department if additional funding is needed for six trainers and instructors."[2125] In summary, Cal Advocates agrees with a base year forecast but disputes the need for further adjustments intended for the Industrial Athletic Trainer and Electric Hazard Awareness Trainer programs, assuming these new costs can be absorbed within the base-year allocation.

SDG&E disagrees with Cal Advocates assessment that costs for the Industrial Athletic Trainer and Electric Hazard Awareness programs can be absorbed into SDG&E's current

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2122 *Id*. at Appendix B, Data Request No. FEA-SDGE- 002, Question 13.

2123 Ex. CA-08 (Andresen) at 20-21.

2124 *Id.* (citation omitted).

2125 *Id.* at 21.

budgets.[2126] These contractor-filled positions create an incremental non-labor cost that is in addition to existing costs to support SDG&E's vision of "Building a Better Lineman." The industrial athletic program will be implemented to reduce OSHA defined strains and sprains, which is the most common type of employee injury, in order to achieve SDG&E's Target Zero initiative's goal of zero workplace safety incidents.[2127]

FEA - FEA recommends the use of a 2022 base year forecast for TY2024 of $2.855 million for Skills and Compliance. FEA argues that "the company spent below the authorized level in each of the last five years."[2128] FEA then proceeds to recommend "using the 2022 amount, as this is the most known and measurable amount available."

SDG&E disagrees with FEA's limited analysis of historical spend and notes that additional information on Skills and Compliance costs are available to support the reasonableness of SDG&E's forecast. For instance, SDG&E clarified in a data request provided to Cal Advocates that a regular accounting review changed the capital and O&M allocation within Skills and Compliance, significantly reducing realized costs below O&M spend expected in the 2019 GRC.[2129] SDG&E also documented this change in its workpapers in the form of one-sided historical adjustments.[2130]

With respect to FEA's argument that 2022 actual costs represent "the most known and measurable amount,"[2131] it is SDG&E's position that 2022 actual costs are lower than what will be needed in TY 2024. This is because the 2022 data includes only some of the expenses for the Industrial Athletic Trainer program and none of the expenses for the Hazard Awareness program. Neither of these facts were identified in FEA's analysis. SDG&E hired the forecasted three Industrial Trainers in late 2022 and early 2023,[2132] meaning that SDG&E's 2022 actual costs included only partial-year expenses for two of the three trainers and no costs. Additionally, as documented in a data request provided to FEA, the O&M and Capital allocation for these

2126 Ex. SDG&E-212 (Swetek) at 29.
2127 Ex. SDG&E 12-R-E (Swetek) at 55.
2128 Ex. FEA-01 (Smith) at 32-35.
2129 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. PAO-SDGE-015-RYD, Question1-H.
2130 Ex. SDG&E-12-WP-R (Swetek) at 132-134.
2131 Ex. FEA-01 (Smith) at 33-34.
2132 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-004, Question 1b.

resources changed, further reducing realized expenses in 2022.[2133] Lastly, SDG&E had difficulty hiring the Hazard Awareness Trainers due to an inability to find suitable candidates, delaying the implementation of the program.[2134] Taking all of these factors into account, SDG&E believes that its 2022 costs are in-line with the base-year forecast proposed in SDG&E's GRC testimony for Skills and Compliance. SDG&E will reduce its 2024 Test Year forecast for the Industrial Athletics training program to $148,500 due to the change in their cost allocation (30% of $495,000). However, SDG&E reiterates the need for funding to the revised TY 2024 forecast of $3.483 million for Skills and Compliance, to support both ongoing training operations and the incremental costs associated with the important initiatives discussed here – the Industrial Athletic training and Hazard Awareness training programs.

20.2.3.5 Electric Engineering

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	$2,085	$2,192	$108

SDG&E notes that it reduced TY 2024 O&M forecast to remove expenses related to the DUII project, which were incorrectly identified as O&M[2135] and to correct the percentage of O&M attributed to labor in the forecast calculation.[2136] Ex. SCG-401/SDG&E-401 (Update Testimony) reflects the correct corrected funding request for Electric Engineering O&M.

20.2.3.6 Compliance Management

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	$3,061	$7,274	$4,213
CAL ADVOCATES	$3,061	$4,815	$1,754
FEA	$3,061	$5,099	$2,038

2133 *Id*. at Question 3.

2134 *Id*. at Question 2a.

2135 *Id*. at Appendix B, Data Request No. PAO-SDGE-027-RYD, Question 3.

2136 *Id*. at Question 5.

20.2.3.6.1 Pole Attachment Data Compliance Program Costs

In testimony, Cal Advocates and FEA took issue with non-labor forecasted costs related to SDG&E's Pole Attachment Data Compliance Program, which is required by Commission decision D.21-10-019. SDG&E addresses each intervenor's positions below.

Cal Advocates - Cal Advocates objects to the non-labor estimated cost of $2.459 million in Test Year 2024 related to SDG&E's estimate for Pole Attachment Data Compliance program on the following grounds: (i) "SDG&E does not demonstrate that its pole attachment data points work is incremental to existing funding;" (ii) "SDG&E has an unclear scope of work and does not track the costs associated with its current pole attachment data collection;" and (iii) "[SDG&E] should be able to reallocate the underspent funding it received in its 2019 GRC back to Compliance Management to support any incremental work."[2137] However, Cal Advocates recommends the Commission adopt all other forecasted Test Year 2024 costs in SDG&E's Test Year 2024 forecast, totaling $4.815 million.

SDG&E disagrees with Cal Advocates' position regarding the Pole Attachment Data Compliance program and reiterates its need for its forecasted funds to meet compliance with Commission regulation.[2138] Cal Advocates states that "SDG&E did not provide any supporting documentation in its response," focusing particularly on the fact that "SDG&E did not provide any examples of existing engineering and support contracts to substantiate its response."[2139] In addition, Cal Advocates asserts that "SDG&E also does not identify a clear scope of work that will be funded through its Compliance Management forecast." In SDG&E's view, these statements do not detract from the strong showing made by SDG&E in support of the requested funding.

SDG&E has provided evidence that details how it created its cost estimate.[2140] Specifically, SDG&E stated that its cost estimates were based on the assumption of requiring site visits to collect 20 discrete data points required by the regulation on approximately 75% of all SDG&E poles (176,000) at a cost of $150 per pole.[2141] The remaining 25% of poles are estimated to have current pole loading calculations or data more easily accessible to populate the 20 data

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[2137] Ex. CA-08 (Andresen) at 28-29.

[2138] Ex. SDG&E-212 (Swetek) at 32-35.

[2139] Ex. CA-08 (Andresen) at 26.

[2140] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. PAO-SDGE-124-RYD, Question 1a.

[2141] *Id*. at Question 1a.

points. SDG&E has also provided additional details, including correcting prior statements that the ongoing $200,000 maintenance charge was related to necessary contract services to maintain the database and not licensing fees.[2142] These labor activities include managing data discrepancies and QA/QC of the data changes, manage database errors, update the database to new cybersecurity requirements, provide database enhancements associated with technology changes and manage user/password issue resolution. Thus, contrary to Cal Advocates' contentions, SDG&E believes that this justification provides a strong basis for its compliance program total Compliance Management Test Year 2024 forecast of $7.247 million.

FEA - FEA takes issue with SDG&E's Test Year 2024 forecast method for Compliance Management and alternatively proposes either a 5-year average (2018-2022) or 4-year average utilizing the same years but removing 2019 due to outlier data after removing special billable costs. FEA recommends $2.175 million Test Year 2024 forecast be applied to Compliance Management. FEA's basis for their recommendation is: (i) "[SDG&E] spent below the authorized level in each of the last three years…"[2143] and "The 2022 actual expense was lower than the forecasted amount;"[2144] and (ii) "The Company did not justify the significant increase to this expense."[2145]

SDG&E disagrees with FEA's position as it has multiple flaws.[2146] First, it relies on a comparison of year-to-year and/or year-over-year dollar values authorized in the 2019 GRC to historical costs filed in the 2024 GRC, which is inappropriate. In addition, the 2022 forecasted costs were accurate at the time of submittal, but 2022 actual costs differed from the TY 2019 forecasts due to unforeseen changes in the implementation of the pole data compliance regulation and unforeseen changes to the percent of poles that needed to be fielded for attachment outlined in my testimony below. Lastly, utilizing a simple 5-year average completely disregards SDG&E's forecasted upward pressures. When considering both the errors in FEA's analysis, the continued upward pressures not directly addressed, and the misunderstanding as to the nature of the 2022 underspend, FEA's recommended 5-year average forecast should not be adopted.

[2142] *Id*. at Question 1d.

[2143] Ex. FEA-01 (Smith) at 28.

[2144] *Id.* at 33 (citation omitted).

[2145] *Id.* at 29.

[2146] Ex. SDG&E-212 (Swetek) at 35-37.

Comparing 2024 GRC Historical Costs to 2019 Approved Expenses is Flawed **-** FEA argues that SDG&E consistently underspent its allocated budgets and, on that basis, recommends a substantial reduction to SDG&E's forecasts in this TY 2024 GRC. FEA's position is based on a flawed analysis comparing 2019 Commission approved expenses to historical costs submitted under the 2024 GRC filing. FEA's analysis is flawed because it fails to acknowledge, let alone reconcile, the fact that there are key differences in how these figures were assembled. Primarily, within Compliance Management, the major difference is the creation of new accounting mechanisms to track High Fire Threat District (HFTD) inspections, which remove costs associated with these expenses from Compliance Management to the Wildfire Mitigation Program witness area. Just one example of costs removed is intrusive pole inspections in the HFTD. Therefore, FEA's analysis is an apples to oranges comparison: it reflects these activities in the cost amounts authorized on the front end, but fails to include these activities in the actual spend amounts. The result of this failure is that FEA's analysis artificially increases the amount of alleged underspending FEA identifies for this area. SDG&E shared this comparison issue with FEA during the discovery process.[2147]

Another factor to consider is that the remaining inspections performed may vary due to Corrective Maintenance Program (CMP) cycles and structures which fall outside of the HFTD, which vary over a ten-year cycle. These variances make a three or five year average inappropriate. SDG&E analyzed these cycles and contends that the base year best represents workloads during the 2024-2027 years, making base year with incremental adjustments the more accurate forecasting method.

Analyzing Actual 2022 Expenses - FEA indicates that SDG&E's 2022 expenses were lower than its GRC submitted forecast. SDG&E concurs with that assessment. But while FEA is correct that 2022 actuals were lower than anticipated, FEA has failed to grapple with the drivers of the underspend it observed.

The majority of the underspend (approximately $9M) is related to delays in performing field survey and data gathering validation work necessary to comply with Phase 2 of the Track 2 Decision. SDG&E details the reasons for those delays in its response to Cal Advocates in section IV-F-1a above, including diligence and prudence to ensure clarity of the regulation through workshops before incurring expenses. Accordingly, the fielding costs are not anticipated to start

[2147] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-002, Question 13.

until late 2023. The fact that work that will need to be done has not started yet does not justify the substantial reduction proposed by FEA.

The second contribution to the underspend was the number of applications and support activities associated with new pole attachments. SDG&E utilized data on the Communication Interconnection Providers (CIP) attachment activities between 2017-2019 to forecast its expected 2022 workload. SDG&E anticipated having to perform fielding activities, to support pre-construction assessment, for an average of 11,000 poles; however, it only performed field surveys for approximately 7,000 pole attachments in 2022. This change can be attributed to duplicate pole attachment applications, pole applications on-hold or pending additional evaluation, and poles that were ultimately rejected or cancelled. Significantly, SDG&E does not anticipate that this 2022 variance will recur in future years. The number of applications for attachments submitted each year is dependent on third party provider infrastructure requirements and telecommunication networks expansion. SDG&E anticipates that there will be an increase in attachment requests the relatively near term (*i.e.*, over the next few years) due to CPUC updated Right of Way Rules that take effect for utility pole-owners beginning in the second quarter of 2023.[2148] The updated Right of Way requests are being submitted to support the State's ongoing commitment to provide greater access to broadband service to the unserved and underserved communities, and to promote increased safety and competition in the telecommunications industry. Nondiscriminatory access to the incumbent utilities' poles and rights of way is one of the essential elements for enabling facilities-based competition to succeed consonant with California's goal of providing broadband access to no less than 98% of California households.[2149]

20.2.3.6.2 SDG&E's need for a Track 2 Pole Attachment Cost Memorandum Account (T2CMA)

TURN - TURN recommends the Commission reject SDG&E's proposal for its Track 2 Pole Attachment Data Compliance program memorandum account (T2CMA), arguing that the account's balances being recovered through the annual regulatory accounts update. TURN suggests that that these balances would be collected in rates without having ever been reviewed for reasonableness.[2150]

2148 D.22-10-025 at 39, OP 2, and Attachment A.

2149 Assembly Bill 1665, Eduardo Garcia. Telecommunications: California Advanced Services Fund.

2150 Ex. TURN-15 (Finkelstein) at 24-25.

SDG&E disagrees.[2151] The Track 2 Decision, D.21-10-019, directs pole owners subject to a general rate case to seek cost recovery through a general rate case filing.[2152] SDG&E's proposal for adoption of the T2CMA would facilitate compliance with the Track 2 decision by tracking 2022 and 2023 Track 2 implementation costs for recovery in a future GRC. The reasonableness of these costs would surely be up for review in that Application. In no way does SDG&E's request for adoption of the T2CMA circumvent reasonableness review from the CPUC.

20.2.4 SDG&E's Response to UCAN's Comments on Grid Modernization Plan

UCAN claims that SDG&E's GMP does not support CSOM DER integration and that the grid modernization investments outlined will be outmoded when placed in-service.[2153] UCAN recommends that SDG&E's request for $1.3 million in DER integration O&M costs be reduced by *$5.4 million*, and that SDG&E's request for $5.4 million in DER integration capital costs be reduced by *$26.7 million.*[2154] UCAN's request appears to be in error as its recommended reductions in O&M and capital far exceed the amounts SDG&E requested. In any event, UCAN is incorrect in asserting that the SDG&E's grid modernization investments do not support CSOM integration and that these investments will be outmoded when placed in-service.[2155] SDG&E emphasizes that its GMP is strategically important for enabling DER integration on both the utility-side and customer-side of the meter.

UCAN references a series of DER related proceedings,[2156] including the High DER OIR,[2157] Demand Flexibility OIR, and the CPUC's Cal-Fuse Report.[2158] SDG&E has been actively participating in these proceedings and is aware of the needs to continue evaluating and refining its grid modernization vision to align with state policy direction as necessary. Nevertheless, the proceedings are still ongoing and the policy matters being discussed are out of scope for this GRC. Taking the Cal-Fuse Report as an example, UCAN criticizes SDG&E for not addressing the matters raised in the Report, but UCAN completely ignores the fact that SDG&E's

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[2151] Ex. SDG&E-212 (Swetek) at 38.

[2152] D.21-10-019 at 131, OP 24.

[2153] Ex. SDG&E-212 (Swetek) at 39-45

[2154] Ex. UCAN-01-E (Woychik) at 7 and 241

[2155] Ex. SDG&E-212 (Swetek) at 39-45.

[2156] Ex. UCAN-01-E (Woychik) at 233.

[2157] *Id.* at 9.

[2158] *Id.* at 156.

GRC application was filed in May 2022, while the said report was published in June 2022. Moreover, the recommendations included in the Report have yet to be acted on by the Commission, so it would make little sense for SDG&E to reshape its GRC proposals based on speculation of what the Commission will actually do.

A key issue with UCAN's position is the claim that SDG&E has failed to propose projects that will "accelerate both networking and integration of DERs at large scale."[2159] UCAN misinterprets SDG&E's GRC filing to reach the conclusion that SDG&E's proposed projects are "unresponsive…to CSOM DERs"[2160] and that "SDG&E's focus and approach categorically exclude CSOM DERs and CSOM based microgrids."[2161] UCAN's conclusion is incorrect. Nowhere in its GRC filing has SDG&E indicated its use of the terms "DER" and "Distributed Energy Resources," is intended to be limited to USOM DERs. UCAN provides no evidence that the goal of SDG&E's GMP is to "avoid" serving customers with DERs. And nowhere has SDG&E indicated—nor has UCAN proven–that DERMS is incapable of facilitating large numbers of CSOM DERs. It is illogical to conclude that DERMS cannot be used to facilitate CSOM DERs because DERMS can be used to monitor and control USOM DERs. In fact, it is SDG&E's recognition that large increases in the numbers of CSOM DERs–which creates the need for increased real-time visibility of its distribution system and the ability to control enough DERs (whether USOM or CSOM) to maintain safe and reliable grid operations, particularly during abnormal system conditions–that is driving SDG&E's interest in DERMS.

Today, after the addition of 270,000 CSOM rooftop solar, CSOM battery storage facilities, and other CSOM DERs,[2162] SDG&E's existing systems have proven capable of ensuring safe and reliable service. SDG&E believes that DERMS will be an important tool for maintaining safe and reliable service as the number of CSOM DERs escalates. Contrary to UCAN's assertion that SDG&E's Local Area Distribution Controller (LADC) investments "fail to incorporate non-utility (third-party) microgrids, customer needs, or CSOM DERs,"[2163] the LADC is fully capable to do so in the multi-premise microgrids currently in development.

[2159] *Id.* at 24.
[2160] *Id.* at 10.
[2161] *Id.* at 212.
[2162] *Id.* at 190.
[2163] *Id.* at 248.

UCAN argues that the amount of demand response in the SDG&E distribution system (*e.g.*, 10.4 MW in August 2021) is evidence that SDG&E "has a poor record in integrating CSOM DERs into its infrastructure."[2164] However, UCAN offers no evidence showing that customers are interested in providing larger amounts of MW, no evidence that the program incentives necessary to induce larger amounts would be cost-effective relative to the benefits such demand response would provide, and no evidence that the amount of demand response says anything about SDG&E's infrastructure or its ability to integrate CSOM DERs.

UCAN also argues that SDG&E "has historically stunted customer DER growth,"[2165] and that the DER installation statistics provided by SDG&E are "very misleading" because "almost all CSOM DERs are solar PVs that were initiated and funded through customer actions."[2166] SDG&E finds it surprising that a distribution system on which almost one in every five residential customers has adopted CSOM DERs, would be characterized as a system with "historically stunted customer DER growth." Indeed, SDG&E's interconnection process for CSOM DERs (for generation, such as battery storage, under Rule 21; and loads, such as electric vehicles, under new service requests) is exemplary in efficiency and timeliness, a fact that UCAN acknowledges.[2167]

While repeatedly asserting that SDG&E's GMP fails to integrate CSOM DERs at scale, UCAN, at the same time, expresses alarm that SDG&E's GMP seeks to control "virtually … all DERs that are connected to the grid"[2168] and "resources that are provided to customers."[2169] UCAN does not attempt to reconcile these two contradictory positions, or explain how SDG&E could integrate CSOM DERs without controlling some amount of USOM and/or CSOM DERs.

Further, UCAN claims smart inverters coupled with energy storage resources can provide their own resiliency, and alleges that SDG&E has a myopic view of resiliency.[2170] In making this claim, it appears that UCAN is ignoring the fact that in order to maximize smart inverters' benefits, foundational technology proposed in SDG&E's GMP are necessary to be developed and implemented.

2164 *Id.* at 152.
2165 *Id.* at 75.
2166 *Id.* at 190.
2167 *Id.* at 228.
2168 *Id.* at 215.
2169 *Id.* at 110.
2170 *Id.* at 222.

Finally, UCAN also argues that GMP fails to capture the needs to address the huge unmanaged load expected with the high DER scenario, stating SDG&E ignores customers and integration of DERs on the CSOM.[2171] SDG&E disagrees. The capacity planning process, also referred to as Distribution Planning Process (DPP), already demonstrates that SDG&E explicitly recognizes customers and integration of DERs by using the California Energy Commission's (CEC's) forecast of customer-side DER impacts.

20.2.5 Conclusion

SDG&E submits that its Test Year 2024 forecast for Electric Distribution O&M of $130.956 million should be approved. In each of the areas where alternative proposals were made, SDG&E has submitted evidence that addresses each party's key concerns, identifies and corrects flaws in their analysis that lead to incorrect conclusions, and provides justification for the need for SDG&E's forecasted activities. SDG&E has provided substantial detail supporting its forecasts in testimony, workpapers, and data requests. All activities detailed in testimony support maintaining clean, safe, and reliable electric service to SDG&E's customers. Additionally, SDG&E's evidence demonstrates that its Grid Modernization Plan provides prudent infrastructure investment to "innovate and optimize a grid … that accelerates decarbonization – all while delivering value and choice for all customers."[2172] Funding incremental activities set forth in this testimony will allow SDG&E to maintain its skilled workforce in the face of high industry demand, meet new compliance requirements, and increase system automation to adapt to meet California's decarbonization goals.[2173] SDG&E has presented evidence that supports its continued ability to uphold these obligations.

20.3 Wildfire Mitigation and Vegetation Management

20.3.1 Introduction and Background

SDG&E's proposed wildfire mitigation investment strategy is the result of years of experience, innovation, and risk assessment. Through collaborative engagement, community input, and scientific partnerships, SDG&E has positioned itself to best understand the risk of ignition and wildfire throughout the High Fire Threat District (HFTD) and Wildland Urban Interface (WUI) of its service territory. Through the combined approach of strategic grid

[2171] *Id.* at 257.

[2172] Ex. SDG&E-12-R-E (Swetek), Appendix C at 2.

[2173] Ex. SDG&E-12-R-E (Swetek) at 2-4.

hardening efforts, situational awareness, and emergency preparedness, the investments proposed in this GRC represent the optimal approach toward achieving a safe, reliable, and resilient grid poised to withstand the increasing risks associated with catastrophic wildfire, extreme weather conditions, and climate change.

Not only does SDG&E's wildfire mitigation and prevention strategy promote SDG&E's top value—safety—it also achieves the goals of the California State Legislature, the Commission, and the Office of Energy Infrastructure Safety (Energy Safety) to reduce the risk of utility related wildfire and reduce and mitigate the occurrence of and risks associated with Public Safety Power Shutoffs (PSPS). As previously recognized by the Commission:

> Mitigation of catastrophic wildfires in California is among the most important safety challenges the Commission-regulated electrical corporations face. Comprehensive WMPs are essential to safety because the WMPs articulate an electrical corporation's understanding of its utility-related wildfire risk and the proposed actions to reduce that risk and prevent catastrophic wildfires caused by utility infrastructure and equipment.
>
> Utility-related catastrophic wildfire risk should be reduced over time by implementing measures such as vegetation management, system hardening (such as insulating overhead lines and removing or upgrading equipment most likely to cause fire ignition), grid topology improvements (such as installation and operation of electrical equipment to sectionalize or island portions of the grid), improving asset inspection and maintenance, situational awareness (such as cameras, weather stations, and use of data to predict areas of highest fire threat), improving community engagement and awareness, and other measures.[2174]

The initiatives proposed in SDG&E's Test Year 2024 GRC also support SDG&E's ability to maintain compliance with the Wildfire Mitigation Plans (WMP) that have previously been approved by the Office of Energy Infrastructure Safety and ratified by this Commission.[2175]

[2174] Resolution SPD-1, *Resolution Ratifying Action of the Office of Energy Infrastructure Safety on San Diego Gas & Electric Company's 2022 Wildfire Mitigation Plan Update Pursuant to Public Utilities Code Section 8386* (August 26, 2022) at 2.

[2175] SDG&E acknowledges that the Commission requires SDG&E to seek recovery of WMP-related costs through the General Rate Case process (or, alternatively a separate application), and that approval of a WMP should not necessarily be construed as approval of WMP-related costs. *See, e.g.*, Resolution SPD-1, *Resolution Ratifying Action of the Office of Energy Infrastructure Safety on San Diego Gas & Electric Company's 2022 Wildfire Mitigation Plan Update Pursuant to Public Utilities Code Section 8386* (August 26, 2022) at 2. However, there is no prohibition on the Commission considering whether an initiative is part of an approved WMP when determining whether the costs associated with complying with that initiative are reasonable.

The Revised Direct and Rebuttal Testimony of Jonathan T. Woldemariam (Ex. SDG&E-13-R-2E; Ex. SDG&E-213) and supporting workpapers (Ex. SDG&E 13-CWP-2R-E), and the Direct Testimony of Kevin C. Geraghty (Ex. SDG&E-49-S-E), justify SDG&E's forecasted WMP capital and O&M proposal and facilitate SDG&E's efforts to continue to fulfill the shared goal of reducing and eliminating the risk of catastrophic utility related wildfire in California.[2176]

SDG&E takes a risk-informed approach to its hardening strategy to maximize its effectiveness at reducing the risk of wildfire and mitigating or eliminating customer PSPS impacts while balancing the costs to customers. As described throughout both the direct, rebuttal, and cross examination of Mr. Woldemariam, many of these investments represent a "once in a lifetime" effort to modernize the electrical grid to mitigate wildfire risk and meet the Commission and Energy Safety's direction to reduce the need for PSPS. Moreover, these proposals facilitate additional benefits, including supporting electrification to comply with California's climate goals and preparing the system of the effects of climate change. For these reasons, the Commission should authorize SDG&E's requested wildfire-related revenue requirements and accounting treatment.

20.3.1.1 Summary of Wildfire Mitigation and Vegetation Management Costs

SDG&E's Wildfire Mitigation testimony and workpapers, supported by Mr. Woldemariam, thoroughly describe and justify SDG&E's forecasted Operations and Maintenance (O&M) and capital costs associated with SDG&E's WMP initiatives for the Test Year 2024. Because these costs are just and reasonable, the Commission should adopt SDG&E's total forecasted costs of $184 million for O&M and $518.5 million for capital.[2177] SDG&E's wildfire mitigation requests are broken down by WMP initiative category for ease of reference and comparability between SDG&E's WMP and its GRC request. As summarized in Mr. Woldemariam's testimony, the forecasted capital and O&M costs by category are as follows:[2178]

[2176] *See* Ex. SDG&E-13-R-2E (Woldemariam); Ex. SDG&E-213 (Woldemariam); Ex. SDG&E-13-WP-2R-E (Woldemariam); Ex. SDG&E 13-CWP-2R-E (Woldemariam); Ex. SDG&E-49-S-E (Geraghty); Ex. SDG&E 49-S (Geraghty).

[2177] *See* Ex. SDG&E-13-2R-E (Woldemariam) at ix, and SCG-401/SDG&E-401 (Woldemariam) Update Testimony (July 2023) at 5-6.

[2178] *See* Ex. SDG&E-13-2R-E (Woldemariam) at 3. Mr. Woldemariam further supports identified IT costs of $1.678 million associated with WMP initiatives forecasted for the Test Year.

Table 20.3
Test Year 2024 Summary of Total O&M Costs

Categories of Management	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)
A. Emergency Planning & Preparedness	13,315	16,236
B. Situational Awareness and Forecasting	2,994	3,877
C. Grid Design & System Hardening	26,041	25,399
D. Asset Management & Inspections	36,949	15,375
E. Vegetation Mgmt & Insp	10,365	15,167
F. Vegetation Mgmt & Insp. - Tree Trimming Only	52,195	69,913
G. Grid Operations & Operating Protocols	10,079	14,769
H. Resource Allocation Methodology	3,823	7,748
I. Risk Assessment & Mapping	608	2,413
J. Data Governance	1,082	1,650
K. Stakeholder Cooperation & Community Engagement	10,985	11,565
Total Non-Shared Services O&M	**168,436**	**184,111**

Table 20.4
Test Year 2024 Summary of Total Capital Costs

Categories of Management	2021 Adjusted-Recorded	Estimated 2024 (000s)
A. Risk Assessment and Mapping	1,446	2,662
B. Situational Awareness and Forecasting	1,550	1,864
C. Grid Design and System Hardening	312,290	471,146
D. Asset Management and Inspections	26,181	17,423
E. Grid Operations and Protocols	13,460	8,100
F. Data Governance	19,983	11,685
G. Emergency Planning and Preparedness	1,929	2,496
H. Stakeholder Cooperation and Community Engagement	5,015	3,131
Total Capital	**381,854**	**518,507**

All of the wildfire mitigation costs presented by Mr. Woldemariam address risk, including some of the most significant risks associated with electrical infrastructure, and are thus designated as RAMP.[2179] These risks include the following:

- The risk of catastrophic wildfire, especially those initiated by SDG&E equipment, resulting in fatalities, widespread property destruction, and multi-billion-dollar liability. (SDG&E-Risk-1 Wildfire Involving SDG&E Equipment).

[2179] Ex. SDG&E 13-2R-E (Woldemariam) at 25-26; *see also,* Section 9, *supra*.

- The risk of an asset failure, caused by degradation, age, operation outside of design criteria due to unexpected events or field conditions (*e.g.*, force of nature) or an asset no longer complying with the latest engineering standards, which results in a safety or reliability incident. (SDG&E-Risk-2 Electric Infrastructure Integrity).
- The risk of an incident, involving one or more on-duty employees, that causes serious injury or fatality (as defined by OSHA) to a company employee. (SDG&E-8 Incident Involving an Employee).

SDG&E prioritized these key safety risks to assess which risk mitigation activities Wildfire Mitigation and Vegetation Management currently performs and if incremental efforts are needed to further mitigate these risks.[2180] Additionally, wildfire mitigation addresses cross functional factors including asset management, emergency preparedness, and foundational technology systems.

20.3.1.2 Summary of Overall Positions

Several parties provided intervenor testimony addressing SDG&E's wildfire-related capital and O&M proposals, as well as SDG&E's balancing account requests for wildfire and vegetation management costs. Much of the intervenor testimony submitted by Cal Advocates, TURN, MGRA, UCAN, PCF, and SBUA opposed and/or addressed alternatives to SDG&E's grid hardening capital proposals, namely, the scope of SDG&E's strategic undergrounding program. Not all parties made recommendations on all portions of SDG&E's wildfire-related forecasts, and several proposals were unchallenged.[2181] In other instances, and further addressed below, intervenors such as UCAN, PCF, and SBUA object to SDG&E's wildfire mitigation initiatives but did not specifically propose reductions in cost. Cost differentials, as described in Mr. Woldemariam's testimony, are summarized as follows:

[2180] *See also*, Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson).

[2181] As SDG&E has met its burden to establish the reasonableness of all of its Test Year 2024 wildfire mitigation forecasts, any undisputed areas should be approved without modification. SDG&E's discussion herein focuses on the areas previously addressed or challenged by intervenors.

Table 20.5

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	**168,436**	**184,111**[2182]	**15,675**
CAL ADVOCATES	**168,436**	**162,468**	**(5,968)**

Table 20.6

TOTAL CAPITAL - Constant 2021 ($000)		
	2024	**Difference**
SDG&E	**518,507**	**-**
CAL ADVOCATES	**457,337**[2183]	**(61,170)**
TURN	**318,207**	**(200,300)**

The entirety of SDG&E's forecasted Test Year 2024 wildfire costs are reasonable, justified, and facilitate the ongoing safe and reliable provision of electric and gas service to SDG&E's customers.

20.3.1.3 SDG&E's Wildfire Mitigation Responsibilities

SDG&E's commitment to wildfire safety for its employees, contractors, and the public is at the heart of its Wildfire Mitigation Plan and daily operations.[2184] In the wake of the catastrophic 2007 fires, SDG&E committed to developing a comprehensive wildfire mitigation strategy to reduce the risk of catastrophic wildfire resulting from electrical infrastructure. Since that time, SDG&E has established itself as an industry leader in wildfire mitigation initiatives that range from vegetation management to wildfire risk modeling.[2185] However, as further discussed by Mr.

2182 The numbers provided in this Table have been adjusted as part of SDG&E's Update Testimony. Exhibit SCG-401/SDG&E-401 Update Testimony dated July 7, 2023 was served after Parties' March 27, 2023 testimony. While Table 20.3.C reflects SDG&E's updated Vegetation Management and Inspections and Vegetation Management and Inspections – Tree Trimming Only forecast, SDG&E has not adjusted Cal Advocates' numbers, which is the reason for the variance in values.

2183 Cal Advocates reductions to budget codes 20285 – Overhead System Covered Conductor and 19246 – Strategic Undergrounding found in CA-07 utilize the costs presented in the original testimony. SDG&E has since revised these costs in exhibit SDGE-13-2R-E. To estimate the calculation of Cal Advocates 2024 recommended costs, SDG&E applied the percentage reduction recommended by Cal Advocates recommended to the revised costs described in SDG&E-13-2R-E.

2184 SDG&E-13-2R-E (Woldemariam) at 29.

2185 Ex. SDG&E-13-2R-E (Woldemariam) at 1. (citing Governor Newsom's Strike Force ("Strike Force ") *Wildfires and Climate Change: California's Energy Future* (April 12, 2019) at 11 ("SDG&E

Geraghty and Mr. Woldemariam, in the face of a changing climate and the potential for a nearly year-round fire season, particularly during periods of extended drought,[2186] it is necessary to continue to harden the grid, develop situational awareness and emergency response capacities, and engage in ongoing risk assessment and management in order to maintain safety and reliability.

The need for ongoing wildfire mitigation and enhanced grid hardening strategies became readily apparent during the catastrophic fire seasons of 2017-2021. While not all utility-related, wildfires consumed over 2.5 million acres and 4.3 million acres in 2021 and 2020 alone, respectively.[2187]

The threat of a utility ignition resulting in a catastrophic fire remains, and as mandated by the California Legislature, this Commission, and Energy Safety, must continue to be mitigated. For these reasons, the Legislature passed several wildfire mitigation statutes, including SB 901 and AB 1054, which established the requirement that electrical corporations "construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment" and the Wildfire Mitigation Plans.[2188] State law further requires that, as a component of their respective WMP's, electrical corporations do the following, among many other things:

- Describe the measures taken, or planned to be taken, to reduce the need for and impact of PSPS events, including "the estimated annual decline in circuit deenergization and deeneregization impact on customers, and replacing, hardening, or undergrounding any portion of the circuit or of upstream transmission or distribution lines."[2189]

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engaged in a robust fire mitigation and safety program after experiencing devastating fires in its service territory in 2007 and has become a recognized leader in wildfire safety.")) *See also* Governor's Office of Planning and Research, *Final Report of the Commission on Catastrophic Wildfire Cost and Recovery* (June 17, 2019) at 7 ("[SDG&E] is widely recognized as a global leader on utility wildfire practices.")

2186 *See, e.g* California Public Utilities Commission, *Wildfire and Wildfire Safety*, *available at*: https://www.cpuc.ca.gov/industries-and-topics/wildfires ("Land use and resource management policies, together with climate change, have increased the likelihood of wildfires starting and the severity of their consequences. Hotter, drier conditions during summer and a longer dry season have resulted in lower moisture levels in vegetation, making it easier to ignite. The drier fuels also enable fires to spread more rapidly, making them difficult to contain. The more extended dry season also increases the chance that the strong offshore winds in the fall coincide with dry conditions, further increasing wildfire risk.")

2187 California Department of Forestry and Fire Protection (CALFIRE), *CALFIRE Redbooks*, *available at:* . https://www.fire.ca.gov/our-impact/statistics.

2188 Pub. Util. Code §8386(a).

2189 Pub. Util. Code §8386(c)(8).

- Describe the actions taken to "ensure [the electrical system] will achieve the highest level of safety, reliability, and resiliency, and to ensure that its system is prepared for a major event, including hardening and modernizing its infrastructure with improved engineering, system design, standards, equipment, and facilities, such as undergrounding, insulating of distribution wires, and replacing poles."[2190]
- Describe "where and how the electrical corporation considered undergrounding electrical distribution lines within those areas of its service territory identified to have the highest wildfire risk."[2191]

Further, as the WMP process has evolved, so have SDG&E's regulatory responsibilities and WMP requirements. The Commission, Energy Safety, and the Legislature continue to recognize that wildfire safety cannot be achieved at the sacrifice of reliability and resiliency, especially as California continues to electrify. While an important and necessary last-resort tool in wildfire mitigation, SDG&E is required by Energy Safety to quantify overall utility risk of PSPS and the reduction of that risk on an annual basis and provide three- and ten-year plans to reduce the "scale, scope, and frequency of PSPS events."[2192] Further, the Commission requires electrical corporations to engage in additional efforts, including but not limited to system hardening, to reduce the need for and scope of de-energizations, and report on those efforts to the public.[2193] In the wake of significant outages caused by PG&E's Enhanced Powerline Safety Settings, Legislators have also recently asked for efforts to curb the reliability effects of "fast trip" outages, noting that "Californians cannot be forced to choose between a safe or reliable electric grid."[2194]

SDG&E has responded to the requirements of AB 1054 and SB 901 with large-scale infrastructure hardening efforts, including strategic undergrounding, expanded use of covered conductor, expanded situational awareness, and increased inspections and asset management. Each of SDG&E's WMPs since 2019 has received approval and ratification as meeting the

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2190 Pub. Util. Code §8386(c)(14).

2191 Pub. Util. Code §8386(c)(15).

2192 Office of Energy Infrastructure Safety, *2023-2025 Wildfire Mitigation Plan Technical Guidelines*, (December 6, 2022) at 63-65; 199.

2193 D.20-05-051, Decision Adopting Phase 2 Updated and Additional Guidelines for De-Energization of Electric Facilities to Mitigate Wildfire Risk (issued June 5, 2020) at 71-72.

2194 Sens. Dodd, et. al. Letter to Alice Reynolds, President, California Public Utilities Commission,*CPUC Oversight of Large Electric Utilities Fast Trip Outage Programs*, (Nov. 8, 2022), *available at:* https://www.rcrcnet.org/sites/default/files/useruploads/Documents/Barbed_Wire/2022-11-18/Legislative%20Fast%20Trip%20Letter.pdf. The Commission continues to explore the need for additional regulation of fast trip impacts in R.18-12-005,Order Instituting Rulemaking to Examine Electric Utility De-Energization of Power Lines in Dangerous Conditions (filed December 13, 2018).

requirements laid out by SB 901 and AB 1054. SDG&E remains committed to complying with all regulatory requirements and legislative mandates related to both public safety and compliance, and its GRC request supports the continued implementation of these approved activities which serve to reduce wildfire and PSPS risk and promote grid resiliency.

20.3.1.4 Benefits of Wildfire Mitigation Across the Service Territory

As described in the testimony of Mr. Woldemariam, SDG&E's service territory experiences a number of conditions conducive to wildfire, primarily the Santa Ana winds that have been directly linked to some of the largest and most destructive wildfires in Southern California.[2195] These Santa Ana winds, coupled with other weather conditions, dry fuels, and the cumulative impacts of climate change, result in an increased risk of catastrophic wildfires. Moreover, SDG&E's "fire season" continues to evolve—while the highest risk Santa Ana winds are still most prevalent during the late summer and early fall, wildfire conditions can be present almost year-round, and often well into the winter months.[2196]

The Commission recognized the specific areas of SDG&E's service territory which pose an even higher risk of fire in D.17-12-024, which established the HFTD. Approximately 64% of SDG&E's service territory is within the HFTD, where there is an increased potential for wildfires. The HFTD consists of two areas:

1) Tier 2, "where there is an elevated risk for destructive utility-associated wildfires," and;

2) Tier 3, "where there is an extreme risk for destructive utility-associated wildfires."[2197]

Although wildfire risk is not limited to the HFTD, the majority of the risk is associated with conditions present in Tier 2 and Tier 3 areas. SDG&E estimates that roughly 61.4% of the

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2195 The Witch Creek-Guejito Fire and the Rice Fire began during an extremely strong Santa Ana wind event. *See* SDG&E, *2023-2025 Wildfire Mitigation Plan* (April 26, 2023) at 29-30, available at https://www.sdge.com/2023-wildfire-mitigation-plan (internal citations omitted).

2196 *See*, *e.g.*, California Public Utilities Commission "*Reducing Utility Related Wildfire Risk*: Utility Wildfire Mitigation Strategy and Roadmap for the Wildfire Safety Division." (December 2020) at 5, available at https://energysafety.ca.gov/wp-content/uploads/docs/strategic-roadmap/final_report_wildfiremitigationstrategy_wsd.pdf ("The effects of wildfires are becoming more intense: in many fireprone areas, wildfire seasons are growing longer and average wildfire sizes are increasing.)

2197 D.17-12-024, Order Instituting Rulemaking to Develop and Adopt Fire-Threat Maps and Fire-Safety Regulations (issued December 21, 2017) at 2.

ignition consequences will occur in Tier 3, 36.2% in Tier 2, and only 2.4% in the non-HFTD.[2198] Because SDG&E prioritizes many of its wildfire mitigation efforts based on risk, the majority of SDG&E's wildfire mitigation initiatives are targeted and prioritized in the HFTD.

But the risk and impacts of fire, particularly catastrophic wildfire, is not limited to the HFTD, nor are the benefits of the wildfire mitigations proposed by SDG&E. A catastrophic fire that starts in the HFTD has the potential to spread outside the HFTD, posing a safety threat to the homes, businesses, and environment in its path.[2199] For instance, the 2003 Cedar Fire began in a remote part of the Cleveland National Forest, but was carried west by high Santa Ana winds, resulting in 13 fatalities and the destruction of 3,021 structures.[2200] In a then-unprecedented occurrence, the fire crossed the Interstate 15 barrier in to densely populated areas.

In addition to the threat of fire itself, fires—including those that burn exclusively in the HFTD—create short and long-term impacts for homes outside of the burn area from smoke and environmental damage.[2201] The state has recognized the significance of wildfire smoke as it can "poison the air across vast swaths of the state," not only impacting public health but also increasing the challenge of reducing greenhouse gas emissions and meeting California's climate goals.[2202] San Diego is also home to one of the most biologically diverse eco-systems in the country and has one of the highest concentrations of endangered species as well as density of tribal lands rich in historical resources and culture. The impact of a fire on these irreplaceable animals and resources could result in immeasurable damage.

SDG&E's wildfire mitigation proposals provide a comprehensive solution to significantly reduce the risk of wildfires damaging the land, ecosystems, and environment throughout its service territory and elsewhere. Contrary to TURN's assertions,[2203] SDG&E has spent years developing

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2198 Ex. SDG&E-13-2R-E (Woldemariam) at 5; SDG&E, 2020-2022 Wildfire Mitigation Plan (WMP) Update (February 11, 2022) at 157, *available at:* https://www.sdge.com/sites/default/files/regulatory/SDG%26E%202022%20WMP%20Update%2002-11-2022.pdf.

2199 Ex. SDG&E-13-2R-E (Woldemariam) at 5.

2200 *See* California Department of Forestry and Fire Protection, *Cedar Fire*, (November 5, 2003) *available at*: ;*see also* The San Diego Union Tribune, *Cedar fire's lessons 10 years later*, (October 24, 2013), *available at*: https://www.sandiegouniontribune.com/sdut-wildfire-cedar-anniversary-fire-2013oct24-htmlstory.html.

2201 Ex. SDG&E-13-2R-E (Woldemariam) at 5.

2202 *See* Governor Newsom's Strike Force ("Strike Force "),*Wildfires and Climate Change: California's Energy Future*, (April 12, 2019) at 5; SDG&E-13-2R-E (Woldemariam) at 5-6.

2203 *See, e.g.,*Ex. TURN-08-E (Borden) at 9-10.

wildfire risk models—further addressed below—that reflect the risk of wildfire associated with electrical infrastructure. TURN's simplistic analysis ignores the unique characteristics of SDG&E's service territory, the local climate, and the environmental damage that could result from an ignition during high-risk conditions. Rather, SDG&E's approach will support both a safe and resilient community where wildfire mitigation impacts stretch throughout the service territory as California's climate continues to face new challenges.

20.3.1.5 Evolution of SDG&E's Wildfire Mitigation Plan

SDG&E's wildfire mitigation initiatives are the result of an ongoing evolutionary process that continues to be the subject of ongoing refinement and enhancement.[2204] While SDG&E began its wildfire prevention program in the wake of the catastrophic fires of 2007, SDG&E was required after the passage of SB 901 and AB 1054 to reexamine its wildfire mitigation initiatives and build upon them to meet new and unanticipated requirements.[2205] SDG&E has responded to the Legislature's requirements with large-scale infrastructure hardening efforts, including strategic undergrounding, use of covered conductor, expanded situational awareness, and increased inspections and asset management. These efforts have received approval during the WMP process as meeting the requirements laid out by SB 901 and AB 1054.[2206]

Mr. Woldemariam's direct and rebuttal testimonies describe SDG&E's 2022 and 2023 WMP submissions, which represent the company's ongoing efforts to reduce the risk of utility related wildfire, promote community safety and resiliency, and address PSPS risks. These efforts include the ongoing development of situational awareness tools like SDG&E's first-of-its-kind weather network, which allows both real-time awareness of conditions during extreme weather events as well as data useful in SDG&E's modeling efforts. SDG&E has also used this data to develop a plan for a safe and hardened grid using targeted and cost-effective measures such as strategic undergrounding, covered conductor, and traditional hardening.[2207] Many of the initiatives described in SDG&E's WMP—and the associated forecasts described in this GRC—are generally

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[2204] The Commission has recognized the WMP process as "iterative" as the WMPs and requirements continue to evolve in response to new regulatory and legislative mandates. *See* Resolution WSD-002, Guidance Resolution on 2020 Wildfire Mitigation Plans Pursuant to Public Utilities Code Section 8386, (issued June 19, 2020) at 8 (citing D.19-05-036 at 36).

[2205] Ex. SDG&E-13-2R-E (Woldemariam) at 6-7.

[2206] Each of SDG&E's 2019, 2020, 2021, and 2022 WMP and WMP Update submissions has received Commission approval. *See also* Ex. SDG&E-13-2R-E (Woldemariam) at 8.

[2207] Ex. SDG&E-13-2R-E (Woldemariam) at 8-9.

unopposed. While intervenors take issue with certain aspects of SDG&E's proposals, namely its strategic undergrounding program, it remains important to note that nowhere in the record do parties dispute the need for a robust approach to wildfire mitigation.

It is also important to note that SDG&E has addressed cost recovery and review of WMP-related costs in a manner consistent with both statute and Commission direction. Protect our Communities Foundation (PCF) has consistently taken issue with the process established by AB 1054 to address recovery of incremental WMP-related costs. The Legislature anticipated that passage of SB 901 and AB 1054 would result in the potential for significant incremental costs in the various electrical corporations' GRCs and acknowledged both the need for a mechanism to track incremental expenditures as well as an expedited process for review of those costs.[2208] Specifically, the Legislature provided that "[a]t the time of approval of an electrical corporation's [WMP], the commission shall authorize the electrical corporation to establish a memorandum account to track costs incurred to implement the plan."[2209] At the same time, the Legislature directed that these initial incremental amounts recorded to the memorandum accounts were to be addressed—by default—in the utilities' General Rate Cases, or the electrical corporation could elect to file a separate application at the conclusion of a three-year GRC cycle.[2210]

The Commission approved the establishment of SDG&E's electric and gas Wildfire Mitigation Plan Memorandum Account (WMPMA), effective May 2019.[2211] As directed by both statute[2212] and this Commission,[2213] SDG&E is addressing the incremental costs associated with its WMPs in Tracks 2 and 3 of this GRC. SDG&E has not provided testimony or support in relation to the reasonableness of its 2019-2022 WMP costs in the instant track of this case. SDG&E has provided the 2022 and 2023 costs related to its WMP initiatives for illustrative purposes only, to demonstrate the progression of costs and better inform the Commission regarding the overall

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2208 *See* Pub. Util. Code §8386.4(b)(2) (requiring the Commission to review applications for recovery of incremental wildfire expenses within 12 months absent good cause).

2209 Pub. Util. Code §8386.4(a).

2210 *See* Pub. Util. Code §8386.4(b)(2).

2211 Ex. SDG&E-13-2R-E (Woldemariam) at 13; *See* Advice Letter 3454-E / 2817-G (October 31, 2019). Approved on January 23, 2020, effective as of May 30, 2019; *See also* D.19-05-039, Order Instituting Rulemaking to Implement Electric Utility Wildfire Mitigation Plans Pursuant to SB 901 (2018), (issued June 6, 2019).

2212 Pub. Util. Code §8386.4.

2213 *See* D.22-05-001, Order Instituting Rulemaking to Create a Consistent Regulatory Framework for the Guidance, Planning and Evaluation of Integrated Distributed Energy Resources, (issued May 6, 2022).

reasonableness of such costs beginning in 2024.[2214] But PCF's assertions that because 2019-2022 WMP costs have not yet been approved, the Commission should wholesale deny any WMP-related costs going forward should be disregarded as inconsistent with both statute and Commission direction.

20.3.2 The Commission Should Approve SDG&E's Proposed Balancing Account for Wildfire Mitigation Activities

As demonstrated above, utility wildfire mitigation continues to be an evolutionary process rooted in evolving data, risk models, and new technologies. As an emerging agency, the Office of Energy Infrastructure Safety continues to explore new ways to address both the risk of wildfire as well as climate change. While the regulatory environment continues to change, SDG&E continues to assess the risk mitigation benefits, costs, and efficiencies of its WMP initiatives to achieve the largest reduction of risk at a reasonable cost. SDG&E's risk modeling tools rely on available data. As more data becomes available, SDG&E may conclude that an alternative initiative offers a more efficient risk reduction, or that a planned effort may be redundant in light of changed circumstances.[2215]

As SDG&E, other utilities, and industry stakeholders continue to innovate and advance wildfire mitigation technologies, it is important to maintain flexibility so that SDG&E can implement the optimal mitigation strategies that balance risk reduction with ratepayer impacts. Two-way balancing of wildfire mitigation activities supports this flexibility, allows ratepayers to receive the benefit of returned unspent funds, and facilitates statutory directives that revenues authorized for wildfire mitigation fund plan activities.[2216] Contrary to TURN, who opposes any balancing treatment of wildfire mitigation costs, two-way balancing of wildfire mitigation costs is supported by Commission precedent in both the prior GRCs of Pacific Gas & Electric (PG&E) and Southern California Edison (SCE).[2217]

Similar to PG&E and SCE, "expanded mitigation activities and capital projects [] are new and costs are difficult to predict. … A two-way balancing account allows PG&E to spend more

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2214 Ex. SDG&E-13-2R-E (Woldemariam) at 16.

2215 Ex. SDG&E-13-2R-E (Woldemariam) at 17.

2216 *See* Pub. Util. Code § 8386.3(d)(1).

2217 *See*, D.20-12-005, PG&E Test Year 2020 GRC Decision, at 119-120; (D.) 21-08-036, Southern California Edison GRC Decision at 249-250; and Conclusion of Law 100 ("Pub. Util. Code §8386.4 does not prohibit the establishment of a balancing account for wildfire mitigation activities.")

than the authorized amount in cases where the authorized forecast is below what is necessary to conduct necessary and important safety-related mitigations against wildfire risks."[2218] Given the ongoing evolution of the wildfire regulatory environment, the constant influx of new data on wildfire science, situational awareness, climate change, and changing risk assessments, the scope of wildfire mitigation programs remains difficult to predict. While SDG&E continues to build upon its years of experience in this field, the scope and specifics of its wildfire mitigation costs continue to be uncertain; for example, SDG&E continues to realize cost-efficiencies related to undergrounding as its program comes to scale.[2219] Two-way balancing of costs in the proposed Wildfire Mitigation Plan Balancing Account, as proposed by SDG&E, "affords the Commission some degree of reasonableness review if expenditures exceed a certain level above the authorized forecast. At the same time, if planned projects are not able to be completed or actual expenditures end up lower than forecast, a two-way WMP[B]A allows [SDG&E] to return unused amounts to ratepayers."[2220]

TURN proposes an alternative that all incremental costs be reviewed via an application process, which imposes unnecessary burdens and constraints on the resources of all parties, including the Commission, who is very capable of assessing the reasonableness of a certain level of additional expenditures via an expedited advice letter process or an application beyond a certain threshold. Two-way balancing is a commonly used and well recognized means to establish a mechanism by which all parties may benefit from ongoing innovation and enhancements to programs and costs.[2221] As the Commission has already found in SCE's GRC, "the establishment of a two-way balancing account and application review process will accomplish many of the same ratepayer protections as TURN's alternative balancing account plus memorandum account proposal."[2222] The same is true for SDG&E's proposal, which the Commission should approve without modification.

2218 D.20-12-005, Decision Addressing the Test Year 2020 General Rate Case of Pacific Gas and Electric Company, (issued December 11, 2020) at120.

2219 Ex. SDG&E-13-2R-E (Woldemariam) at 24.

2220 D.20-12-005, Decision Addressing the Test Year 2020 General Rate Case of Pacific Gas & Electric Company, (issued December 11, 2020) at 120.

2221 Ex. SDG&E-213 (Woldemariam) at 24-25.

2222 D.21-08-036, Decision on Test Year 2021 General Rate Case for Southern California Edison Company, (issued August 20, 2021) at 250.

Additionally, as discussed by Mr. Woldemariam during hearings, two-way balancing facilitates a more timely and efficient review and collection of any incremental balances deemed reasonable by the Commission.[2223] Since implementation of the WMPMA in 2019, SDG&E has accumulated significant undercollected balances that went unaddressed throughout the GRC cycle. While SDG&E is addressing those balances through Tracks 2 and 3 of this proceeding, allowing annual disposition of incremental balances through two-way balancing going forward will avoid rate fluctuations and will facilitate timely recovery of reasonable costs in a manner consistent with traditional ratemaking.

Cal Advocates supports SDG&E's request for two-way balancing of wildfire costs but takes issue with SDG&E's proposed thresholds for review of incremental expenditures. Cal Advocates argues in favor of "an application for reasonableness review of any costs in excess of 110% of the capital expenditure amounts authorized in this decision. Any undercollection that is less than 110% of authorized in this proceeding, as well as the refund of any overcollection, should be filed via a Tier 2 advice letter."[2224] SDG&E maintains that the thresholds recommended in Mr. Woldemariam's Revised Direct Testimony[2225] are reasonable and promote the flexibility necessary to allow SDG&E to respond to evolving wildfire risks and regulatory requirements while also providing insight and transparency into incremental costs.

20.3.3 SDG&E's GRC Request Reflects a Reasonable Approach to Balance Wildfire Risk and Affordability Informed by Vetted Risk Models

As described extensively by Mr. Woldemariam, SDG&E has spent years developing wildfire risk models rooted in weather, infrastructure, and environmental data. SDG&E uses its Wildfire Next Generation System Planning (WiNGS Planning) Model to better inform its investment strategies with respect to grid hardening—namely, the use of covered conductor and strategic undergrounding of electrical infrastructure. The WiNGS model allows SDG&E to both target the areas of the highest wildfire risk and prioritize work accordingly, in addition to identifying the optimal risk mitigation strategy. SDG&E continues to leverage input from stakeholders and lessons learned to enhance its risk modeling capabilities, which remain a subject of significant focus of Energy Safety and SDG&E's WMP.[2226]

2223 *See* Transcript (Tr.) V11:1910 (Woldemariam).

2224 Ex. SDG&E-213 (Woldemariam) at lines 15-18.

2225 Ex. SDG&E-13-2R-E (Woldemariam) at 19.

2226 Ex. SDG&E-213 (Woldemariam) at 5-6.

SDG&E's 2023-2025 WMP, and the forecasted costs to facilitate those initiatives addressed in this GRC, incorporates improvements to risk modeling, including SDG&E's WiNGS Planning Model. SDG&E has incorporated new data inputs to the WiNGS-Planning model to, among other things, capture additional cost efficiencies, update ignition and weather data, and capture any risk reduction of existing infrastructure.[2227] These updates led SDG&E to re-shape its grid hardening strategy to perform additional undergrounding of electric lines over the next 10 years and reduce corresponding covered conductor installation. By executing on this plan, SDG&E predicts it will significantly reduce the risk of utility-related wildfire and the impacts of PSPS within the service territory.

The WiNGS Planning model continues to improve in response to additional regulatory and stakeholder input, in addition to the ongoing collection and enhancement of data. This approach has led to additional improvements, more accurate wildfire risk assessment, and has increased the effectiveness of the portfolio of proposed mitigation. TURN acknowledges that SDG&E's modeling efforts are "vastly improving."[2228] SDG&E is transitioning its models from static Excel files to the "cloud" to allow for centralized, more dynamic data that improves transparency, reproducibility, and allows more agile risk assessments as data and other capabilities improve. SDG&E's culture of continuous improvement and innovation led to the recent recognition of the WiNGS model with a "2023 Chartwell Best Practices Award" which recognizes excellence among electric and gas utilities with respect to projects, programs and service initiatives.[2229]

SDG&E has continually tried to take a risk-informed approach to wildfire mitigation and grid hardening strategies to maximize the effectiveness of mitigations at a reasonable cost. The Commission should reject outright PCF's assertions that SDG&E's risk models are the product of a "black box,"[2230] as PCF's overall assessment of SDG&E's wildfire mitigation plans simply stops in 2020 and they fail to recognize or cite to the years of subsequent WMP filings. Further,

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2227 *Id.*

2228 Ex. TURN-08-E (Borden) at 1.

2229 *See* Yahoo Finance, *SDG&E Recognized by Chartwell for Wildfire Mitigation Predictive Modeling Technology*, (March 24, 2023), *available at:* https://finance.yahoo.com/news/sdg-e-recognized-chartwell-wildfire-105500211.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAAJ5DgOM-w7RkYNMMGrh1wGZlcgzHea8r5VsTtc4WDUdXomERtdFVfpqQVhfdiuUQifkCSeJXCOGh5s0NWxt-9ttgPs4gtZDpUATmg8y6eFxtKl-M88DMB1eM8rrvyvoaT2w3SMkVhtujMUw5UywE5wclexlSCkId4BQ1etgSdKhw.

2230 Ex.PCF-20 (Lakhanpal) at 12.

contrary to TURN's analysis, SDG&E's proposed investments in grid hardening and PSPS mitigation are rooted in SDG&E's risk modeling capabilities.[2231] And even TURN acknowledges that "WiNGS more granular modeling results are extremely helpful for understanding how the concentration of risk in SDG&E's service territory is distributed."[2232]

While it acknowledges the value of the WiNGS Planning approach, TURN's preposterous suggestion that SDG&E has failed to support *any* of its wildfire mitigation-related requests and the Commission should even consider "rejection of its entire proposal"[2233] demonstrates the lack of value of TURN's analysis. The Commission should reject TURN's attempt to place economics over safety as diametrically opposed to the state directives to invest in infrastructure improvements to reduce the risk of wildfire. SDG&E's risk-informed approach strikes an appropriate and reasonable balance between promoting safety through risk reduction and customer affordability and should be approved without modification.

20.3.3.1 TURN's Assessment of Wildfire Risk is Incorrect

TURN's testimony is rooted in a series of fundamental errors because they begin with the assumption that significant wildfire mitigation investments to promote safety and resiliency are simply unnecessary because the risks are not that great in light of current electric rates.[2234] Despite the millions of acres burned in California over the past five years, TURN disputes the wildfire investments proposed by every electrical corporation,[2235] and seems to advocate for some acceptance that utility-related wildfire and ongoing reliability issues associated with PSPS are simply a fact of life that we must accept. Because TURN's analysis is premised on the assumption that rate increases should reflect inflation,[2236] they twist their assertions of fact and assessment of risk to fit the desired conclusion. Because this risk assessment is inaccurate, significantly understates the risk of wildfire in SDG&E's service territory, and ignores the clear facts established in testimony supporting SDG&E's request, it should be disregarded.

2231 Ex. SDG&E 13-2R-E (Woldemariam) at 7-12.

2232 Ex. TURN-08-E (Borden) at 18.

2233 *Id*. at 5.

2234 Ex. TURN-08-E (Borden) at 1, which commences TURN's entire wildfire testimony with a discussion of how SDG&E's current rates compare to other utilities nationwide.

2235 *Id*. at 14.

2236 *Id*.

TURN performs a number of simplistic analyses that appear to support the idea that the risk of catastrophic fire in SDG&E's service territory is less significant and SDG&E's wildfire investment strategy is "less affordable" than SCE or PG&E.[2237] But because they began with the conclusion that there is no possibility of SDG&E's proposals being reasonable, TURN was forced to ignore basic facts, including leaving the two most significant fires in SDG&E's service territory out of their analysis. The disingenuous nature of their testimony is belied by the idea that the Commission should ignore the impacts and breadth of the Witch Fire, ironically *because it was started by electrical infrastructure*.[2238]

TURN starts with the flawed assumption that all wildfire risk should be assessed statewide, rather than by each utility, and that utility investment should somehow be tied to the amount of statewide wildfire risk reduced.[2239] TURN also compares events across utilities but fails to normalize for the size of each utility. SDG&E does not dispute that it has significantly fewer HFTD ignitions than PG&E—whose service territory is over *15 times larger* than SDG&E's.[2240] TURN elects to highlight data without any normalization or perspective that affords an accurate comparison.

Based on a conveniently selected sample size, TURN argues against SDG&E's modeling assumptions that there will be a catastrophic fire in its service territory once every 20 years that could, in the worst case, burn 500,000 acres.[2241] Disregarding the common knowledge that fire behavior is largely cyclical and occurs over time, TURN assumes a worst case scenario of a 200,000 acre fire, then divides that by the number of years to get an average. The Commission should discard TURN's assertion that a potential worst-case scenario of 500,000 acres burned is "not a realistic modeling assumption."[2242] TURN's analysis is overly simplistic and lacks any basis in existing data. Because—for no clear reason—they conveniently begin their analysis in 2008, TURN ignores the many highly destructive fires that burned more than 200,000 acres in the region—all occurring in the last 20 years. The Cedar Fire (2003) that occurred during a Santa Ana wind event in San Diego County burned 273,246 acres. The three catastrophic fires of 2003

2237 *Id*. at 9.

2238 *Id*. at 30:7-8.

2239 *Id*. at 10.

2240 *Id*. at 10-11.

2241 *Id*. at 29:17.

2242 *Id*. at 29:17.

(Cedar, Paradise, Otay) combined burned 376,237 acres – roughly 13 percent of San Diego County's total land mass. And the Witch Fire burned nearly 200,000 acres.[2243]

TURN also chooses to ignore nearly all climate science data to assume "the 1 in 20-year criteria, [equating] to a major fire of around 267,000 acres every 20 years,"[2244] namely, that the worst-case scenario has also happened in SDG&E's service territory. As described by Mr. Woldemariam, the Commission should not form a decision on wildfire investment rooted in the assumption that the worst-case has happened and is not likely to happen again. Additionally, using the past 15 years of historical wildfire records (as TURN claims to do) to calculate an average value of acres burned on an annual basis would result in a significant underestimation of the actual wildfire risk due to the limited sample size, changing environmental conditions, and potential for unpredictable events. In the world of a changing climate, assuming because something has not happened in the past, it will not occur in the future can lead to disastrous results. The tragic fires of 2017 and 2018—which occurred in areas previously thought to be less at risk of catastrophic fire—proved that to be the case and is precisely the outcome we aim to avoid.

SDG&E leverages its extensive data to quantify its mitigations based on a proper probabilistic analysis of the potential worst-case scenario. Mitigations should be appropriately risk informed and not based on an unreasonably small sample size such as past fires in the limited number of years as proposed by TURN. As California faces the need for increased electric resiliency to meet climate goals and to reduce the risk of wildfire in the face of ongoing climate change, the Commission should be looking to what the future may hold, rather than be limited by what has occurred in the past.

To the contrary, MGRA argues that SDG&E understates areas of wildfire risk because of biased data resulting from proactive de-energization in the service territory. Due to the effectiveness of PSPS, "[t]he areas most likely to be affected by power shutoff are those that are most likely to have significant exposure to high wind conditions and high fire potential. Therefore, the most dangerous areas in the SDG&E service territory have their wildfire risk *artificially suppressed*."[2245] MGRA further argues that the Power Law distribution would be more "consistent with academic findings regarding wildfire spread, and would not underestimate catastrophic

[2243] Ex. SDG&E-213 (Woldemariam) at 7.
[2244] Ex. TURN-08-E (Borden) at 30, n.58.
[2245] Ex. MGRA-01-2E (Mitchell) at 15 (emphasis added).

losses" and "including a power law model for large losses and a higher value for wildfire smoke losses would increase risk scores without artificial amplification of the MAVF safety component."[2246] SDG&E believes that, for other reasons addressed below, the Commission should reject MGRA's recommendations regarding wildfire hardening initiatives as consistent with MGRA's own assessment of wildfire risk. However, MGRA's better informed assessment of overall wildfire risk demonstrates the fundamental weaknesses of TURN's analysis.

While SDG&E agrees with certain aspects of MGRA's assessment of wildfire risk, it would not be reasonable or prudent to continue to hold off on finalizing a wildfire hardening strategy while risk models continue to develop. While MGRA acknowledges that modeling improvements continue, and it is "not reasonable to expect SDG&Es risk analysis to be perfect before proceeding with mitigation,"[2247] SDG&E disputes the claim that it is more reasonable to "favor less expensive mitigations in the short term while SDG&E's ability to estimate risk improves."[2248] There is a need for expediency in reducing wildfire risk, and continued short term solutions pose ongoing challenges for customer resiliency and ultimately could result in duplicative measures and costs.[2249] SDG&E has developed adequate data particularly to identify the highest risk circuits in its service territory and its GRC proposals support long-term solutions to address identified and known risks. Because these proposals are well founded in existing risk modeling, they should be approved.

For the same reasons, the Commission should not include further assessment of wildfire smoke in this GRC. While MGRA argues that "a more correct methodology will require the simulation of smoke plumes in conjunction with wildfire simulations and estimation of the effect of those plumes on local populations using epidemiological data and analysis," it also concludes that "[n]o such analysis is currently available to utilities."[2250] It is entirely possible that "[t]he effect of such an analysis, when it becomes available, is likely to have a significant impact on how utility risk is assessed across the landscape," but since an assessment of wildfire smoke requires a

[2246] Ex. MGRA-01-2E (Mitchell) at 7.

[2247] *Id*. at 28:18-19.

[2248] *Id.* at 28:21-23.

[2249] Ex. SDG&E-213 (Woldemariam) at 9-10.

[2250] Ex. MGRA-01-2E (Mitchell) at 13:24-14:8.

cross-functional effort to understand, there is simply not the time nor the resources to incorporate smoke impacts in this GRC.[2251]

Additionally, SDG&E's risk spend efficiency modeling for investment aims to design and improve its infrastructure to prevent utility-ignited fires and reduce their potential size and impact on its customers. By prioritizing the reduction and mitigation of utility-related ignitions in its risk models, SDG&E ultimately achieves MGRAs goal of reducing any corresponding smoke impacts. Therefore, it is not necessary to assess the potential secondary smoke impacts related to utility wildfire. Further, because of the potential significance of smoke impacts as argued by MGRA, the inclusion of wildfire smoke in SDG&E's risk analysis would likely serve to only *increase* the consequences of catastrophic fire, resulting in SDG&E's models indicating the need for additional undergrounding investment, which seems to contradict MGRA's overall recommendations and conclusion.

20.3.3.2 SDG&E's Overall Wildfire Risk Reduction Approach Reflects a Reasonable Balance Between Necessary Investment and Affordability

From the outset of its wildfire mitigation program, SDG&E has been a leader in developing and implementing novel technologies, some of which were entirely new to the utility industry. In doing so, the Company had to balance a number of variables which continually changed in light of evolving data. In both hearings and written testimony, Mr. Woldemariam explained the process by which SDG&E assessed both the efficacy of proposed wildfire mitigation strategies and the associated costs. SDG&E does not dispute that wildfire mitigation efforts represent a significant investment both in capital expenditures as well as O&M to support continued safe and reliable operations.[2252] But these investments are necessary to develop the resilient and fire-safe grid in the face of extreme conditions and climate change.[2253]

Contrary to TURN's unfounded assertions regarding overall risk assessment and affordability,[2254] SDG&E performed an initial analysis when exploring its first wildfire mitigation plan to understand the balance of risk versus wildfire mitigation costs. Based on the illustrative

[2251] Ex. SDG&E-213 (Woldemariam) at 21-22. SDG&E notes that any changes to strategy or SDG&E's risk reduction targets can be addressed in real time through, and further justify the application of, a two-way balancing account, as discussed in my direct testimony and below.

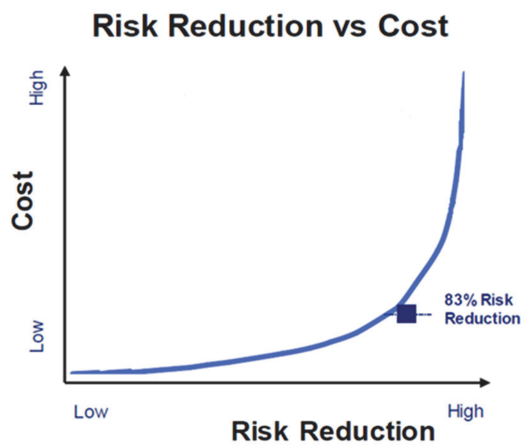
[2252] Ex. SDG&E-13-2R-E (Woldemariam) at 9-10.

[2253] Ex. SDG&E-49-S (Geraghty) at 7.

[2254] Ex. TURN-08-E (Borden) at 16.

figure below, it is easy to see that costs begin to exponentially increase at higher levels of risk reduction. Conversely, less investment results in less overall wildfire risk reduction—which then must be addressed via measures that impact reliability, such as PSPS.

FIGURE 20.1[2255]
Value of Covered Conductor and Underground Grid Hardening Strategies



Mr. Woldemariam explained the process by which SDG&E assessed various mitigation and hardening strategies—specifically covered conductor and undergrounding—to identify a reasonable level of risk reduction. This analysis generated an overall risk reduction target of 83%, which represents the highest risk reduction (X axis) while still addressing the ratepayer impacts of these programs (y axis).[2256] SDG&E has since based its mitigation selection on similar analyses because it provides the best value, least regrets approach—achieving the most risk reduction possible without exponential increases in costs.[2257]

SDG&E continues to assess the balance between mitigation cost and risk reduction as it gathers available data or data changes. For instance, as discussed below, increased efficiencies and cost reductions related to strategic undergrounding resulted in a rebalancing of SDG&E's grid hardening proposals. Additionally, it is important and necessary to assess and address PSPS impacts and consistent with statute and regulatory requirements to reduce those impacts where possible. The balance between cost and risk reduction may result in changes to the 83% target as it

2255 Ex. SDG&E-13-2R-E (Woldemariam) at 11.

2256 *Id.* at 11.

2257 *Id.* at 10.

is adjusted to align with continually-improving, long-term risk mitigations.[2258] But given today's knowledge and data, SDG&E's effort to balance risk reduction and costs in pursuit of significant reduction of utility-related wildfire risk is reasonable.

20.3.3.3 SDG&E's Risk Analysis Addresses Captures Both Granular and Segment Specific Risk

In establishing an overall wildfire risk reduction goal of 83%, SDG&E is able to address the risk of wildfire impacts across the HFTD to understand the holistic impacts of its investment strategy.[2259] Globally, across the HFTD, it remains important to achieve an overall level of risk reduction. But to specifically target investments, SDG&E also measures risk reduction based on a circuit segment-specific RSE through the WiNGS Planning model. This approach not only results in a holistic risk reduction, but also ensures that SDG&E prioritizes the highest risk circuit segments in achieving overall reduction of wildfire risk.[2260]

Based on its targeted level of roughly 83% risk reduction, SDG&E does not start with an "underground first"[2261] approach,[2262] but rather uses the WiNGS Planning model to understand the RSE values of undergrounding and covered conductor to determine the optimal mitigation. As discussed further below, if undergrounding presents a high enough RSE to meet both the overall risk mitigation target and circuit segment risk reduction, it is reasonable to underground the segment.

As explained by Mr. Woldemariam, TURN's analysis fails to distinguish between SDG&E's global RSE's for undergrounding at the HFTD Tier levels, and the WiNGS Planning RSEs.

> The global RSE methodology is what Mr. Borden used. And that's – the global RSEs are used just generally directional to compare mitigations at a high level. All right. So the underground and covered conduct[or] RSEs or other mitigation RSEs are, you know, [tranched] by Tier 3, Tier 2, but they're global. They are higher level numbers. Our approach provides a more granular RSE calculation doing it segment by segment through our WiNGS Planning model. And that's exactly why we did it that way is to provide the Commission and anyone else looking at this a more granular look at the alternative mitigations that we're using for hardening.

2258 Any changes to strategy or SDG&E's risk reduction targets can be addressed in real time through, and further justify the application of, a two-way balancing account, as discussed above.

2259 *See*, Transcript (Tr.) V10:1814-1815 (Woldemariam).

2260 *Id*.

2261 Ex. TURN-08-E (Borden) at 17.

2262 Tr. V10:1815:18-19 (Woldemariam).

> And so with the granular segment by segment comparison you're able to arrive at a more accurate PSPS and wildfire risk reduction. …
>
> When you do it the way Mr. Borden did at the global level, you do not get the same results and you do not get the granular look. And you have to have that granular look because you need to look at risk at a more granular level so that you account for all the various inputs that we're using in … the WiNGS model so that you account for the various risks.[2263]

TURN's analysis fails to properly reflect SDG&E's approach to achieve both global and segment specific risk reduction. The Commission should reject both TURN's analysis and associated recommendations as failing to support adequate risk reduction on any level.

20.3.3.4 SDG&E's Risk Models Properly Account for PSPS Risk Reduction

Based on its flawed tranche-level analysis, TURN argues that SDG&E's undergrounding RSE is inappropriately driven "mostly by PSPS risk reduction than wildfire risk reduction."[2264] As laid out in Mr. Woldemariam's rebuttal testimony, SDG&E rejects the argument that the Commission should disregard the PSPS risk reduction resulting from undergrounding infrastructure.[2265] Failure to address the need for a reduction in the "scale, scope, and frequency" of PSPS events would ignore the very basic requirements of the WMP and Energy Safety's WMP Guidelines.[2266] Consistent with all legal and regulatory requirements, SDG&E properly accounts for PSPS risk reduction in its calculation of global RSEs.

20.3.4 Wildfire Mitigation Capital Proposals

Taking into account its overall risk reduction approach, data-informed calculations of both global and segment-specific risk reduction, and cost calculations, SDG&E's grid hardening and wildfire mitigation capital proposals—including its proposed balance of undergrounding and

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2263 Tr. V10:1845-1846 (Woldemariam).

2264 Ex. TURN-08-E (Borden) at 20.

2265 Ex. SDG&E-213 (Woldemariam) at 17.

2266 *Id*. at n. 41. (citing, Office of Energy Infrastructure Safety, 2023-2025 Wildfire Mitigation Plan Process and Evaluation Guidelines, December 6, 2022 at 9 (WMP evaluation criteria include "The electrical corporation demonstrates a clear action plan to continue reducing utility-related ignitions *and the scale, scope, and frequency of Public Safety Power Shutoff (PSPS) events*. In addition, the electrical corporation focuses sufficiently on long-term strategies to build the overall maturity of its wildfire mitigation capabilities while reducing reliance on *shorter-term* strategies such as PSPS and enhanced vegetation management." (emphasis added)).

covered conductor—reflect a reasonable and informed approach to risk reduction that should be approved without modification.

20.3.4.1 The Commission Should Approve SDG&E's Strategic Undergrounding Strategy to Address Wildfire Risk

Strategic Undergrounding Maximizes Wildfire Risk Reduction

SDG&E's proposed combination of covered conductor and strategic undergrounding reflect the optimal approach to wildfire risk reduction based on the available data. Mr. Woldemariam addresses SDG&E's revised forecasted undergrounding and covered conductor projects due to enhancements in its risk modeling approach and the recommendations of a new iteration of its WiNGS-Planning model, WiNGS 2.0. This new model was implemented in preparation for SDG&E's 2023-2025 Wildfire Mitigation Plan[2267] submission and addresses improvements in modeling and data science to enhance the safety and reliability of SDG&E's infrastructure. MGRA acknowledges that SDG&E "has made considerable progress in its ability to analyze wildfire risk since MGRA began working on the SDG&E power line wildfire problem in 2007. In fact, each new iteration of SDG&E's risk modeling incorporates many advances and innovations, and each of its RAMP, GRC, and WMP filings introduces substantive corrections and improvements."[2268]

As described by both Mr. Woldemariam and Mr. Geraghty, SDG&E continues to explore the ongoing benefits and reduced lifecycle costs associated with undergrounding to better understand the long-term cost savings it presents. For lifecycle cost analysis, SDG&E considered the historical cost of vegetation management activities, inspections, and cost associated with PSPS events over the lifetime of the assets. On average there is a 20% cost savings over the lifetime of the segment when we underground the segment as compared to leaving it as overhead.[2269] While many of these benefits continue to be quantified, it is unreasonable and illogical to put long-term wildfire mitigation efforts on hold (and implement short-term ones with associated costs), pending the resolution of the perfect risk model.[2270]

2267 SDG&E, *2023-2025 Wildfire Mitigation Plan*, (April 26, 2023), *available at:* https://www.sdge.com/2023-wildfire-mitigation-plan.

2268 Ex. MGRA (Mitchell) at 27.

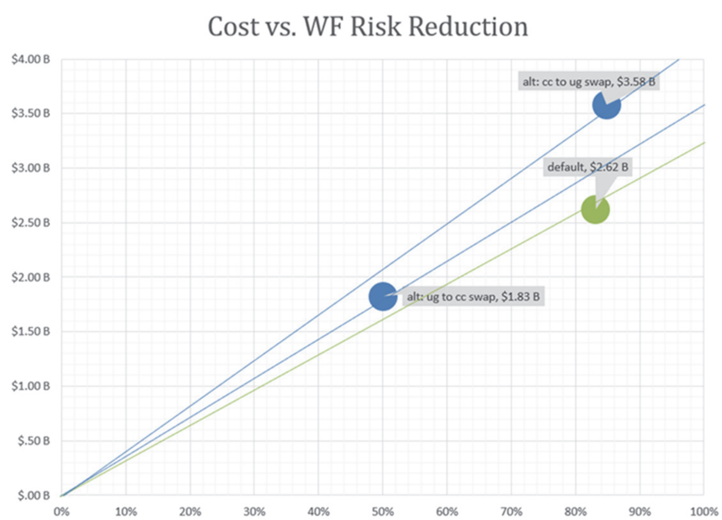
2269 Ex. SDG&E-213 (Woldemariam) at 10.

2270 Ex. MGRA (Mitchell) at 28:21-23.

SDG&E's goal is to implement long-lasting, cost-effective mitigations to reduce wildfire risk and minimize the scale, scope, and frequency of PSPS events impacting its customers. Because strategic undergrounding presents the maximum amount of wildfire and PSPS risk reduction, SDG&E's WiNGS Planning decision tree is designed to identify and select undergrounding based on RSE logic.[2271] And the RSE logic is fundamentally rooted in the reduction of wildfire risk, rather than PSPS risk. If a segment meets the RSE for undergrounding—namely, if the wildfire risk reduction can be achieved for the right cost—WiNGS recommends undergrounding the segment.[2272]

This approach is completely contrary to TURN's assessment that SDG&E has made a simplistic analysis to reduce "more risk, regardless of the cost."[2273] Further, SDG&E's approach is driven by wildfire risk reduction on a segment-by-segment basis. All evidence in this case points to the contrary. As demonstrated in Mr. Woldemariam's rebuttal testimony, SDG&E's proposed combination of undergrounding and covered conductor continues to rest at the inflection point of wildfire risk reduction and cost.

Figure 20.2: Cost vs Wildfire Risk Reduction[2274]



[2271] Ex. SDG&E-213 (Woldemariam) at 11.

[2272] Ex. SDG&E-213 (Woldemariam) at 11. As explained by Mr. Woldemariam, hardening decisions are not made solely within the modeling vacuum but are subject to a Desktop Feasibility Analysis to address additional scoping issues. This study ensures that the appropriate mitigations are applied to each segment considering both the WiNGS Planning recommendations as well as real-world feasibility.

[2273] Ex. TURN-08-E (Borden) at 17.

[2274] Ex. SDG&E-213 (Woldemariam) at 15. Cost estimates are derived from SDG&E's WiNGS-Planning model, rendering relative costs between scenarios accurate.

SDG&E performed an analysis to assess alternative approaches to grid hardening, including undergrounding all lines (maximum risk reduction), and installing all covered conductor (less risk reduction). Adjusting the segments that are currently forecasted for underground mitigation over the next 10 years to covered conductor only would result in the installation of 1,760 miles of covered conductor. The models project such an approach would only result in an **approximately 50%** reduction in wildfire risk at the conclusion of the 10-year period, as opposed to the current goal of 83% wildfire risk reduction with our optimized run through WiNGS-Planning methodology.[2275]

Alternatively, if SDG&E changed all 1,760 miles to underground, SDG&E would achieve 85% risk reduction.[2276] While undergrounding all lines identified as risky in the HFTD might result in the maximum level of risk reduction, such a strategy only results in the reduction of roughly 3% additional risk from SDG&E's "default" approach, with an exponential (nearly $1b) in additional costs. As noted by the "default" point on the graph above, SDG&E's proposal of combined strategic undergrounding and covered conductor continues to achieve the most risk reduction at a reasonable cost.

Additionally, applying the same per-mile cost estimates for all three approaches above, the WiNGS-Planning Optimized run has the best cost effectiveness portfolio for average cost to wildfire risk reduction:

Table 20.5 Mitigation Portfolios

Mitigation Portfolio	Dollar to Wildfire Risk Reduction (WFRR)
Optimized WiNGS-Planning Portfolio (SDGE Proposal)	$31M for every 1% WFRR
Undergrounding all mitigated segments	$42M for every 1% WFRR
Covered Conductor all mitigated segments	$36M for every 1% WFRR

As described by Mr. Woldemariam, SDG&E's proposal results in the most wildfire risk reduction per dollar.[2277] By its own admission, TURN's flawed assessment of wildfire risk—based on an attempt to dilute regional risk by starting with a statewide assessment—results in a proposal

2275 *Id.* Point titled "alt:ug to cc swap, $1.83B."

2276 *Id.* Point titled "alt:cc to ug swap, $3.5B."

2277 Ex. SDG&E-213 (Woldemariam) at 16.

that reduces 12 percent less wildfire risk than SDG&E's.[2278] Exposing SDG&E's customers, community, and employees to 12 percent additional risk of catastrophic wildfire is not only unreasonable, it is inconsistent with SDG&E's WMP, the intent of AB 1054, and regulatory mandates from the Office of Energy Safety to "ensure fewer wildfires stem from utility infrastructure" and "build toward sustained, long-term activities that are required to minimize the impact of wildfires not just during the next fire season, but for many seasons to come."[2279]

Energy Safety has challenged SDG&E to "ultimately achieve the elimination of utility-caused catastrophic wildfires in California," and reduction of wildfire risk is a standard by which SDG&E's WMP compliance is assessed.[2280] TURN simply disregards these mandates, ignores the corresponding directives to reduce PSPS impacts on customers, and provides an alternative approach that offers customers higher risk in exchange for lower costs. Both these flawed assumptions and the ultimately erroneous conclusion that result should be disregarded.

SDG&E's Strategy Reduces PSPS Impacts

While SDG&E's grid hardening proposals are rooted in reduction of wildfire risk,[2281] undergrounding has the distinct advantage of posing the near elimination of PSPS impacts on customers, promoting reliability, resiliency, and safety for customers. As explained by Mr. Woldemariam, PSPS risk reduction can only be achieved at scale through strategic undergrounding of circuits. Covered conductor may lessen the impacts of PSPS during some wind events, but SDG&E must continue to consider PSPS as a wildfire mitigation for covered conductor circuits. Further, any circuit only partially hardened fails to achieve any PSPS reduction.[2282]

Because TURN's analysis fails to account for "how de- energization events are executed and the methodology used to estimate the PSPS Risk baselines for Tier 3 and Tier 2,"[2283] TURN incorrectly implies that PSPS risk is equally distributed across HFTD. To the contrary, when extreme weather conditions are present, not every circuit in Tier 2 or Tier 3 experiences de-

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2278 Ex. SDG&E-213 (Woldemariam) at 38, citing TURN-08-E at 2, n.5.

2279 Office of Energy Infrastructure Safety, *Utility Wildfire Mitigation Strategy and Roadmap for the Wildfire Safety Division*, Appendix 2 at 3, available at: https://energysafety.ca.gov/wp-content/uploads/docs/strategic-roadmap/final_appendix_2_visionandobjectives_wsd.pdf.

2280 Office of Energy Infrastructure Safety, *SDG&E Annual Report on Compliance for San Diego Gas & Electric's 2020 Wildfire Mitigation Plan*, (January 2023), at 68-69.

2281 Ex. SDG&E-213 (Woldemariam) at 17.

2282 *Id*. at 39.

2283 *Id*. at 18.

energization events. Wherever possible, SDG&E also leverages existing resources to limit the number of customers without power at the Supervisory Control and Data Acquisition (SCADA) Sectionalizing device (*i.e.,* segment) level and not at the Circuit Breaker level.

SDG&E's circuit-segment hardening approach is a tailored and targeted means by which to address both wildfire and PSPS risk—fully hardened circuits experience uniform PSPS risk reductions assuming adoption of SDG&E's strategy. Mr. Woldemariam explains how PSPS risk reduction is an evolving process because full PSPS reduction will not be fully realized until the segment is completely undergrounded, which may require a few years of planning and work.[2284] This is different from wildfire risk reduction where the benefits are immediately realized because even portions of segment system hardening experience risk reduction as the system has become more resilient to ignitions. The approach for PSPS risk reduction requires persistent and strategic construction planning, but the full PSPS risk reduction will eventually come to fruition as complete segments are hardened.

Mr. Woldemariam lays out the full scope of PSPS risk reduction as measured per the WiNGS Planning model in his rebuttal testimony.[2285] Over the total portfolio of mitigations, SDG&E forecasts the PSPS risk percent dropping by more than 50% and the total customers eligible for PSPS will be reduced by 34,148 customers (20% reduction). A further breakdown of reduction reveals the following:

- Non-Classified Customers by 30,139 (19.5%)
- Medical Baseline Customers by 3,080 (26.5%)
- Urgent Customers by 75 (30.1%)
- Essential Customers by 613 (20.6%)
- Sensitive Customers by 241 (35.1%)

[2284] *Id.* at 19.

[2285] *Id.* at 19-21.

Figure 20.3 Total Probability of PSPS events

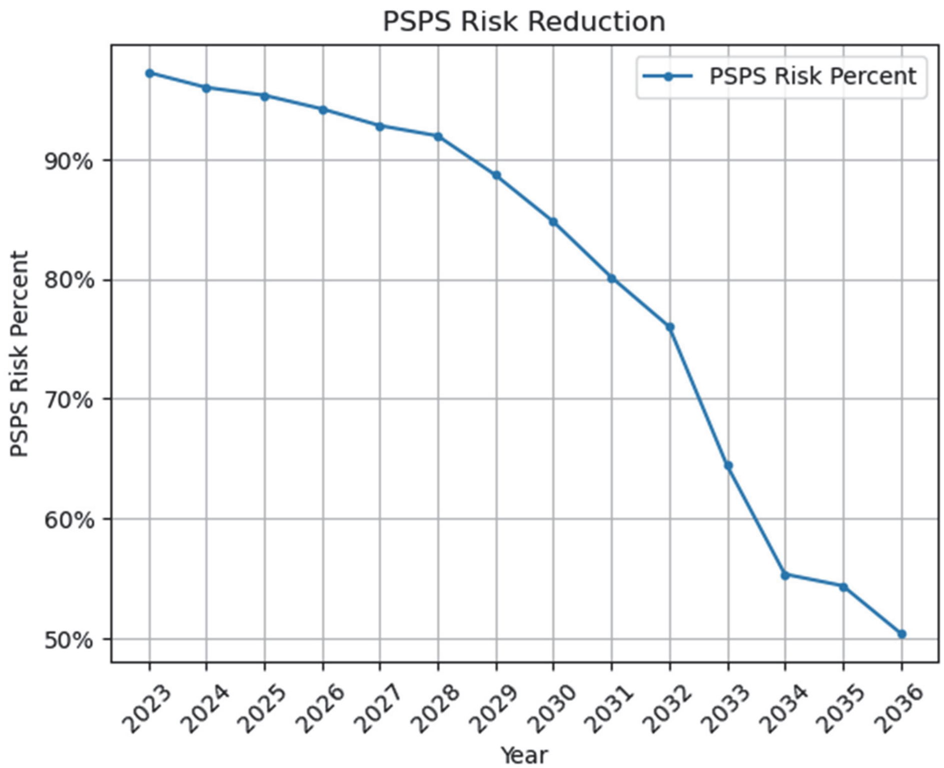
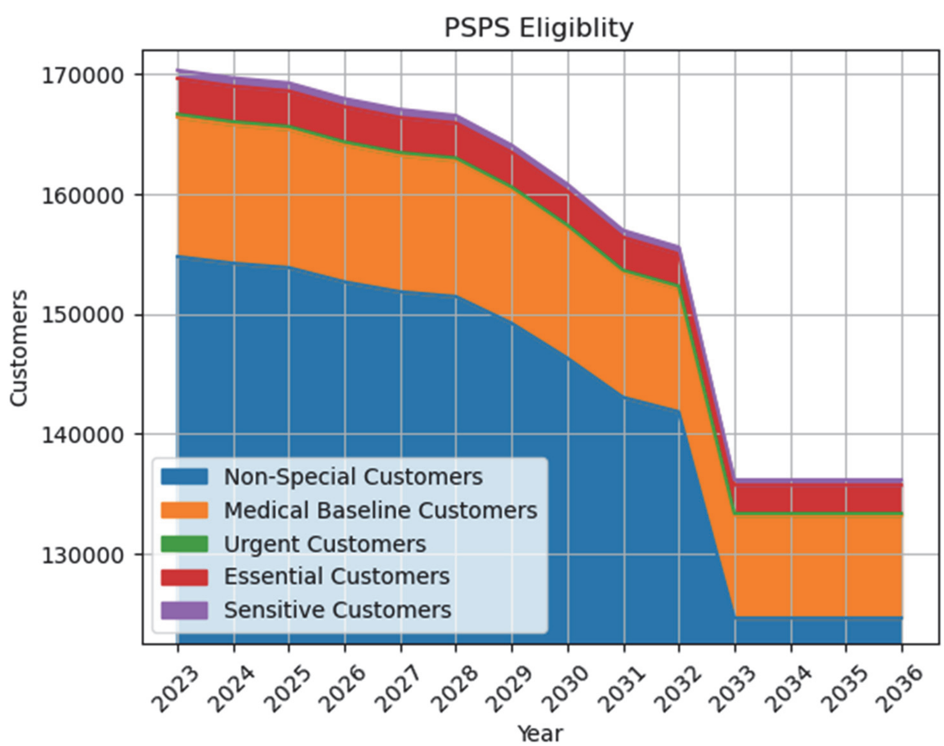


Figure 20.4 Reduction in customers eligible for PSPS



Parties to this proceeding, including TURN, SBUA, PCF, and UCAN, appear to argue in favor of the potential of continued PSPS impacts for large numbers of customers in perpetuity. TURN, for instance, suggests that SDG&E should continue to de-energize customers and employ short-term mitigation strategies, such as SDG&E's Generator Grant Program and Generator Assistance Programs, for impacted customers.[2286] From a pure dollar-for-dollar to SDG&E perspective, continued de-energization is likely one of the more economical means to reduce wildfire risk. But the Commission must reject TURN's analysis of the "relatively low value of avoiding a PSPS event."[2287] Using simple load valuations and assuming all PSPS customer outages impact only residential customers, TURN's consideration of the benefits of PSPS reduction versus undergrounding costs fails to reflect the requirement that SDG&E must reduce the "scale, scope, and frequency" of PSPS events through grid hardening efforts such as undergrounding. TURN applies the incorrect standard that SDG&E should aim to decrease the "likelihood and consequences" of PSPS to argue in favor of PSPS mitigation rather than reduction.[2288]

TURN even contradicts its own prior positions on PSPS reduction. As previously noted by MGRA, TURN "strongly believes that de energization must be used as a tactic of last resort, and it *should not be used as a long-term mitigation strategy*."[2289] Adopting TURN's approach would establish PSPS as a long-term and indefinite wildfire mitigation strategy for overhead circuits.

Moreover, adopting TURN's position that undergrounding infrastructure is "never" reasonable as a PSPS risk mitigation strategy places SDG&E ratepayers at continued risk for ongoing and often prolonged reliability impacts during fire season. Even adopting TURN's ridiculous assumption that PSPS only impacts residential customers, the health, welfare, and safety impacts of prolonged outages are inadequately addressed by limited generation and lower-cost alternatives in the long-term. And because SDG&E's highest risk areas are in remote and rural areas of the San Diego backcountry, PSPS disproportionally impacts vulnerable customers, including Access and Functional Needs customers, and tribal communities.

[2286] Ex. TURN-08-E (Borden) at 26.

[2287] *Id*.

[2288] *Id*. at 25.

[2289] Ex. MGRA-01-2E (Mitchell) at 76:3-5, citing R.18-12-005; Mussey Grade Road Alliance Phase I De-Energization Reply Comments (April 2, 2019) at 7 (emphasis added).

Further TURN's assumption that PSPS only impacts residential customers is completely without support. PSPS events impact and disrupt school, hospital, and business operations, none of which is reflected in TURN's inadequate risk analysis. TURN's proposal to "remove PSPS risk reduction from [its] calculation"[2290] entirely and re-analyze the RSEs of covered conductor and strategic undergrounding should be summarily rejected based on the risk it continues to present to reliability and resiliency and puts dollars over common sense.

MGRA

MGRA proposes several alternatives to SDG&E's risk modeling that inform capital investments for both undergrounding and covered conductor.[2291] While MGRA does not offer a specific proposal for SDG&E's grid hardening initiatives, it does recommend that SDG&E's proposed hardening plan not be approved in its current form[2292] and requests that additional analysis be performed prior to a final decision. However, MGRA generally disputes SDG&E's proposed scope of undergrounding and supports a higher effectiveness value of covered conductor.[2293]

While there is value to additional discussion of risk, further exploration of relevant science and data, and ongoing enhancement of models, as previously discussed, after nearly 5 years of WMP implementation, it is necessary to begin a path forward with a concrete and generally predictable approach to grid hardening. As MGRA acknowledges, "undergrounding provides the greatest protection against wildfire and power shutoff, and from this standpoint improves public safety better than any other mitigation."[2294] And MGRA makes several recommendations regarding risk analysis that would ultimately serve to *increase* the consequence of ignition in risk modeling, including (1) the inclusion of wildfire smoke,[2295] (2) use of an 8 hour fire spread "artificially suppressing maximum fire size in the WiNGS Planning model,[2296] (3) inclusion of additional PSPS risks.[2297] Paradoxically, while MGRA advocates for additional analysis of

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2290 Ex. TURN-08-E (Borden) at 33-35.

2291 Ex. MGRA (Mitchell) at 81-82.

2292 *Id*. at 81:10-11.

2293 *See, e.g.,*Ex. MGRA (Mitchell) at 82.

2294 *Id.* at 76:25-27.

2295 *Id.* at 77.

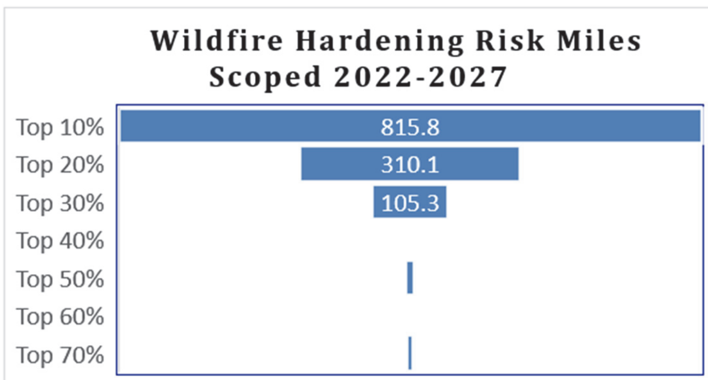
2296 *Id.* at 77-78.

2297 *Id.* at 15-16.

covered conductor, its risk assessment recommendations would likely yield the implementation of substantially more undergrounding.

It is not entirely clear which circuits MGRA anticipates undergrounding in its recommendation that it should be approved for circuits with compelling justifications such as limited community ingress and egress, excessive tree removal, excessive vegetation management or asset maintenance costs, favorable coincidences of geography and property, and the most extreme wind areas.[2298] With this recommendation, SDG&E could assume that MGRA is aligned with SDG&E's proposal, since its strategic undergrounding program targets the areas of the highest risk. This is particularly the case for the proposals contained in this GRC cycle. As demonstrated by Mr. Woldemariam, SDG&E's hardening strategy from 2022-2027 is aimed at almost exclusively the highest risk segments:

Figure 20.5 Wildfire Hardening Scope (2022-2027) by Riskiest Segments[2299]



The WiNGS model has assessed some of the very risks listed by MGRA to identify these segments and recommend either undergrounding or covered conductor by risk. Further, SDG&E's twofold approach to risk assessment—both at the HFTD tranche level and the granular circuit-segment level—meet MGRA's recommendation to perform a full cost/benefit assessment to discover an "optimal risk reduction target."[2300]

2298 *See Id.* at 35.

2299 Ex. SDG&E-213 (Woldemariam) at 36. SDG&E notes that the work scoped for segments in the lower risk areas generally represents legacy work scoped prior to implementation and operation of SDG&E's WiNGS-Planning model and in flight for construction. These miles may be scoped to address downstream PSPS based on circuit-segment dependency. Additional information is available in SDG&E's 2023-2025 WMP at Section 7.2.3.1.2 (pages 103-104).

2300 Ex. MGRA-01-2E (Mitchell) at 82.

Finally, MGRA's assessment of the effectiveness of covered conductor combined with other technologies, including advanced protection, fails to account for or mitigate ignition drivers that pose the highest risk in SDG&E's service territory. As Mr. Woldemariam discussed during his testimony, covered conductor mitigates the risk of ignition related to only the conductor (*i.e.*, if the conductor fails or breaks causing a wire down). But covered conductor fails to mitigate risks associated with other equipment failure, including but not limited to "transformers, fuses, lighting arrestors, a whole slue of equipment that could be an ignition driver or a risk driver."[2301]

SDG&E's proposals are a comprehensive, "least regrets" approach to address both the risks associated with conductor, but also equipment failure.[2302] Because wire-downs are not the only source of ignition associated with overhead infrastructure,[2303] covered conductor is insufficient to address overall wildfire risk on the highest risk circuits. For instance, covered conductor is insufficient to address the risk of vegetation contact with equipment such as fuses or transformers.[2304] Some of the most significant and most destructive infrastructure-related fires in history resulted from equipment failure, not line failure.[2305] And while covered conductor may be strong enough to withstand tree-line contacts in many instances, SCE has recently acknowledged to the Commission that an ignition occurred on its covered conductor when a large tree broke a covered line.[2306]

SDG&E welcomes additional risk analysis and further exploration of data with the input of MGRA and other stakeholders. Information gained from these processes may be implemented in future WMP initiatives and wildfire mitigation efforts, and if the Commission approves SDG&E's two-way balancing mechanism, any savings from these efforts may be returned to ratepayers. But to create stability and consistency, and because SDG&E's current Test Year proposals address the

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2301 Tr. V11:1884:20-22 (Woldemariam).

2302 Tr.V11:1901:9 (Woldemariam).

2303 Tr.V11:1965:22 (Woldemariam).

2304 Tr.V11:1977:5-7 (Woldemariam).

2305 Tr.V11:1977:18-23 (Woldemariam).

2306 *See* California Public Utilities Commission, *Briefings on Utility Safety Practices (SCE and SDG&E)*, July 20, 2023. (video recording available at https://www.cpuc.ca.gov/events-and-meetings/briefings-on-utility-safety-practices-2023-07-20). This presentation to all five commissioners occurred after GRC hearings in this case. SDG&E offers SCE's admission of the incident primarily in the context that the efficacy of covered conductor remains a subject of discussion, and to note that covered conductor—as with any above ground infrastructure—has ignition prevention limitations).

areas of the most extreme risk in the near future, the Commission should approve SDG&E's undergrounding proposals.

Cal Advocates

Cal Advocates generally agrees with SDG&E's overall approach to grid hardening, but proposes a unique and generally unprecedented approach by which SDG&E would not recover the full amount of hardening work performed in areas outside the top 20% of risk. Cal Advocates acknowledges that "system hardening lowers the chance of utility equipment sparking ignitions, thereby enhancing utility safety."[2307] While SDG&E and Cal Advocates agree that hardening, including undergrounding, should occur in unhardened and high wildfire risk areas, the Commission should reject Cal Advocates' unprecedented recommendation for a risk-based cost cap on work otherwise acknowledged as reasonable.

As noted above, SDG&E's forecasted undergrounding and grid hardening efforts are almost exclusively focused on the top 20% of risk.[2308] SDG&E agrees that "it is critical that SDG&E optimize its hardening in terms of risk reduction and cost considerations."[2309] But the cost cap approach places an unreasonable limitation on SDG&E's approach to wildfire and PSPS risk reduction. For instance, certain segments forecasted for work in during this cycle may have been scoped years in advance and have fallen out of the top 20% of risk due to enhancements in risk modeling. Because of the lead time and preparation necessary to support construction efforts—both covered conductor and undergrounding—it is unreasonable to punish SDG&E for failing to predict the future.

Further, adopting such a cost cap serves to disincentivize the very investment AB 1054 found necessary to promote wildfire mitigation and infrastructure safety.[2310] By punishing shareholders for wildfire mitigation work, even in the riskiest areas of the service territory (for instance, the top 60% of risk), the Commission would create a chilling effect on both investment

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2307 Ex. CA-21 (Li) at 5:16-17.

2308 Ex. CA-21 at 21 (Table 21-3). Cal Advocates also notes that, per SDG&E's WiNGS 2.0 model, from 2025 to 2027, 96% of SDG&E's hardening efforts will occur within the top 20 percent of the riskiest overhead segments. Conversely, less than one percent of SDG&E's hardening will address the bottom 60% of risk. .

2309 *Id*. at 12.

2310 AB 1054, Section 1 ("Electrical corporation[s] need capital to fund ongoing operations and make new investments to promote safety, reliability, and California's clean energy mandates and ratepayers benefit from low utility capital costs in the form of reduced rates.").

and infrastructure hardening. Additionally, Cal Advocates proposal fails to account for the evolving nature of wildfire risk analysis and need to reduce PSPS risk through undergrounding. Absent undergrounding of certain upstream segments, SDG&E's efforts to mitigate PSPS risk for frequently impacted circuits would be hindered by the recommended cost-cap.

Additionally, the Wildfire Mitigation Plan process affords Cal Advocates ongoing transparency into the risk profile of circuits scoped for hardening on an annual basis. As Cal Advocates notes, "SDG&E has already stated that it will harden the riskiest circuit segments, … [and] this targeting is also evident in the risk distribution of the power lines which SDG&E plans on hardening during this GRC period."[2311] Cal Advocates has various methods, including the quarterly data updates, geographic information systems (GIS) maps, and Annual Reports on Compliance to confirm that SDG&E is delivering on its commitment to prioritize hardening on the riskiest circuit segments.

The goals of Cal Advocates' recommended cost cap approach can be achieved through existing conventional ratemaking tools, including SDG&E's current proposal for a two-way balancing account for wildfire mitigation activities. First, by approving a revenue requirement associated with this request, the Commission already caps "the total capital expenditure on system hardening for this GRC period."[2312] Additionally, two-way balancing "allows flexibility for SDG&E to reallocate money within its system hardening budget, which promotes efficiency and public safety by allowing SDG&E to harden more power lines than anticipated if the company (1) completes hardening work at lower unit costs than currently forecast, (2) hardens at a faster rate than forecast, (3) reallocates money from undergrounding to covered conductors, or (4) does all of the above."[2313] Ironically, the two way balancing approach recommended by SDG&E, and supported by Cal Advocates' Post Test Year Witness, best achieves these very goals.[2314]

The Commission should accept both SDG&E's forecasted per-mile costs of undergrounding and approve SDG&E's overall forecasts addressing strategic undergrounding without modification.

2311 Ex. CA-21 (Li) at 18:12-19.

2312 Ex. CA-21 (Li) at 4:9-10. SDG&E notes that it is prohibited from diverting funds authorized for wildfire mitigation activities to other investments outside of the plan. *See*, Pub. Util. Code § 8386.3(d).

2313 Ex. CA-21 (Li) at 4-5.

2314 Ex. CA-20 (Hunter) at 20:15-17.

PCF/SBUA

PCF and SBUA each generally object to SDG&E's undergrounding proposals and propose generally unsupported and unsustainable alternative approaches, including prolonged de-energization mitigated by alternative distribution sources—Solar Plus Storage (SPS) or microgrids. Mr. Woldemariam addresses the infeasibility and impracticality of these approaches in his Rebuttal Testimony.[2315] SDG&E has installed microgrids and implemented certain battery backup and generation programs to mitigate the risks of PSPS, but these are short term programs that would be unreasonable to implement at the scale necessary to sustain prolonged de-energization during high-risk periods of the year.[2316]

Further, it is unclear whether PCF and SBUA, in advocating for additional microgrids and SPS solutions understand that, to achieve wildfire mitigation, the distribution circuits which are connected to these microgrids would either have to be undergrounded to stay safely energized during high-wind or extreme fire potential weather, or SDG&E would have to engage in prolonged de-energization during periods of high fire risk. As Mr. Woldemariam explains, "It is not the energy source that causes the wildfire risk, the energized overhead electric infrastructure is the risk to be mitigated. It does not matter if the lines are energized from SDG&E's traditional sources or from a community microgrid if an ignition source remains overhead. SBUA does not take this fact, or the costs associated with undergrounding these circuits, into consideration when developing their assessment."[2317]

Therefore, SBUA's statement that community microgrids have the potential to save 70% to 95% over the costs of undergrounding is incorrect.[2318] SDG&E utilizes microgrids with some associated undergrounding to mitigate the impacts of PSPS for critical customers and frequently impacted customers. However, mass microgrid or SPS deployment is not a reasonable alternative to undergrounding or other grid hardening measures for reducing the risk of wildfire at scale.

2315 *See, e.g.,*SDG&E-213 (Woldemariam) at 40-41.

2316 *Id*. For instance, Community-scale microgrids are currently being proposed within Ex. SDG&E-13-2R-E. These microgrids may be capable of keeping up to approximately 200 residential customers and some essential customers such as fire stations and community centers energized during a PSPS, event but are not a feasible option for continued usage across the entire fire season, which can last for months in the HFTD.

2317 Ex. SDG&E-213 (Woldemariam) at 41.

2318 Ex. SBUA-01 (McCann/Moss) at 23.

Furthermore, SBUA's proposals regarding residential microgrids present a number of issues unaddressed and unsupported by testimony, including:

1. Design and capacity: Residential microgrids are designed to provide power to a single business or residence. These residences or businesses will have varying load requirements. SDG&E has over 180,000 customers within the HFTD, and microgrids would have to be designed and sized individually for each of these customers. Additionally, not all customers will have the available roof space or ground space to install sufficient generation for their needs.
2. Reliability: SDG&E's distribution network allows for multiple sources to be able to energize a circuit or segment of a circuit. A residential microgrid does not have ties to other sources, and if the microgrid fails or runs out of power the customer remains deenergized until the issue is resolved, which may be a prolonged outage.
3. Maintenance: SDG&E's distribution network is inspected, monitored, and maintained by trained professionals to ensure reliability. However, a residential microgrid requires the customer to maintain and service the system, which may be difficult for the average customer who does not have the expertise or resources to do so. It is worth noting the need to replace a SPS system approximately after 25 years of service as compared to the 45-50 years of service for grid assets.[2319]

Mitigation of wildfire risk through microgrid implementation presents a myriad of feasibility and reliability constraints that ultimately fails to adequately address risk. If just one customer on a circuit segment either does not agree or is unable to have a microgrid installed at their residence, the existing infrastructure would need to remain energized and the wildfire and PSPS risk would not be mitigated. SBUA provides no data that all customers within the HFTD are both willing and able to be served by these microgrid proposals, what the timeline would be for implementation of these projects, or the cost of such a large undertaking involving so many stakeholders.

SBUA also includes in testimony certain electric rates based on proposed options relating to distribution hardening and microgrids. The rates SBUA derived for those options are based on inaccurate hypothetical assumptions and oversimplified allocations, which did not specifically calculate direct costs (including O&M), overhead allocations, escalation factors, AFUDC,

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[2319] Ex. SDG&E-213 (Woldemariam) at 42.

SDG&E's authorized capital structure, rate of return, federal and state income taxes, property taxes, working cash, and franchise fees and uncollectibles.[2320] Given these improper calculations, the forecast of electric rates cannot be relied on in considering SBUA's wildfire proposals.

PCF's SPS-related proposals are similarly groundless or rooted in fundamentally flawed assumptions regarding risk and cost. Mr. Woldemariam thoroughly refuted PCF's cost estimates related to their SPS proposals[2321] during hearings in this case. PCF's proposal uses SDG&E's fixed backup power program—which largely consists of propane generators—rather than the cost of an SPS system, which is significantly higher. Further, PCF's estimate is not based on one year of Fixed Backup Power Program costs, but *three years* of units.[2322] PCF's alternative proposal is thus based on (1) the wrong technology, and (2) the wrong costs. Rather than costing $269 million to equip SDG&E's 31,181 Tier 3 customers with SPS systems, a conservative, realistic estimate would be approximately $1.2 billion.[2323]

Finally, it is unclear whether PCF is advocating that the Commission and SDG&E force customers to buy their own SPS systems using their own funds—something outside the scope of this case and the Commission's jurisdiction. PCF claims that "[u]nlike the costs estimated by SDG&E for the FBP Program customers, the cost of the whole house SPS system option would be *borne by the Tier 3 HFTD customers themselves*, and not passed on to SDG&E's ratepayers."[2324] It is patently absurd to argue that SDG&E's HFTD Tier 3 customers—many of whom may not be able to afford solar or whose homes cannot accommodate it—should be forced to pay for PSPS mitigation solutions that leave wires overhead and de-energized for extended periods of time.

Because PCF fails to use the correct cost calculations, understand the mitigations proposed and implemented by SDG&E, and seeks to impose significant burden on vulnerable individuals, the Commission should reject its SPS proposal.

20.3.4.2 SDG&E's Forecasted Covered Conductor Mileage and Cost Estimates Should Be Approved Without Modification

Conversely to their assertions that SDG&Es strategic undergrounding should be reduced, TURN and MGRA advocate for additional deployment of covered conductor and advanced

[2320] Ex. SDG&E-248 (Stein) at 3.

[2321] Ex. PCF-01 (Powers) at 15.

[2322] Tr. V11:1937:6-7 (Woldemariam).

[2323] Tr. V11:1971:22-1972:14 (Woldemariam) (31,000 customers X $55,000).

[2324] Ex. PCF-01 (Powers) at 16.

protection. But as previously addressed, covered conductor is limited in its ability to mitigate wildfire risk, as it is only designed to prevent certain forms of ignition—namely the risk of wire down incidents. Covered conductor does not fully mitigate the risk of equipment failure or large vegetation contact. For this reason, SDG&E's proposal to combine strategic undergrounding in the highest risk areas with covered conductor installation where appropriate is reasonable and should be approved. SDG&E continues to understand the overall effectiveness of covered conductor and PSPS wind speed thresholds, and may continue to incorporate any updates to its risk models to inform future mitigation strategies.

The Commission should also reject TURN's proposed cost cap for covered conductor installation at $800,000 per mile.[2325] TURN's analysis for these costs is based on SCE's forecasted costs of their covered conductor program. However, Mr. Woldemariam addresses the programmatic and operational differences between SDG&E and SCE that do not allow for a direct cost comparison from utility to utility. Some differences include SDG&E utilizing insulation piercing connectors while SCE does not, and the differing mixture of contractor and internal labor being utilized for construction.[2326] SDG&E's covered conductor forecasts are based on a reasonable assessment of scope and equipment necessary to implement this program. Further, assuming the Commission authorizes two-way balancing treatment for wildfire mitigation activities, any savings achieved by additional experience with covered conductor will be returned to customers. For these reasons, SDG&E requests that its forecasted scope of work and associated costs be adopted as presented and TURN's proposal be denied.

20.3.4.3 SDG&E's Forecast Related to Lightning Arrestors is Reasonable

The Commission should reject Cal Advocates recommendation to reduce SDG&E's forecasts related to lightning arrestors. As addressed by Mr. Woldemariam, SDG&E disagrees with Cal Advocates methodology as SDG&E has provided a detailed supplemental workpaper for this program.[2327] Cal Advocates does not take issue with any of the costs or units provided in this supplemental workpaper, instead relying on a simplified methodology to derive its 2024 forecast

2325 Ex. TURN-08-E (Borden) at 38: 26-28.

2326 Ex. SDG&E-213 (Woldemariam) at Appendix D. A full explanation of the cost drivers and methods utilized by the different utilities is included in the Joint IOU Covered Conductor Working Group Report attached to SDG&E's Wildfire Mitigation Plan.

2327 Ex. SDG&E-13-CWP-2R-E (Woldemariam) at 161.

that fails to account for inflation and other factors that have resulted in cost increases since 2021. Therefore, SDG&E's more detailed approach to forecasting lightning arrestor replacement programs should be adopted, and the original proposal of $3.557 million should be approved.

20.3.5 SDG&E's Wildfire Mitigation O&M Proposals Should be Approved

20.3.5.1 Standby Power and Resiliency Assistance Programs

Cal Advocates requests reductions to SDG&E's forecasts for various O&M programs, including SDG&E's Standby Power Programs and Resiliency Assistance Programs. Without justification or rationale, Cal Advocates applies 2021 costs to 2024 unit forecasts, requesting that the Commission ignore—and SDG&E absorb—the obvious increases in costs for these initiatives as a result of inflation, labor increases, and program evolution. For instance, "SDG&E's Standby Power Programs has an upward driver of $1,416,000 in forecasted 2024 costs compared to 2021. The cost increase is driven by the shift to sustainable power offerings such as batteries in lieu of the traditional propane generators."[2328]

20.3.5.2 Vegetation Management, Fuels Management and Pole Brushing

Vegetation management is an integral tool of utility compliance, reliability, and wildfire risk reduction. Again without justification, Cal Advocates recommends a reduction of SDG&E's forecasts based on 2021 costs. The 20.3.Commission should not adopt Cal Advocates' methodology as it fails to capture the changes from 2021 to present as described by Mr. Woldemariam. Cost increases over base year are largely tied to forecasted increases in labor costs, including increased rates as a result of contract negotiations, inflationary and labor market pressures, and increased liability insurance costs for contractors.[2329] SDG&E base year costs also appropriately include the substantial labor cost pressures associated with the implementation of SB 247 in addition to the amount of increased work because of improvements made and documented within the WMP.

Cal Advocates also errs in its calculation of Tree Trimming costs outside of the HFTD. While the Commission should reject the application of 2021 unit costs as failing to reflect inflationary and labor pressures, Cal Advocates also errs in the number of forecasted units in the non-HFTD. As explained in Mr. Woldemariam's rebuttal, SDG&E discovered that the 2024 unit

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[2328] Ex. SDGE-13-2R-E (Woldemariam) at 54.

[2329] Ex. SDG&E-13-2R-E (Woldemariam) at 73:18-20.

costs for trimming in the HFTD was understated. Adjusting the 2024 units in the HFTD brings the total to 273,000 and the non-HFTD to 218,822, a 55.5% and 45.5% split respectively. Using Cal Advocates' unit cost methodology, this corrected unit count would result in a forecasted spend of $15.318 million, which is only a $2.837 million reduction relative to SDG&E's forecast. But applying the correct 2024 forecasted unit costs to the accurate unit count justifies the approval of SDG&E's complete forecasted tree trimming amounts.

With respect to Fuels Management and Pole Brushing, these important programs address the risk of equipment related ignition turning into a larger fire. The Fuels Management Program consists of three activities: fuels treatment, vegetation abatement, and fuels reduction grants. New initiatives and programs have been implemented as part of SDG&E's Wildfire Mitigation Plan, and these enhancements are not captured in historical costs. For instance, the fuels reduction community grants continue to develop as additional partnerships grow between SDG&E and entities such as local and regional tribes.[2330] SDG&E also forecasts an increased use of fuels reduction grants to promote community engagement and lead defensible space efforts. These grants are consistent with SDG&E's 2022 Wildfire Mitigation Plan (WMP) Update initiatives. Further, contract labor costs to perform mechanical vegetation management in SDG&E rights of way, as well as liability insurance coverage are forecasted to increase. Given the increased costs of labor and the importance of these programs to address community wildfire prevention, the Commission should approve SDG&E's O&M forecasts without modification.

20.3.5.3 The Commission Should Continue Two Way Balancing of SDG&E's Vegetation Management Costs with the Inclusion of All Vegetation Management Activities

Other than TURN, no parties specifically address or contest SDG&E's request for two-way balancing of its vegetation management activities, nor does any party oppose the expansion of the Tree Trimming Balancing Account (TTBA) into a Vegetation Management Balancing Account (VMBA) to incorporate all vegetation management activities, including pole brushing and fuels management. TURN recommends that, either way, the Commission should modify treatment of SDG&E's vegetation management activities into a one-way balancing account, with a companion Vegetation Management Memorandum Account (VMMA) to record above authorized spending, subject to reasonableness review in a later application.[2331] TURN's recommended approach

2330 Ex. SDG&E-213 (Woldemariam) at 30-31.

2331 Ex. TURN-15 (Finkelstein) at 19.

disincentives important activities necessary to promote safety and compliance and is inconsistent with existing practices across the state utilities. As the Commission has previously found with respect to PG&E, "consolidating similar activities into one balancing account promotes efficiency in tracking and reviewing costs."[2332]

As discussed by Mr. Woldemariam,[2333] SDG&E has established itself as a good steward of its vegetation management activities. Moreover, circumstances during the prior GRC cycle have demonstrated the need for, and efficiency of, flexibility to respond to increasing and decreasing vegetation management needs and costs. For instance, two-way balancing treatment allowed SDG&E to maintain consistent tree-trimming operations after the passage of SB 247, which increased prevailing wages for tree-trimming contractors, and to pursue enhanced vegetation management efforts—such as additional audits and inspections, as well as enhanced clearances on high-risk species—to address wildfire risk. As is the case with the other California Investor-Owned Utilities, "it is critical that the Commission not place a cap on vegetation management expenditures given the importance of these activities to mitigating wildfire risk, at a time when the associated costs are uncertain and outside of [SDG&E's] control."[2334]

The current TTBA allows SDG&E to manage and maintain routine tree trim maintenance activities and quickly mitigate any emergencies related to vegetation conflicts providing its customers safe and reliable services. SDG&E continues to experience the impacts of climate change, environmental mitigations, tree mortality, vegetation growth, agency constraints, increased fire prevention measures, competing resource needs for Certified Arborist and Line Clearance Qualified Tree-trimmers, and the International Brotherhood of Electrical Workers (IBEW) Union Labor agreements. These variables make it very difficult to accurately forecast annual vegetation management costs. Continued two-way balancing of these expenses affords appropriate protection against the uncertainties and risks that impact vegetation management costs and are often outside SDG&E's control. These same challenges apply to SDG&E's Pole Brushing and Fuels Management operations, which help prevent vegetation caused outages, ignitions, and catastrophic wildland fires. Adding these activities to the two-way balancing account is appropriate and no party contests such an approach.

[2332] D.20-12-005 at 67 (PG&E Test Year 2020 GRC Decision).

[2333] Ex. SDG&E-213 (Woldemariam) at 27.

[2334] D.21-08-036 at 185 (Southern California Edison GRC Decision).

Further, as demonstrated over the previous GRC cycle, two-way balancing of these costs protects customers in that it provides a mechanism for the Commission and stakeholders to review undercollections prior to recovery and for SDG&E to return any overcollection of funds. Because of various changed circumstances, such as the passage of SB 247 and to address wildfire risk, SDG&E has filed applications for recovery of tree trimming related undercollections on two occasions to date. For 2019 undercollections, the Commission found that the majority of SDG&E's incremental expenditures were reasonable and prudent.[2335] Consistent with existing Commission precedent, the Commission should find SDG&E's proposal to expand the TTBA to cover all vegetation management activities reasonable and accept it without modification.

20.3.6 Post Test Year Exception

Table 20.6

WILDFIRE MITIGATION CAPITAL (In 2021 $)				
	Estimated TY 2024 ($000)	Estimated 2025 ($000)	Estimated 2026 ($000)	Estimated TY 2027 ($000)
Total CAPITAL	**518,507**	**557,181**	**580,546**	**603,911**

SDG&E is requesting a post-test year exception for Wildfire Mitigation capital, to allow for Strategic Undergrounding, Covered Conductor, and Generator Grant Program activities to proceed at the level described in testimony.[2336] SDG&E proposes to use the capital-related costs associated with TY 2024 as the starting point to establish revenue requirement for the years 2025-2027, and to escalate those costs consistent with all capital costs considered in Ms. Hancock's proposed post-test year mechanism.[2337] The direct costs for SDG&E's proposed for wildfire-related capital are provided in Table 20.6.

Cal Advocates recommends a 10% reduction each year in the post-test year of SDG&E's Wildfire Mitigation and Vegetation Management costs.[2338] This reduction is consistent with Cal Advocates' proposed reductions to SDG&E's capital programs. For the reasons discussed *supra*, the Commission should reject Cal Advocates' recommended capital program reductions.

[2335] 2020-2021 TTBA undercollections are the subject of a pending Commission application, A.22-12-008.

[2336] Ex. SDG&E-13-2R-E (Woldemariam) at 169-170.

[2337] Ex. SDG&E-45-R-E (Geraghty).

[2338] Ex. CA-20 (Hunter) at 23:3-4.

20.3.7 Conclusion

SDG&E's testimony and workpapers establish that its wildfire mitigation proposals are a reasonable and risk-informed approach to promoting community safety, reliability, and resiliency. Informed by risk modeling and SDG&E's WiNGS Planning tool, SDG&E has proposed investments that target strategic underground and covered conductor to mitigate the areas of highest wildfire risk and reduce PSPS impacts, with over 96% of SDG&E's hardening from 2025-2027 planned in areas in the top 10% of risk. This balanced, least-regrets approach to wildfire mitigation meets the statutory and regulatory requirements established by the Legislature, the Commission, and Energy Safety, and facilitates ongoing compliance with SDG&E's 2023-2025 WMP. For these reasons, and those addressed above, the Commission should approve SDG&E's wildfire mitigation proposals.

21. Customer Service

21.1 Customer Information System Replacement Program

21.1.1 SoCalGas's Request

SoCalGas's Customer Information System Replacement Program testimonies and workpapers, supported by witness Evan D. Goldman, describe and justify the Companies' forecasted Customer Information System (CIS) Replacement Program O&M and Capital expenditures.[2339] SoCalGas must replace its outdated CIS with a new, modernized CIS platform to enable implementation of increasingly complex California regulatory requirements and keep pace with the rapidly changing energy industry and evolving service demands of customers.[2340] SoCalGas's legacy CIS is a large-scale information technology system that was implemented decades ago and is rapidly approaching obsolescence.[2341] CIS supports SoCalGas's critical customer service business processes and customer engagement functions and is foundational to serving SoCalGas's 5.9 million accounts and 21.8 million customers.[2342] A new CIS system will allow for a more customer-centric way of doing business by centralizing customer data to one consolidated location, enabling SoCalGas to more effectively implement new programs and

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2339 *See* Ex. SCG-13 (Goldman); Ex. SCG-13-WP-2E (Goldman); Ex. SCG-213 (Goldman).

2340 Ex. SCG-13 (Goldman) at ii.

2341 *Id.*

2342 *Id.*

services providing customers with significantly improved experiences.[2343] A new system will also support deployment of new features and functions, offering greater configurability and flexibility, and will make implementation of mandated changes quicker and more cost-effective.[2344]

Cal Advocates and TURN-SCGC[2345] provided testimony on SoCalGas's CIS Replacement Program forecast. Intervenors' summary positions are compared to SoCalGas's in the tables below:

Summary of SoCalGas O&M Request and Intervenor Proposals

TOTAL NON-SHARED O&M Constant 2021 ($000)		
	Test Year 2024	**Variance[2346]**
SoCalGas	20,247	0
Cal Advocates	9,975[2347]	(10,272)

Summary of SoCalGas Capital Request and Intervenor Proposals

TOTAL CAPITAL [2348] - Constant 2021($000)								
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**Total[2349]**	**Variance**
SoCalGas	4,913	2,723	93,250	74,133	46,637	0	221,655	0

21.1.1.1 Non-Shared O&M

SoCalGas requests approval of a TY 2024 forecast of $20.2 million for operations and maintenance non-shared services activities for SoCalGas's CIS Replacement Program.[2350] This forecast represents an increase of $18.4 million over 2021 adjusted-recorded costs (BY 2021).[2351] The TY O&M forecast reflects normalization of the estimated O&M costs over the rate case period (2024-2027). The forecast method developed for the project costs is derived from the cost estimate prepared by personnel experienced in this type of work and with reference to recent

2343 *Id.*

2344 *Id.* at ii-iii.

2345 TURN-SCGC does not take issue with SoCalGas's O&M funding request.

2346 Intervenor's forecast – Utility's forecast = Variance.

2347 Cal Advocates recommendations result in a reduction of 51% of O&M non-shared operations.

2348 Cal Advocates and TURN-SCGC each recommend that SoCalGas's CIS Replacement Program be removed from PTY recovery.

2349 Totals may include rounding differences.

2350 Ex. SCG-13 (Goldman) at 19.

2351 *Id.*

projects of similar scope.[2352] More specifically, and as discussed in Mr. Goldman's testimony, SoCalGas hired Accenture to help assess the need for replacing the existing CIS platform, and then to help SoCalGas develop project scope, timelines, required resources, and corresponding cost forecasts. Accenture has implemented more than 250 CIS solutions in the global utility industry over the past 40 years and has recently supported delivery of the five largest CIS programs in the world.[2353] The SoCalGas CIS Solution Plan is based on Accenture's SAP CIS solution framework and has been tailored to SoCalGas's specific scoping needs.[2354]

At the time of the proposed implementation of a new CIS system, SoCalGas's legacy CIS will have been operating for over 30 years and based on technology that will be over 40 years old.[2355] CIS is a critical and foundational information technology system facilitating core customer service transactions and account management for SoCalGas's customers. CIS manages essential functions including billing calculations, payment processing, and credit and collections activity. It also integrates with more than 50 systems across multiple departments.[2356] Over the decades since implementation, the legacy CIS has become increasingly complex and difficult to support, as it has been continuously modified to meet evolving regulatory, legislative, customer, and business driven changes.[2357] It is imperative that the legacy system is replaced prior to experiencing the types of failures experienced by comparable utilities using similarly aged systems.[2358] Key drivers for CIS replacement include:

- solving the problems of technology obsolescence and complexity with the legacy CIS;
- establishing a technology platform that can meet future business and regulatory requirements;
- implementing a "living" system that is sustainable, upgradeable, and resilient;
- enabling modern customer experiences to meet changing customer expectations; and

2352 *Id.*
2353 Ex. SCG-13 (Goldman) at 4; Ex. SCG-213 (Goldman) at 8-9.
2354 Ex. SCG-213 (Goldman) at 9.
2355 Ex. SCG-13 (Goldman) at 1.
2356 *Id.* at 2.
2357 *Id.* at 3.
2358 *Id.* at 21-22.

- evolving customer relationships in support of SoCalGas's ASPIRE 2045 climate commitment.[2359]

SoCalGas and its consultant, Accenture, developed a CIS Implementation Plan and CIS Replacement cost forecast.[2360] The CIS Implementation Plan and cost forecast outline program phases and durations, determine internal and external resources required for those phases, and calculate all costs required to achieve CIS replacement defined in the CIS Solution Plan and Organizational Change Management Plan. The CIS Implementation Plan outlines six phases over 39 months beginning with the Plan/Analyze Phase.[2361]

Cal Advocates takes issue with the TY 2024 forecast for the CIS Replacement Program and proposes a forecast of $9.98 million, or $10.28 million less than SoCalGas's request.[2362] In determining its own proposed forecast, Cal Advocates utilized only the first phase of the CIS Replacement Program, the Plan & Analyze Phase, to estimate TY 2024 O&M expenses.[2363] As addressed in Mr. Goldman's rebuttal testimony, SoCalGas disagrees with Cal Advocates' proposed reductions to its TY 2024 forecast for the CIS Replacement Program.[2364] Cal Advocates' assertion that activities forecasted to be completed beyond the test year should not be authorized is misguided. Cal Advocates does not consider the evidence presented by SoCalGas that demonstrates that all forecasted costs for the CIS Replacement project are anticipated to be incurred within this rate case cycle. Normalization, or the averaging of costs, in the TY when the spend is not expected to be uniform across the rate case cycle is a common practice and a recognized forecasting tool when there are not uniform expenses from year to year. The Commission has in many instances authorized a normalized test year forecast when costs, either historical or forecasted, vary significantly from the test year.[2365]

2359 *Id.* at 4.

2360 *Id.* at 15.

2361 *Id.* at 15-19.

2362 Ex. CA-10 (Campbell) at 10.

2363 *Id.* at 11.

2364 Ex. SCG-213 (Goldman) at 3-7.

2365 *See*, *e.g.*, D.19-09-051 at 62 ("On the other hand, we find that a five-year average in this case better reflects costs over time and normalizes highs and lows of fluctuating costs."); *Id.* at 227 (use of the "average to be appropriate as the volume for certain activities tend to fluctuate depending on the circumstances as well as need and market conditions. Because of this, a five-year average is appropriate in order to normalize these fluctuations."); *Id.* at 708-709 ("We find that using a seven year average using recorded and forecasted capital additions for 2013 to 2019 more reasonably

Since the CIS replacement program is of a fixed duration and not a recurring activity, authorizing only activities forecasted to be completed in the test year would not provide sufficient funding to complete forecasted O&M activities for CIS Replacement.[2366] Over the four-year rate case period, the difference between Cal Advocates' and SoCalGas's forecasts is cumulatively $41.088 million. Importantly, Cal Advocates does not appear to dispute the necessity of replacing SoCalGas's CIS, nor the accuracy of SoCalGas's CIS Replacement O&M forecasts, but instead only disputes the timing of recovery. In its direct testimony and workpapers, SoCalGas clearly explains and provides evidence justifying the need for CIS to be replaced and provides evidence to support the validity of its forecasts. The Commission should therefore adopt SoCalGas's TY 2024 non-shared O&M forecast of $20.2 million.

Cal Advocates also recommends that SoCalGas "create a memorandum account to track and record costs associated with SoCalGas's CIS Replacement O&M expenses."[2367] SoCalGas notes that this recommendation is included without any further discussion, elaboration, or clarification anywhere else in Cal Advocates' testimony. SoCalGas assumes that Cal Advocates is recommending a memorandum account to track incremental O&M costs beyond Cal Advocates' recommended TY 2024 forecast of $9.98 million. SoCalGas disagrees with Cal Advocates' recommendation because, as addressed above, it deviates from the Commission's longstanding approach of normalizing significant costs that occur in the post test years. SoCalGas's forecasts align with standard Commission practice and should be approved in line with how the Commission approves other activities with significant O&M changes in the post-test years. However, if the Commission finds it appropriate to implement a regulatory account mechanism for the CIS Replacement project, SoCalGas proposes that the Commission create a new two-way balancing account to record the authorized and actual O&M and capital revenue requirement rather than the

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reflects both historical adjustments as well as current and forward-looking additions in light of the evolving changes brought about by the utilities' focus on increasing investment in utility safety and reliability and investments aimed at mitigating safety risk and providing clean and reliable energy.") (emphasis added); D.14-08-032 at 168-169 (normalized the test year (2014) "to account for the diminishing costs forecast [for investigation of idle systems removal] through the rest of this GRC cycle. PG&E's 2015 forecast is significantly lower than the 2014 Test Year forecast and the 2016 forecast is zero. We adopt a normalized 2014 expense amount of $1.623 million, which represents a reduction of $2.196 million to PG&E's 2014 expense forecast.").

2366 Ex. SCG-213 (Goldman) at 3-7.

2367 Ex. CA-10 (Campbell) at 1.

O&M memorandum account proposed by Cal Advocates.[2368] The proposed Customer Information System Replacement Balancing Account (CISRBA) is further discussed in the Rebuttal Testimony of Rae Marie Yu, Ex. SCG-238.

In its direct testimony and workpapers, SoCalGas clearly explains and provides evidence justifying the need for CIS to be replaced and provides evidence to support the validity of its forecasts. The Commission should therefore adopt SoCalGas's TY 2024 non-shared O&M forecast of $20.2 million.

21.1.1.2 Capital Cost

SoCalGas further requests the Commission adopt its forecast for capital expenditures in 2022, 2023, 2024, 2025, and 2026, of $4.9 million, $2.7 million, $93.3 million, $74.1 million, and $46.6 million respectively.[2369] As discussed, CIS is the technology foundation of numerous critical operations within the SoCalGas Customer Services organization, but the legacy system is complex and built upon now obsolete technology and because of that it is important that it is replaced prior to experiencing the types of failures encountered by comparable utilities using similarly aged systems.[2370] As addressed by Mr. Goldman, implementing a new CIS will enable the capability and agility necessary to meet evolving business and regulatory requirements while also supporting climate goals and providing enhanced cybersecurity.[2371] In addition, a new CIS will allow SoCalGas to provide modern customer service experiences not possible in the legacy system.[2372]

SoCalGas and its consultant, Accenture, developed a CIS Implementation Plan and CIS Replacement cost forecast. The CIS Implementation Plan and cost forecast outline program phases and durations, determine internal and external resources required for those phases, and calculate all costs required to achieve CIS replacement.[2373] Also included within the capital forecast for the CIS Replacement Program are software costs for cloud-based solutions.[2374] Beginning in 2024, SoCalGas is proposing to capitalize and amortize these costs for regulatory

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2368 Ex. SCG-213 (Goldman) at 3-7.

2369 Ex. SCG-13 (Goldman) at 20-21.

2370 *Id.* at 1.

2371 *Id.*

2372 *Id.*

2373 *Id.* at 15.

2374 *Id.* at 20.

recovery as long as the contracts meet SoCalGas's capitalization dollar thresholds.[2375] Any renewals of the maintenance contracts would be O&M. These services are integral to the successful operation of new hardware or software and should be considered an extension of the asset.[2376]

Cal Advocates recommends that SoCalGas's CIS Replacement Program be removed from PTY recovery.[2377] In support of its recommendation, Cal Advocates confusingly (and incorrectly) states that the CIS Replacement has had significant delays.[2378] In addition, Cal Advocates states it is inappropriate to include these costs for ratepayer funding given the uncertainty associated with the expected completion date of the project.[2379] TURN-SCGC similarly states that "information technology projects are notorious for running behind schedule" and that "it is inappropriate to guarantee a forecasted capital addition amount in 2026 and 2027 for a project that may not close to plant in service until next GRC cycle."[2380]

Mr. Goldman's rebuttal testimony addresses Cal Advocates' and TURN-SCGC's post-test year arguments concerning a potential delay of the CIS Replacement project.[2381] Notably neither Cal Advocates nor TURN-SCGC dispute SoCalGas's justification of the need for CIS replacement or the evidence supporting the level of SoCalGas's capital cost forecasts. Cal Advocates' assertion that the "CIS Replacement has had significant delays" is in error and factually incorrect. In a data request, SoCalGas asked Cal Advocates what analysis was relied upon to determine that the CIS Replacement has had significant delays.[2382] Cal Advocates replied:

> "Significant delays" may have been an *editing error* stemming from confusion with SDG&E's CIS Replacement Program.[2383] Regardless, SCG's CIS Replacement program is moving very slowly. It was first requested in SCG's 2019 GRC, and it has been two full years since funding was approved in early 2021. The project is

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2375 *Id* at 21.

2376 *Id.*

2377 Ex. CA-20 (Hunter) at 21.

2378 *Id.*

2379 *Id.* at 22.

2380 Ex. TURN-SCGC-07 (Yap) at 11.

2381 Ex. SCG-213 (Goldman) at 8-11. The Post-Test Year proposals of Cal Advocates and TURN-SCGC are further addressed in the Rebuttal Testimony of Khai Nguyen (Ex.SCG-240-E).

2382 Ex. SCG-213 (Goldman) at 8.

2383 SDG&E's CIS Replacement was delivered within three months of its originally forecasted implementation date. The three-month schedule extension was needed to accommodate additional Commission mandated requirements ordered in D.20-06-003. *See* Ex. SCG-213 at 8, n. 29.

still in a pre-planning phase and will be in a planning phase for another two years.[2384]

Cal Advocates' response to the data request confirms that the basis for its PTY recommendation, namely that there have been significant delays associated with SoCalGas's CIS Replacement project, is not valid and that Cal Advocates' assertion was made in error. The Commission should thus disregard Cal Advocates' recommendation.

Cal Advocates' response to SoCalGas's data request contains additional errors. Specifically, Cal Advocates states that "SCG's CIS Replacement program is moving very slowly" and that it "was first requested in SCG's 2019 GRC".[2385] Both of these statements further exemplify Cal Advocates' misunderstanding of SoCalGas's approach to planning and de-risking the CIS implementation. In the TY 2019 GRC, the Commission authorized funding for SoCalGas to *study* the replacement of CIS, not to replace CIS.[2386] As detailed in Mr. Goldman's direct testimony, SoCalGas used the authorized funding to determine that replacement was the appropriate path forward, analyze replacement options, and develop plans and estimates for CIS replacement.[2387] SoCalGas is deliberately moving at the current pace to properly and thoroughly prepare to launch the CIS Replacement project.[2388] Since the completion of the CIS Assessment study, SoCalGas has continued to de-risk the probability of a delay through investment in CIS pre-planning activities as discussed and forecasted in direct testimony and workpapers.[2389] These activities were prioritized based on best practices and lessons learned from recent peer CIS implementations.[2390]

Contrary to Cal Advocates' claim, SoCalGas is on-schedule with its CIS Replacement pre-planning efforts.[2391] SoCalGas's 2022 adjusted recorded O&M Expenditures for CIS replacement are in-line with its 2022 GRC forecasts for CIS Replacement activities.[2392] TURN-SCGC's

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2384 Ex. SCG-213 (Goldman), Appendix C, SCG-SDGE-PAO-005, Cal Advocates' Response to Question 1a (emphasis added).

2385 *Id.*

2386 Ex. SCG-213 (Goldman) at 8-11.

2387 Ex. SCG-13 (Goldman) at 3-4.

2388 Ex. SCG-213 (Goldman) at 8-11.

2389 *See* Ex. SCG-13 (Goldman); Ex. SCG-13-WP-2E (Goldman); Ex. SCG-213 (Goldman).

2390 Ex. SCG-213 (Goldman) at 8-11.

2391 *Id.*

2392 *Id.* at Appendix D, Excerpt of SoCalGas's 2022 Recorded O&M Expenditures.

argument that CIS Replacement capital should not be authorized since "[t]echnology projects are notorious for running behind schedule,"[2393] is similarly speculative and not supported by any evidence. SoCalGas has provided compelling evidence to support the reasonableness of the CIS Replacement Program capital forecasts and the timeline for completion of the project. Even if the Commission were to accept Cal Advocates' and TURN-SCGC's tenuous assertions, SoCalGas's implementation timeline would need to be delayed by more than 18 months for the CIS replacement to implement past the current rate case cycle.[2394]

If SoCalGas does not replace its legacy CIS, it will become increasingly difficult to support Commission requirements. Future mandated billing and rate requirements and implementation of new programs may require significant time and costs if deployed on legacy systems. In addition, the existing CIS limits the ability of SoCalGas to deliver technology-based customer service improvements to meet customer needs and expectations.[2395]

21.1.1.3 Conclusion

After receiving approval in the 2019 GRC to study CIS replacement, SoCalGas conducted the thorough research and planning necessary to begin implementation of the new CIS Replacement Program which is forecasted to go into service in 2026. The new CIS will replace an outdated mainframe system that will be three decades old at the time of its replacement. CIS is the technology foundation of numerous critical operations with the SoCalGas Customer Services organization, and it is imperative that the legacy system is replaced. SoCalGas has demonstrated that its TY 2024 non-shared O&M forecast is reasonable and that its PTY capital recovery forecast is reasonable.

[2393] Ex. TURN-SCGC-07 (Yap) at 11.

[2394] Ex. SCG-213 (Goldman) at 8-11. While SoCalGas believes that its request for treatment and recovery in the post test years is reasonable and appropriate, the Commission could also find it appropriate to implement a regulatory account mechanism for the CIS Replacement project. Specifically, the Commission could order creation of a new two-way balancing account to record the authorized and actual O&M and capital revenue requirement for the CIS Replacement project costs. A balancing account addresses concerns of project delay raised by Cal Advocates and TURN-SCGC by allowing any overcollection that may result due to underspending to be returned to ratepayers.

[2395] Ex. SCG-13 (Goldman) at 11.

21.1.2 SDG&E

SDG&E's Customer Information System (CIS) Replacement Policy testimony[2396] presents an overview of SDG&E's new CIS,[2397] an updated forecast of the benefits achieved under the new CIS, and discusses the balancing accounts authorized for the recovery of the CIS replacement implementation costs.

D.18-08-008 authorized SDG&E to implement its CIS Replacement Program. Pursuant to D.18-08-008 approving the all-party settlement agreement, CIS benefits are to be taken in the years they are forecast to be realized, and in SDG&E's GRC, SDG&E will present an updated forecast of the total benefit amount.[2398] Accordingly, SDG&E presented an updated forecast of the benefits for test year (TY) 2024 in this GRC.[2399] No Intervenor addressed SDG&E's updated forecast of benefits in its testimony.

SDG&E's new CIS was placed into service on April 5, 2021, and implementation activities and related spending were completed in December 2021.[2400] Recovery of the project implementation costs recorded to both the gas and electric Customer Information System Balancing Account (CISBA) accounts began on January 1, 2023 when the CISBA revenue requirement was included in rates.[2401] Recovery of SDG&E's incremental costs recorded to both the gas and electric Transition, Stabilization and OCM Balancing Account (TSOBA) began on January 1, 2023 when the TSOBA revenue requirement was included in rates.[2402] As discussed below in Section 43 (Regulatory Accounts) SDG&E requests that the CISBA and TSOBA accounts be closed effective December 31, 2023.

2396 *See* Ex. SDG&E-16 (Sacco).

2397 SDG&E's new Customer Information System was approved in A.17-04-027 / D.18-08-008.

2398 *See* D.18-08-008, Attachment A at 4 (Section. 2.2).

2399 *See* Ex. SDG&E-16 (Sacco) at Table TS-1 and Table TS-2.

2400 Ex. SDG&E-16 (Sacco) at 5.

2401 *See* Advice Letter 4129-E, Consolidated Filing to Implement January 1, 2023, Electric Rates, approved by Energy Division effective 01-01-2023 and *see* Advice Letter 3149-G, Consolidated Gas Rate Changes Effective January 1, 2023, approved by Energy Division effective 01-01-2023.

2402 *See* Advice Letter 4129-E, Consolidated Filing to Implement January 1, 2023, Electric Rates, approved by Energy Division effective 01-01-2023 and *see* Advice Letter 3149-G, Consolidated Gas Rate Changes Effective January 1, 2023, approved by Energy Division effective 01-01-2023.

Forecasted Operations and Maintenance (O&M) and capital costs for the CIS for test year 2024 are discussed below in Section 21.4 (Customer Services Office Operations) and Section 27 (Information Technology).[2403]

21.2 Customer Services Field and Advanced Meter Operations

21.2.1 SoCalGas Summary of Field & Advanced Meter Operations Request

Table 21.1

CUSTOMER SERVICES FIELD AND ADVANCED METER OPERATIONS O&M COSTS IN 2021 $ (000s)			
	BY 2021 Adjusted Recorded	TY 2024 Estimated	Change
Shared	1,393	1,617	224
Non-Shared	178,545	209,713	31,168
Total O&M Costs	**179,937**	**211,330**	**31,393**

Table 21.2.B 21.2

CUSTOMER SERVICES FIELD & ADVANCED METER OPERATIONS CAPITAL COSTS In 2021 $ (000s)				
IT Capital Project ID	**Project Name**	**2022 Estimated**	**2023 Estimated**	**TY 2024 Estimated**
89066	Call Ahead SMS/Text-based Customer Notifications	$1,129	$0	$0
85674	PACER Mobile Upgrade Phase 2	$2,982	$0	$0
BC21157	PACER WFM Replacement Project	$7,024	$11,907	$13,773
89023	Data Analysis Reporting Tool (DART) Upgrade	$218	$0	$0
BC21035	DART Upgrade Phase II	$596	$298	$0
BC21031	Advanced Meter Data Collector Unit Hardware Refresh	$0	$0	$4,407

[2403] *See* Ex. SDG&E-18-S (Baule); Ex. SDG&E-218 (Baule), Ex. SDG&E-25 (Gordon/Exon); Ex. SDG&E-225-E (Gordon/Exon).

CUSTOMER SERVICES FIELD & ADVANCED METER OPERATIONS CAPITAL COSTS In 2021 $ (000s)				
IT Capital Project ID	**Project Name**	**2022 Estimated**	**2023 Estimated**	**TY 2024 Estimated**
85683	Advanced Meter Network Exceptions Management & Operations	$1,025	$0	$0
89013	AM Web Portal for 3rd Party Attachments	$264	$0	$0
BC21159	Advanced Meter Pole Inspection Upgrade	$300	$125	$0
85686	Meter Set Assembly Inspection Enhancements Project	$469	$0	$0

SoCalGas seeks $211.3 million for operations and maintenance (O&M) expenses in TY 2024 which is composed of $209.7 million for non-shared service activities and $1.6 million for shared service activities.[2404] Customer Service Field & Advanced Meter Operations (CSF&AMO) provides various services, including completing customer and company generated work orders, which include requests to establish/remove utility service, light gas pilots, check gas appliances, shut off and restore gas service for fumigation; investigating the potential causes of high gas bills; responding to emergency incidents; investigating potential gas leaks, meter and regulator changes and other meter work necessary to maintain company assets; and collecting customer payments for delinquent bills. The CSF&AMO organization is required to perform inspections of each meter set assembly (MSA) for atmospheric corrosion, to identify conditions which require remediation by CSF and Distribution field employees, contact customers to resolve meter access issues, and ultimately perform remediation work. In addition, CSF&AMO supports SoCalGas's sustainability strategy and the State's climate goals. Specifically, CSF&AMO supports the transition to clean energy through its commitment to decarbonize its fleet of vehicles and equipment to help reduce GHG emissions.[2405] CSF&AMO's Aerial Methane Mapping Leak Mitigation program also supports SoCalGas's ability to detect methane leaks faster, increase safety, and reduce methane

2404 Ex. SCG-14-R (Rendler) at iv-1; Ex. SCG-214 (Rendler) at 1.

2405 Ex. SCG-14-R (Rendler) at 12-14.

emissions, and the Advanced Meter Analytics Leak Mitigation and Usage Conservation program helps SoCalGas mitigate GHG emissions from homes and businesses.[2406]

21.2.2 RAMP

Approximately $124 million, or 59 percent, of CSF&AMO's total O&M expenses are RAMP-related costs.[2407] A list of RAMP activities and the incremental funding are summarized in the table below.[2408] The incremental funding request supports ongoing management of various safety risks that could pose significant safety, reliability, and financial consequences to SoCalGas's customers and its employees.[2409] Details of these safety risks, associated costs, risk mitigation efforts, and the anticipated risk reduction benefits that may be achieved are summarized in Mr. Rendler's direct testimony.[2410]

As discussed below, because 59 percent of SoCalGas's O&M expense are RAMP-related costs, funding reductions proposed by Cal Advocates and TURN can negatively impact CSF&AMO's implementation of risk mitigation projects and programs to further mitigate safety risks described in Mr. Rendler's testimony.[2411] In addition, SoCalGas disagrees with TURN's characterization of CSF&AMO's RAMP-related programs as "least-cost effective programs that SoCalGas has proposed in this GRC."[2412] SoCalGas believes that these RAMP-related activities are important in mitigating safety risks. For example, formalized mandatory training includes classroom and situational field exercises to educate employees on safety processes.[2413] It is also important for SoCalGas to respond to safety-related field orders, such as system integrity orders (gas leak), appliance safety (carbon monoxide, service establishment and other appliance orders) and customer awareness (soft close notification) to protect and serve our customers.[2414] Priority

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2406 *Id.*

2407 *Id.* at 5-12.

2408 This table is included in Appendix B to Mr. Rendler's direct testimony, Ex. SCG-14-R.

2409 *Id.*

2410 Ex. SCG-14-R (Rendler) at 5-12; Ex. SCG-14-R (Rendler) Appendix B.

2411 *Id.* RAMP risks described in Mr. Rendler's testimony relates to Incidents Related to Medium Pressure System (Excluding Dig-in)- the risk of damage, caused by a medium pressure system (maximum allowable operating pressure (MAOP) at or lower than 60 psig) failure event, which results in serious consequences such as injuries, fatalities, or outages and includes consequences beyond the customer meter.

2412 Ex. TURN-09-2R (Cheng) at 6-7.

2413 Ex. SCG-214 (Rendler) at 9.

2414 *Id.*

was given to these safety risks when developing the TY 2024 funding request. Thus, TURN's request for the Commission to reject increased spending for these RAMP-related programs should be dismissed.[2415]

Table 21.3

CS - FIELD & ADVANCED METER OPERATIONS RAMP Activity O&M Forecasts by Workpaper (In 2021 $)						
Workpaper	**RAMP ID**	**Description**	**BY2021 Embedded Base Costs (000s)**	**TY2024 Estimated Total (000s)**	**TY2024 Estimated Incremental (000s)**	**GRC RSE**
2FC001.000	SCG-Risk-3 - C25	Field Employee Skills Training	5,713	7,288	1,575	0.07
2FC001.000	SCG-Risk-3 - C31	Personal Protective Equipment (PPE)	488	651	163	0.0*
2FC001.000	SCG-Risk-3 - C32	Safety Related Field Orders	68,895	83,567	14,672	0.8
2FC003.000	SCG-Risk-3 - C26	Staff Employee Skills Training	4,014	5,390	1,376	0.0*
2FC003.000	SCG-Risk-3 - C28	Quality Assurance	824	1,127	303	0.6
2FC005.000	SCG-Risk-3 - C30	Meter Set Assembly (MSA) Inspection Program	25,320	25,710	390	13.2
2FC006.000	SCG-Risk-3 - C29	DCU/Pole Inspections	258	284	26	0.0*
Total			**105,512**	**124,017**	**18,505**	

* An RSE was not calculated for this activity

21.2.3 TY 2024 O&M Funding Request

Table 21.4

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SOCALGAS	179,937	211,330	31,393
CAL ADVOCATES	179,937	201,922	21,985
TURN	179,937	182,497	2,560

2415 Ex. TURN-09-2R (Cheng) at 6-7.

CSF&AMO's TY 2024 O&M expenses of $211.3 million, which is an increase of $31.393 million from BY 2021, include incremental funding necessary for CSF&AMO to respond to regulations, implement changes to business processes, increase data analysis, update technology to synchronize with business process changes, and adequately train employees to implement changes in work processes and technology.[2416] CSF&AMO is also sponsoring the business justification for capital IT projects, which are being requested in the testimony and capital workpapers of Jamie Exon, in Exhibit SCG-21-R-E- Chapter 2, and Exhibit SCG-21-CWP-R, to replace obsolete technology, comply with regulatory mandates, and deliver an improved customer experience.

SoCalGas selected BY 2021 as the forecast starting point for shared and non-shared activities.[2417] The only parties to rebut portions of SoCalGas's O&M revenue request were Cal Advocates and TURN. While Cal Advocates used a different year as its BY in one category --CSF Operations-- as opposed to 2021 as its BY, it did not oppose SoCalGas's use of a BY forecasting methodology.[2418] However, TURN recommended adjustments to nearly all CSF&AMO's TY 2024 O&M forecasts, based on its use of a five-year historical average forecast methodology.[2419] TURN's justification is based on its argument that "[t]he Commission should reject SoCalGas's COVID-19 argument because during those years, it pocketed the reduced O&M costs as earnings for shareholders which allowed Sempra to achieve record profits."[2420] TURN also selects a few work orders to argue that "SoCalGas forecasted record high order volumes in select categories without providing any reasonable support."[2421] TURN then claims, "[t]o arrive at the estimate with the most conservative reduction, TURN uses a five-year average, which would also include two full years before the pandemic."[2422] In each instance, as described more fully below, TURN selectively used a five-year average (2018-2022) for all non-shared cost categories, except Advanced Meter Operations, where TURN used a four-year average (2019-2022). TURN was unjustifiably selective in both the historical average period it used to create its own forecasted

2416 Ex. SCG-214 (Rendler) at 2.

2417 *Id.* at 4.

2418 Ex. CA-10 (Campbell) at 20.

2419 Ex. TURN-09-R (Cheng) at 5.

2420 *Id.*

2421 *Id.*

2422 *Id.* at 7.

revenue requirement, and in using the 2022 actual recorded costs, which were not available at the time the CSF&AMO's forecasts were developed.

TURN's use of a five-year average is unreasonable and should be rejected. TURN failed to provide any evidence that SoCalGas "pocketed the reduced O&M costs as earnings for shareholders," and as explained by Mr. Rendler, "GRC authorized O&M funding can also be reprioritized to fund other company activities unless they are required to be tracked separately in a regulatory account and used for a specific purpose."[2423] Mr. Rendler also explained that "[u]sing a multi-year average as a starting point would not be appropriate as certain activities were not fully represented prior to BY 2021."[2424] TURN also inappropriately used a five-year average that includes 2022 and two full years before the pandemic (2018-2022) to derive at a lowest forecast possible. When properly using the five-year average as a selected methodology per the Rate Case Plan, the forecast is higher than using a BY 2021, as shown below in the CSF Operations section below. Because the recommendations made by Cal Advocates and TURN are unreasonable, and do not consider the ongoing and future activities described in SoCalGas's testimony, they should be rejected.

Only TURN opposed SoCalGas's business justification for IT capital expenditure requests.[2425] In addition, TURN recommended adjustments to SoCalGas's revenue request concerning the following cost centers, but Cal Advocates recommended adjustments in only two cost centers (CSF Operations and Advanced Meter Operations):

- CSF Operations (2FC001.000): a reduction of $4.8 million (Cal Advocates) and a reduction of $15 million (TURN) from a total TY 2024 request of $129.2 million (labor and non-labor).
- CSF Supervision (2FC002.000): a reduction of $0.028 million (TURN) from a total TY 2024 request of $12.1 million.
- CSF Support (2FC003.000): a reduction of $2.306 million (TURN) from a total TY 2024 request of $14.4 million.
- CSF Dispatch (2FC004.000): a reduction of $0.918 million (TURN) from a total TY 2024 request of $14.1 million.

2423 Ex. SCG-214 (Rendler) at 10.

2424 *Id.* at 4.

2425 *See* Ex. SCG-21-R-E, Chapter 2, SCG-21-CWP-R (Exon) for IT capital expenditure requests.

- CSF Meter Set Assembly Inspection (2FC005.000): a reduction of $4.386 million (TURN) from a total TY 2024 request of $25.7 million.
- Advanced Meter Operations – (2FC006.000): a reduction of $4.6 million (Cal Advocates) and a reduction of $6.2 million (TURN) from a total TY 2024 request of $14.2 million.
- PACER Workforce Management Replacement Project: a reduction of $7.024 million in 2022, $11.907 million in 2023, and $13.773 million in 2024, which is being requested in the testimony and capital workpapers of Jamie Exon (Ex. SCG-21-R-E - Chapter 2, SCG-21-CWP-R).

Each of the areas recommended for adjustment are discussed below. The following areas were not objected to by intervenors and the Commission should adopt these requests as reasonable:

- No party contested SoCalGas's shared service request for Customer Services Field Staff Manager – (2200-0942.000).
- No party contested SoCalGas's justification for recovery of recorded costs in the Advanced Meter Infrastructure Balancing Account (AMIBA).
- No party contested 9 of the 10 IT capital project justifications.

21.2.3.1 CSF Operations

SoCalGas is requesting TY 2024 funding of $129.221 million for CSF Operations. Because work order volumes are the primary driver of costs for CSF Operations, SoCalGas performed a comprehensive review of historical order volumes, and chose the method that best represents future activity.[2426] COVID-19-impacted orders were forecasted using 2019 historical order volumes, and non-COVID-19- impacted orders were forecasted using BY 2021 historical volumes.[2427] Only those order types forecasted using 2019 COVID-19-impacted orders were then escalated to the actual meter forecast in BY 2021.[2428] While Cal Advocates did not dispute SoCalGas's TY 2024 incremental O&M expenses of $23.097 million, it "relied on 2019 recorded expense as the basis for its test year forecast because recorded expenses for labor and non-labor are comparable to prior and recent years."[2429] Cal Advocates utilized SoCalGas's 2019 total recorded

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[2426] Ex. SCG-214 (Rendler) at 5.

[2427] *Id.* A description of each order type is included in Ex.SCG-14-R (Rendler), Appendix C.

[2428] Ex. SCG-214 (Rendler) at 9.

[2429] Ex. CA-10 (Campbell) at 20.

expenses of $101.304 million as a basis to calculate its forecast, and then added incremental expenses of $23.097 million as requested by CSF Operations, to forecast a proposed O&M expense of $124.01 million. However, Cal Advocates' decision to utilize 2019 recorded expenses does not include adjustments, vacation & sick, and escalation to 2021 dollars.[2430]

SoCalGas disagrees with Cal Advocates' forecast. First, Cal Advocates use 2019 recorded as a BY and not 2021, the most recently available recorded-adjusted expenditures, without any justification. Second, Cal Advocates errs by using only the recorded, and not the recorded-adjusted, expenses to calculate its forecast. In previous GRC proceedings, the Commission ruled that the use of the recorded data should be "compatible with the other years of recorded data in order to derive trends and forecasts."[2431] For example, in SDG&E and SoCalGas's 2008 General Rate Case, applicants argued that "the intervenors only used 2006-recorded data when the unadjusted 2006-recorded data was a lower amount than the applicants' forecast 2006."[2432] The Commission ruled in favor of SDG&E and SoCalGas, and concluded that it is unreasonable in this instance to use unadjusted recorded data, and found that "the intervenors did not reasonably use unadjusted 2006-recorded data to derive their 2008 test year forecasts."[2433] Here, correctly adjusting Cal Advocates' use of 2019 recorded expenses to constant 2021 dollars, which include adjustments, vacation & sick and escalation, would net a total of $125.857 million. Finally, adding SoCalGas's TY 2024 incremental O&M expenses of $23.097 million, which Cal Advocates did not dispute, would result in a TY 2024 O&M forecast of $148.954 million, which is higher than SoCalGas's forecast of $129.221 million.[2434] Inconsistently, Cal Advocates did not take issue with CSF&AMO's other cost categories, where SoCalGas used recorded-adjusted expenses as a starting point for forecasting its O&M expenses.[2435] For the reasons stated above, Cal Advocates' recommendation to reduce SoCalGas's O&M forecast for CSF Operations should be rejected.

TURN utilized a five-year historical average that includes two full years before the pandemic (2018-2022) to nearly all CSF&AMO O&M categories to determine a TY 2024 forecast,

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2430 Ex. SCG-214 (Rendler) at 6.

2431 D.13-05-010 at 19 (*quoting* D.08-07-046 at 9).

2432 D.08-07-046 at 9.

2433 *Id.*

2434 Ex. SCG-214 (Rendler) at 6-7; Ex. SCG-14-WP-R-E (Rendler) at 8.

2435 Ex. CA-10 (Campbell) at 18; Ex. SCG-14-WP-R-E (Rendler) at 85, 99, 115, 121.

including CSF Operations.[2436] Based on its use of a five-year average, TURN proposed a reduction of $15.018 million to SoCalGas's $129.221 million TY 2024 forecast for CSF Operations.[2437] TURN's use of a five-year average is unjustified and unreasonable and should be rejected for several reasons. First, as stated in Mr. Rendler's rebuttal testimony, "using a multi-year average would not be appropriate as certain activities were not fully represented prior to BY 2021."[2438] As shown in the table below, using three-, four- or five-year average nets greater totals than utilizing the BY 2021 that SoCalGas used for its forecast:[2439]

Table 21.5

CSF Operations – Workpaper 2FC001.000 Constant 2021 ($000)		
Forecast Methodology Starting Point	**Years**	**Total**
5-YEAR AVERAGE	2017-2021	118,117
5-YEAR AVERAGE	2018-2022	114,203
4-YEAR AVERAGE	2018-2021	115,578
4-YEAR AVERAGE	2019-2022	112,479
3-YEAR AVERAGE	2019-2021	113,738
3-YEAR AVERAGE	2020-2022	108,020
BASE YEAR 2021	2021	106,124

Therefore, SoCalGas used BY 2021 as a starting point for forecasting TY 2024 expenses and "historical data, current information, and anticipated future activities were carefully considered when determining the forecast starting point."[2440]

Second, TURN cherry picks a few work orders to make an unreasonable argument that "SoCalGas forecasted record high order volumes in select categories without providing any reasonable support, even though the volume has not been increasing over the years."[2441] TURN's argument is without merit. As explained in Mr. Rendler's testimony, "SoCalGas performed a comprehensive review of historical order volumes and chose the method that best represents future

[2436] TURN's recommended multi-year average also included 2022 recorded adjusted data, which was not available for forecasting purposes at the time SoCalGas's testimony was developed. *See* Ex. TURN-09-2R (Cheng) at 7.

[2437] Ex. TURN-09-2R (Cheng) at 7-8.

[2438] Ex. SCG-214 (Rendler) at 4.

[2439] This table was included in Mr. Rendler's rebuttal testimony. *See* Ex. SCG-214 (Rendler) at 7.

[2440] Ex. SCG-214 (Rendler) at 4.

[2441] Ex. TURN-09-2R (Cheng) at 5.

activity."[2442] Determining whether orders were COVID-19-impacted was foundational to the order volume forecast.[2443] COVID-19 impacted orders were forecasted using 2019 historical order volumes. Non-COVID-19 impacted orders were forecasted using BY 2021 historical order volumes.[2444] SoCalGas also elected to not escalate the order volumes based on the active meter forecast for TY 2024. Instead, only order types forecasted using 2019 (COVID-impacted) were escalated to the actual meter forecast in BY 2021.[2445] Thus, both work orders TURN mentioned in its testimony-- Hang Tag and CSO-CSO -- which required physical contact with customers' premises, were affected by COVID-19 as local and state policies, as well as customers' own preferences of non-contact, restricted activities and therefore explains the decrease in volume for 2020-2021. In not recognizing the justifiably different forecasting methodologies between COVID-19 impacted orders and non-COVID-19 impacted orders, TURN mistakenly assumes SoCalGas forecasted higher work order volumes. SoCalGas's direct testimony, rebuttal testimony and workpapers[2446] demonstrated the need for the incremental funding to maintain the existing and growing inventory of work orders. Accordingly, the Commission should reject TURN's unsubstantiated claim that SoCalGas forecasted higher order volumes.

Finally, TURN argues that "SoCalGas seeks to drastically increase its spending on Non-Labor O&M costs without providing *any* support" and "[s]ince SoCalGas has not provided clear and convincing evidence (or did not even attempt to), its requested increase must be rejected."[2447] However, TURN incorrectly applies a "clear and convincing" level of proof.[2448] This is not the standard of proof required. The standard is *preponderance of the evidence* in the GRC and SoCalGas has met its burden.[2449] In addition, SoCalGas has justified approval of its non-labor O&M costs by providing details regarding its non-labor O&M costs in testimony and workpapers.

2442 Ex. SCG-214 (Rendler) at 5.

2443 *Id*.

2444 *Id*.

2445 *Id.* at 9.

2446 Ex. SCG-14-R (Rendler) at 15-22; Ex: SCG-214 (Rendler) at 6-10; Ex: SCG-14-WP-R (Rendler) at 5-81.

2447 Ex. TURN-09-2R (Cheng) at 6.

2448 *Id.*

2449 The evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence. The Commission affirmed in D.14-12-025 that this standard specifically applies to a GRC. *See* D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.").

SoCalGas's summary of TY 2024 incremental O&M Expenses for CSF Operations in Mr. Rendler's direct testimony outlines the labor and non-labor request[2450] which is approximately 70.8 percent RAMP-related costs.[2451] In Mr. Rendler's direct testimony, SoCalGas explained the importance of Field Employee Skills Training,[2452] Personal Protective Equipment,[2453] and Safety Related Field Orders.[2454] In its workpapers, SoCalGas explained the forecast methodology[2455] and details regarding the cost drivers[2456] that impact the labor and non-labor forecast. Supplemental Workpaper 1[2457] shows the order volume and calculation for costs and FTEs by each order type for the total labor and non-labor request in TY 2024. Supplemental Workpaper 2[2458] shows detailed calculations for each category of non-labor request. Supplemental Workpaper 3[2459] is dedicated to Safety Related Field Orders detailing costs and FTEs for this request by specific safety order. Cal Advocates did not dispute the $23.097 million incremental costs associated with CSF Operations.[2460] For all the reasons stated herein, the Commission should reject TURN's claim and accept SoCalGas's request as reasonable.

21.2.3.2 CSF Supervision

SoCalGas is requesting $12.104 million for the CSF Supervision cost category, an increase of $.097 million compared to BY 2021. CSF supervisors are geographically dispersed across SoCalGas's 51 operating bases, and they hire and coach employees, conduct safety and job observations, coordinate with the dispatch office and others to address and resolve operating issues, respond to emergency incidents to provide on-site leadership, and manage the overall performance of the CSF employees who work from each of the 51 operating bases.[2461]

2450 Ex. SCG-14-R (Rendler) at 22, Table DJR-12.

2451 *Id.* at 15.

2452 *Id*. at 16-17.

2453 *Id.* at 17.

2454 *Id.*

2455 *Id.* at 18.

2456 *Id.* at 19-21.

2457 Ex. SCG-14-WP-R (Rendler) at 29-64.

2458 *Id*. at 65-68.

2459 *Id.* at 69-81.

2460 Ex. CA-10 (Campbell) at 19.

2461 Ex. SCG-14-R (Rendler) at 22.

As discussed above, TURN utilized a five-year historical average including two full years before the pandemic (2018-2022) to determine a TY 2024 forecast of $12.076 million, proposing a reduction of $0.028 million, to SoCalGas $12.104 million TY 2024 forecast.[2462] The estimated number of field supervisors in TY 2024 is calculated by applying a 12:1 employee-to-supervisor ratio to the forecasted FTE workforce in the Operations cost category (Workpaper 2FC001.000).[2463] As explained by Mr. Rendler, "12:1 ratio is appropriate given the geographic area covered by each operating base and the importance of supervisors spending as much time as possible with employees in the field, providing safety and work process coaching."[2464] TURN's use of a historical average does not account for maintaining the field employee to supervisor ratio of twelve-to-one, which is reasonable under this explanation. SoCalGas's base year forecast methodology is the more accurate and appropriate methodology compared to the use of a five-year historical average. Further, as explained above, TURN's five-year historical average methodology is without merit and should be rejected.

21.2.3.3 CSF Support

SoCalGas is requesting $14.385 million for the CSF support cost category using a base year forecast methodology, an increase of $1.679 million compared to BY 2021. As explained in SoCalGas's testimony, "the CSF Support cost category includes: (1) Classroom instructors, senior instructors, training supervisors, and a training manager strategically located at SoCalGas's Skills Training Centers (Pico Rivera and Bakersfield); (2) field instructors who conduct mandatory post formal in-field training for field service technicians based on safety processes and procedures; (3) quality assurance (QA) inspectors and a QA supervisor who inspect the work of field technicians to support policy adherence and quality of the work performed; (4) district operations clerks who are located at field operating bases; (5) region and district management; (6) administrative associates; and (7) clerical."[2465] The incremental costs for CSF Support "are primarily driven by the need to train new employees, maintain a technically skilled and proficient workforce, and enable work to be performed in a safe manner that meets SoCalGas's quality standards."[2466]

2462 Ex. TURN-09-2R (Cheng) at 8.

2463 Ex. SCG-14-R (Rendler) at 23.

2464 *Id.*

2465 Ex. SCG-14-R (Rendler) at 24.

2466 *Id*. at 26.

TURN utilized a five-year historical average to determine a TY 2024 forecast of $12.079 million, proposing a reduction of $2.306 million to SoCalGas $14.385 million TY 2024 forecast.[2467] SoCalGas believes its base year forecast methodology is the more accurate and appropriate methodology compared to the use of a five-year historical average. TURN's use of a historical average does not account for incremental costs needed to provide the necessary training for new employees, maintain a technically skilled and proficient workforce, and to enable CSF&AMO employees to perform work in a safe manner that meets SoCalGas's quality standards.[2468] Some of the trainings are necessary for adherence to laws, regulations, and standards that help maintain safety of SoCalGas's workforce and public.[2469] Because TURN's use of a five-year historical average is without merit and ignores the fact that decreased funding can impact SoCalGas's ability to put qualified personnel in the field who receive proper training and instruction to operate safely in the field, the Commission should reject TURN's recommendation.[2470]

21.2.3.4 CSF Dispatch

SoCalGas is requesting $14.091 million in TY 2024 for the CSF Dispatch cost category using a base year forecast methodology, an increase of $0.025 million compared to BY 2021. CSF Dispatch cost category includes labor and non-labor costs for personnel who schedule, route, and dispatch work to CSF Operations employees 24 hours a day, 365 days a year.[2471] CSF Dispatch also works with various internal departments to coordinate work and with outside agencies such as local police and fire departments to manage emergencies for public safety.[2472] The Dispatch team manages customer and company generated work including but not limited to (1) managing multiple aspects of emergency incidents such as dispatching emergency first responders, management/supervisor reporting notifications, and reporting requirements; (2) coordinating, and redistributing work from unavailable CSF Operations employees; and (3) dispatching same day work to available CSF Operations employees including analysis and redistribution of work and workforce to maximize efficiencies. Non-labor expenses include computer equipment,

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2467 Ex. TURN-09-2R (Cheng) at 8.

2468 Ex. SCG-14-R (Rendler) at 26.

2469 *Id.*

2470 Ex. SCG-214 (Rendler) at 12.

2471 Ex. SCG-14-R (Rendler) at 27.

2472 *Id.*

communication expenses, office materials, software maintenance expenses, and other miscellaneous expenses.[2473] SoCalGas's request for CSF Dispatch addresses CSF&AMO's needs for communication devices utilized during activation of business continuity plans.[2474]

TURN utilized a five-year historical average to determine a TY 2024 forecast of $13.173 million, proposing a reduction of $0.918 million for CSF-Dispatch.[2475] Utilizing a five-year average is not representative of the current organization or the organization's future needs. TURN also ignores CSF-Dispatch's required funding to achieve staffing levels necessary to provide 24/7, 365 days per year coverage and the costs needed to train new employees and to maintain a technically skilled and proficient workforce.[2476] As such, the Commission should not adopt TURN's position and adopt SoCalGas's forecast as reasonable.

21.2.3.5 CSF Meter Set Assembly Inspection

SoCalGas is requesting $25.710 million for the CSF Meter Set Assembly (MSA) Inspection cost category using a base year forecast methodology, an increase of $0.391 million compared to BY 2021. CSF MSA Inspection cost category includes costs necessary to meet Department of Transportation (DOT) required inspections of the MSA and are 100 percent RAMP-related costs.[2477] The CSF MSA Inspection Organization performs physical, onsite inspections of each MSA to comply with DOT required MSA inspections for atmospheric corrosion, identifying conditions which require remediation by CSF and Distribution field employees.[2478] The organization also contacts customers to resolve meter access issues.[2479]

TURN utilized a five-year historical average to determine a TY 2024 forecast of $21.324 million, proposing a reduction of $4.386 million to SoCalGas's $25.710 million TY 2024 forecast.[2480] Utilizing a five-year historical average is not representative of the current organization or to complete anticipated future activities.[2481] SoCalGas determined that BY 2021 was the most appropriate starting point to forecast TY 2024 as CSF MSA Inspection achieved

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2473 *Id.* at 27-28.

2474 *Id.* at 28.

2475 Ex. TURN-09-2R (Cheng) at 8.

2476 Ex. SCG-214 (Rendler) at 13-14.

2477 Ex. SCG-14-R (Rendler) at 29.

2478 *Id.*

2479 *Id.*

2480 Ex. TURN-09-2R (Cheng) at 8.

2481 Ex. SCG-214 (Rendler) at 15.

staffing levels necessary to perform onsite inspections of above-ground piping facilities for atmospheric corrosion in BY 2021 as required by the Department of Transportation Code of Federal Regulations (CFR) Title 49 §192.481.[2482] The incremental cost is needed for the Scheduling Team and Field Instruction positions that were vacant during BY 2021.[2483] Schedulers develop the MSA Inspection schedule based on compliance due dates, DOT guidelines, and route efficiencies. Field Instructors train inspectors to perform on-site inspection of MSAs to comply with DOT guidelines.[2484] For the reasons set forth above, the Commission should reject TURN's position and adopt SoCalGas's forecast as reasonable.

21.2.3.6 Advanced Meter Operations

SoCalGas is requesting $14.202 million for the Advanced Meter Operations cost category using a base year forecast methodology, an increase of $5.879 million compared to BY 2021. The Advanced Meter Operations organization includes the Advanced Meter Operations (AMO) organization and the Field Systems and Analytics organization.[2485] AMO labor activities include (1) Management and maintenance of AM systems; (2) Management and back-office analysis of Data Collection Units 9 (DCU); (3) Management of construction, field inspection and replacement of DCUs; and (4) Management of Meter Transmission Units (MTU), back-office analysis of MTUs and forecast of MTU investigations and field visits by CSF Operations technicians to support accurate and timely Advanced Metering Infrastructure (AMI) reads.[2486] Field Systems and Analytics Organization's labor activities include (1) Integration, management and maintenance of Advanced Meter systems and interfaces with other SoCalGas operational systems; (2) Implementation and maintenance of new technologies and systems that leverage AMI consumption data in an effort to enhance safety and customer experience; (3) Implementation, management and maintenance of reporting systems, tools and applications; and (4) project and system support for Advanced Meter systems integration with SoCalGas work management and scheduling systems.[2487]

[2482] *Id.*
[2483] Ex. SCG-214 (Rendler) at 14-15.
[2484] Ex. SCG-14-R (Rendler) at 31.
[2485] *Id*. at 32.
[2486] *Id*. at 32.
[2487] *Id*. at 33.

Cal Advocates agrees with SoCalGas's $5.610 million in labor request but disagrees with SoCalGas's non-labor request of $8.591 million for the AMO cost category.[2488] Cal Advocates asserts that SoCalGas's "forecast for non-labor expenses is not adequately justified," and that the "forecast is a sizable increase over the recent recorded figures."[2489] Cal Advocates relies on 2021 recorded non-labor expenses as the basis for its forecast of $4.004 million, but once again fails to correctly adjust the 2021 expenses.[2490]

Contrary to Cal Advocates' assertion, SoCalGas provided sufficient justifications for its non-labor forecast, in its testimony and workpapers, including detailed cost information, forecast method, and the reasons for the cost increase.[2491] For example, SoCalGas explained that there are seven different non-labor requests under the AMO category, but most of its non-labor cost is composed of $4.4 million for a Meter Transmission Unit (MTU) Warranty.[2492] The MTU warranty is required to extend the warranty for MTUs so that SoCalGas will maintain the full parts credit and reinstate the labor reimbursement.[2493] Currently, the MTU warranty is necessary as a bridge until SoCalGas undertakes a full replacement of the MTUs beginning in the next TY 2028 GRC cycle.[2494] SoCalGas has provided ample analysis and justification in its workpapers describing the MTU failure rate, and potential financial impact if SoCalGas does not obtain the MTU warranty and the risk of the projected MTU failure rate which could shift from the vendor to the customer.[2495] In addition, as explained above in other sections, Cal Advocates' use of the recorded, but not correctly adjusted, data is inconsistent with the Commission's ruling in prior GRCs where the use of data should be "compatible with the other years of recorded data in order to derive trends and forecasts."[2496] The Commission should, therefore, adopt SoCalGas's non-

[2488] Ex CA-10 (Campbell) at 22.

[2489] *Id*. at 23.

[2490] *Id*.

[2491] Ex. SCG-14-R (Rendler) at 34-39; Ex. SCG-14-WP-R (Rendler) at 132-165; Ex. SCG-214 (Rendler) at 15-18.

[2492] Ex. SCG-214 (Rendler) at 16.

[2493] *Id*. at 16-17.

[2494] *Id.* at 17.

[2495] Ex. SCG-214 (Rendler) at 16; Ex. SCG-14-WP-R-E (Rendler) at 144-148 (Supplemental Workpapers 1A and 1B).

[2496] D.13-05-010 at 19 (*quoting* D.08-07-046 at 9).

labor forecast and allow SoCalGas to extend the MTU warranty since the MTU warranty for meters are approaching (or have reached) the end of their useful life.[2497]

TURN disagrees with SoCalGas's TY 2024 labor and non-labor request of $14.202 million for Advanced Meter Operations.[2498] Using a four-year average forecasting methodology, TURN determined a TY 2024 forecast of $8.025 million, a decrease of $6.177 million. As explained above, TURN's use of a four-year average as its forecasting methodology should be rejected as it is without merit and utilizing a four-year average is not representative of the current organization or the incremental funding requests, including the MTU warranty discussed above. As such, the Commission should reject TURN's position and adopt SoCalGas's forecast as reasonable.

21.2.3.7 PACER Workforce Management Replacement Project

The Portable Automated Centralized Electronic Retrieval (PACER) System Workforce Management Replacement Project's purpose is to upgrade and modernize Customer Services Field's (CSF) 30-year-old PACER Workforce Management (WFM) mainframe with a cloud-based solution.[2499] The PACER WFM mainframe is fundamental to SoCalGas customers and field operations and the mainframe is a central system of Customer Service Field Operations that drives what field work can be done, by whom and when.[2500] Specifically, the PACER WFM provides insights into the nearest service representative, the type of skill level needed to service the request, and enables the Field Representative, Dispatch Office, and often the Customer Contact Center to be aware of all field service activities.[2501] It is essential for SoCalGas to have insight into analytic data to serve its customers. Without the PACER WFM, customer field service orders could not be efficiently scheduled and routed to field technicians, and customer service field orders would no longer be managed electronically, and SoCalGas would have to revert to an inefficient manual, paper-based, mobile phone or radio dispatch process.[2502]

The current PACER WFM has supported the business and customers over the last three decades and is reaching (or has reached) end of life. SoCalGas's forecast for the PACER WFM Replacement project for 2022, 2023, and 2024 are $7.024 million, $11.907 million, and $13.773

[2497] Ex. SCG-214 (Rendler) at 17.
[2498] TURN-09-2R (Cheng) at 8.
[2499] Ex. SCG-14-R (Rendler) at 47.
[2500] Ex. SCG-214 (Rendler) at 20.
[2501] *Id.*
[2502] *Id.*

million respectively, which are being requested in the testimony and capital workpapers of witness Jamie Exon.[2503] Mr. Rendler sponsors the business justification for the project.

TURN recommends that the proposed PACER WFM Replacement Project, and the associated capital dollars be removed from the GRC based on its erroneous assertion that "SoCalGas failed to present clear and convincing evidence that its requested capital spending for the PACER WFM Replacement Project is just and reasonable" and that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits.[2504] SoCalGas disagrees.

First, TURN incorrectly applies a "clear and convincing" level of proof.[2505] As discussed previously, this is not the standard of proof required. The standard is *preponderance of the evidence* in the GRC and SoCalGas has met its burden.[2506] Contrary to TURN's assertion, SoCalGas has provided necessary details regarding the project, and the business justification for replacing the current PACER WFM, which has lasted three decades, but is approaching the end of its useful life. However, the energy industry has changed over the last 30 years, and the current system cannot support the changing business needs, regulatory requirements, or the ability to execute the CSF business processes the way operations demand.[2507] SoCalGas has also provided a Business Case, which contains the Cost-Benefit Analysis, Board Authorization for the project, and Work Order Authorization detailing the estimates and funding approvals.[2508] Finally, Mr. Rendler explained that if the project is not funded, it can negatively impact SoCalGas's ability to serve its customers, because a modern workforce management system, and the platform that combines customer requested service and Company initiated maintenance, is required in order to timely response to high priority compliance and customer work as well as incidents.[2509] The Commission should therefore reject TURN's proposal and approve SoCalGas's proposed funding request for PACER WFM Replacement project as reasonable.

[2503] Ex. SCG-21-R-E, Ch. 2 (Exon); Ex. SCG-21-CWP-R (Exon).

[2504] Ex. TURN-09-2R (Cheng) at 8-10.

[2505] *Id.*

[2506] The evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence. The Commission affirmed in D.14-12-025 that this standard specifically applies to a GRC. *See* D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.").

[2507] Ex. SCG-214 (Rendler) at 19-21.

[2508] *Id.* at 20.

[2509] *Id.*

21.3 Customer Services – Field Operations

21.3.1 SDG&E Summary of Field Operations Request

Table 21.6

CUSTOMER SERVICES - FIELD OPERATIONS (In 2021 $000s)			
	2021 Adjusted-Recorded	**TY2024 Estimated**	**Change**
Total Non-Shared Services	33,342	40,452[2510]	7,110
Total Shared Services (Incurred)	0	0	0
Total O&M	**33,342**	**40,452**	**7,110**

Table 21.7

INFORMATION TECHNOLOGY CAPITAL (In 2021 $000s)			
Categories of Management	**Estimated 2022**	**Estimated 2023**	**Estimated 2024**
Customer Services – Field Operations	22,833	52,849	81,418
Total Capital	**22,833**	**52,849**	**81,418**

SDG&E seeks $40.452[2511] million for operations and maintenance (O&M) costs in TY 2024 to support the shared and non-shared activities within Customer Services – Field Operations (CS-Field Operations) that deliver safe, effective and reliable services through related supporting functions including Customer Services Field Operations, Customer Services Field Supervision, Work Management, Customer Field Operations Support (such as Training and Data Analytics), and Smart Meter Operations.[2512] Approximately $11.387 million of total TY 2024 costs are RAMP-related costs, and a list of mitigation items and associated costs are provided in Ex. SDG&E-17-R (Thai).[2513] CS-Field Operations is also sponsoring the business justification for capital IT projects, which are being requested in the testimony and capital workpapers of Jamie

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[2510] SDG&E notes that the number provided here has been adjusted as part of SDG&E's Update Testimony. Ex. SCG-401/SDG&E-401 Update Testimony (July 7 2023) was served after intervenor testimony on March 27, 2023. While this number reflects SDG&E's updated Customer Services Field Operations forecast reflecting the current Collective Bargaining Agreement, SDG&E has not adjusted Parties' numbers, which is the reason for the variance in values.

[2511] *Id*.

[2512] Ex. SDG&E-17-R (Thai) at iii and 2-3.

[2513] *Id*. at 7-10.

Exon to replace obsolete technology, deliver operational efficiencies and comply with regulatory mandates.[2514] Additionally, capital costs for gas meters, regulators, tools, and equipment required for CS-Field Operations are covered in the Gas Distribution testimony of L. Patrick Kinsella.[2515] Capital costs for electric meters and other electrical equipment are covered in the Electric Distribution Capital testimony of Oliva Reyes.[2516]

Examples of the types of services offered by the CS-Field Operations' cost centers include: completing customer and company generated work orders which include requests to establish/remove gas and electric service, light gas pilots, check gas appliances, shut off and restore gas service for fumigation, investigating the potential causes of high gas bills, responding to emergency incidents, investigating potential gas leaks, monitoring meter and regulator changes, conducting other meter work necessary to maintain company infrastructure, and collecting customer payments for delinquent bills.[2517]

The estimated operating expenses support the goal of maintaining operational excellence and are required to provide safe, reliable, and efficient customer service, while complying with applicable federal, state, local, and CPUC regulations.[2518]

SDG&E used a BY forecast methodology for CS-Field Operations.[2519] This approach was used because a BY 2021 forecast represents an appropriate starting point to calculate TY 2024 operations and maintenance expenses for the department activities.[2520] TURN recommended adjustments to SDG&E's TY 2024 forecasts and proposed a five-year historical average forecast methodology (2018-2022)[2521] in one instance. In each adjustment described more fully below, TURN was dubiously selective in both the historical average period used to create TURN's own forecasted revenue requirement, and in using 2022 actual recorded costs.

2514 *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Ch. 2, Ex. SDG&E-25-CWP-R (Exon), and Ex. SDG&E-225-E (Gordon/Exon).

2515 *See* Ex. SDG&E-04-R-E (Kinsella) and Ex. SDG&E-204 (Kinsella).

2516 *See* Ex. SDG&E-11-R (Reyes) and Ex. SDG&E-211 (Reyes).

2517 Ex. SDG&E-17-R (Thai) at 13-14.

2518 *Id*. at 2.

2519 *Id*. at iv.

2520 *Id*.

2521 Ex. TURN-09-2R (Cheng) at 21.

The only parties to rebut portions of SDG&E's O&M revenue request were Cal Advocates, TURN, UCAN, and San Diego Community Power and Clean Energy Alliance (Joint CCAs).[2522] The areas where Cal Advocates, TURN, and UCAN, recommended adjustments to SDG&E's revenue request concerned the following cost centers:

Table 21.8

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	33,342	40,452[2523]	7,110
CAL ADVOCATES	33,342	37,210	3,868
JOINT CCAs	33,342	40,337	6,995
TURN	33,342	34,233	891
UCAN	33,342	36,722	3,380

Table 21.9

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference to SDG&E**
SDG&E	22,833	52,849	81,418	157,100	
CAL ADVOCATES	20,687	34,942	42,629	98,258	-58,842
JOINT CCAs	22,833	52,849	81,418	157,100	0
TURN	5,141	6,208	3,663	15,012	-142,088
UCAN	22,833	52,849	0	75,682	-81,418

Cal Advocates

- For Customer Field Operations Support, Cal Advocates recommends a forecast of $4.180 million O&M, which is a $1.099 million reduction from SDG&E's request of $5.279 million.[2524]

2522 SDG&E notes that while Cal Advocates, TURN, and UCAN, suggest funding reductions for SDG&E's CS-Field Operation, the Joint CCAs do not. Instead, the Joint CCAs merely opine on, and request certain criterion for, the CS-Field Operations SM 2.0 IT Capital Project, which SDG&E addresses below.

2523 SDG&E notes that the number provided here has been adjusted as part of SDG&E's Update Testimony. Ex. SCG-401/SDG&E-401 Update Testimony, dated July 7 2023, was served after intervenor testimony on March 27, 2023. While this number reflects SDG&E's updated Customer Services Field Operations forecast reflecting the current Collective Bargaining Agreement, SDG&E has not adjusted Parties' numbers, which is the reason for the variance in values.

2524 Ex. CA-10 (Campbell) at 4; *see also* Ex. SDG&E-217 (Thai) at 4 and 10-12.

- For Smart Meter Operations, Cal Advocates recommends an O&M forecast of $11.259 million for TY 2024, a disallowance of $2.028 million from SDG&E's request of $13.287 million.[2525]

- For CS – Field Operations total IT capital expenditures, Cal Advocates recommends a forecast of $20.687 million for 2022, $34.942 million for 2023, and $42.629 million for TY 2024.[2526]

- For Smart Meter (SM) 2.0, Cal Advocates' recommends an IT capital expenditure forecasts of $2.146 million for 2022, $16.401 million for 2023, and $29.229 million for 2024, which is 50% or $47.776 million reduction of SDG&E's requested funding.[2527] Cal Advocates' also recommends funding 50% capital exceptions revenue requirements for PTY 2025, 2026, and 2027.[2528]

- For Field Service Delivery, Cal Advocates' recommends an IT capital expenditure forecast of $13.400 million for 2022, 2023, and 2024, representing a $439,000 reduction and $5.896 million reduction for years 2023 and 2024, respectively.[2529]

- For Smart Meter Product / Upgrade, Cal Advocates' recommends an IT capital expenditure forecast of $5.141 million for 2022, and 2023, and no funding for 2024, representing a reduction of $1.067 million and $3.663 million for 2023 and 2024 respectively.[2530]

TURN

- TURN proposes a reduction of $6.104 million for TY 2024 CS - Field Operations O&M Costs.[2531]

- For Smart Meter 2.0, TURN rejects the project in its entirety, and proposes a capital reduction of $4.292 million in 2022, $32.802 million in 2023, $58.459 million in 2024, $59.989 million in 2025, $69.169 million in 2026, and $54.163 million in 2027.[2532]

2525 Ex. CA-10 (Campbell) at 30-31; *see also* Ex. SDG&E-217 (Thai) at 4 and 17-19. SDG&E notes that Cal Advocates' testimony recommends a forecast of $10.53 million for SMO, but subsequently recommends a forecast of $11.259 million as reasonable. *See* Ex. CA-10 (Campbell) at 4 and 31.

2526 Ex. CA-10 (Campbell) at 5; *see also* Ex. SDG&E-217 (Thai) at 5 and 22.

2527 Ex. CA-10 (Campbell) at 33-34; *see also* Ex. SDG&E-217 (Thai) at 22-31.

2528 Ex. CA-20 (Hunter) at 19 (Table 20-12), 22-23; *see also* Ex. SDG&E-45-R (Hancock) at 1, 8-10, Ex. SDG&E-217 (Thai) at 5, 43-44.

2529 Ex. CA-10 (Campbell) at 35; *see also* Ex. SDG&E-217 (Thai) at 44-47, and Ex. SDG&E-225-E (Gordon/Exon) at 24-26.

2530 Ex. CA-10 (Campbell) at 37; *see also* Ex. SDG&E-217 (Thai) at 49-52 and Ex. SDG&E-225-E (Gordon/Exon) at 19-23.

2531 Ex. TURN-09-2R (Cheng) at 4; *see also* Ex. SDG&E-217 (Thai) at 5, 13-16, and 20-21.

2532 Ex. TURN-09-2R (Cheng) at 4; *see also* Ex. SDG&E-217 (Thai) at 6, 31-42 and Ex. SDG&E-225-E (Gordon/Exon) at 15 and 17-18.

- For Field Service Delivery (FSD), TURN proposes a capital reduction of $13.400 million in 2022, $13.839 million in 2023, and $19.296 million in 2024.[2533]

UCAN

- UCAN recommends SDG&E's SM 2.0 total O&M forecasts of $4.421 million be denied.[2534]
- UCAN recommends SDG&E's Customer Field Operations Support request for FSD O&M TY 2024 forecast of $1.490 million be denied it its entirety.[2535]
- UCAN recommends SDG&E's SM 2.0 IT capital project costs of $58.459 million in 2024 be denied.[2536] UCAN does not address project costs in 2022 or 2023.
- UCAN recommends SDG&E's SM 2.0 post-test year ratemaking capital costs be denied: $59.989 million in 2025, $69.169 million in 2026, and $54.163 million in 2027.[2537]
- UCAN recommends SDG&E's RAMP FSD Scheduling and Dispatch (CWP 00920AI) and FSD Data Analytics Platform (CWP 00920T) IT capital project costs of $19.296 million be denied.[2538]
- UCAN recommends SDG&E's SM Upgrade (CWP 00900E) and SM Product (CWP 00900D) TY 2024 IT capital project costs be denied.[2539] The TY 2024 IT capital project costs in TY 2024 are $0 and $3.663 million, respectively.[2540]

Each of the areas recommended for adjustment will be discussed below. The following areas were not objected to by intervenors and the Commission should adopt these requests as reasonable:

[2533] Ex. TURN-09-2R (Cheng) at 4; *see also* Ex. SDG&E-217 (Thai) at 6 and 47-49 and Ex. SDG&E-225-E (Gordon/Exon) at 24-27.

[2534] Ex. UCAN-01-E (Woychik) at 13 and 294; *see also* Ex. SDG&E-17-R (Thai) at 3, Ex. SDG&E-217 (Thai) at 7, 10, and 21, Ex. SDG&E-219 (Baule) at 3 and 9-10, Ex.SDG&E-225-E (Gordon/Exon) at 11 and 13.

[2535] Ex. UCAN-01-E (Woychik) at 300. SDG&E notes that UCAN erroneously uses the acronym FSB, rather than FSD, throughout testimony. The correct acronym is FSD. *See also* Ex. SDG&E-217 (Thai) at 7 and 16-17.

[2536] Ex. UCAN-01-E (Woychik) at 13, 294; *see also* Ex. SDG&E-217 (Thai) at 7 and 31-42, and Ex. SDG&E-225-E (Gordon/Exon) at 15-16 and 18.

[2537] Ex. UCAN-01-E (Woychik) at 317. SDG&E notes that UCAN erroneously references $69.2 million in [2028] and $54.16 million in [2029], which should reflect 2026 and 2027, respectively.

[2538] Ex. UCAN-01-E (Woychik) at 300 and 309. *See also* Ex. SDG&E-217 (Thai) at 8 and 47-49, Ex. SDG&E-25-CWP-R (Exon) at 37, and Ex. SDG&E-225-E (Gordon/Exon) at 27-28.

[2539] Ex. UCAN-01-E (Woychik) at 316; *see also* Ex. SDG&E-217 (Thai) at 52-54, and Ex. SDG&E-225-E (Gordon/Exon) at 19-24.

[2540] Ex. SDG&E-25-CWP-R (Exon) at 37.

- Customer Field Operations Supervision TY2024 O&M forecast of $1.468 million
- Work Management TY2024 O&M forecast of $3.534 million.

21.3.1.1 Customer Field Operations (CFO) Support

SDG&E is requesting $5.279 million for TY 2024 costs associated with CFO Support.[2541] The CFO cost category consists of centralized training including classroom and field instructors and training managers, quality assurance inspectors and supervisors who inspect the work of technicians, operations clerks, and several other positions that support and ensure compliance with SDG&E Service Standards.[2542] Also included is Field Service Delivery (FSD), an initiative to modernize delivery of customer services in the field while enhancing safety and employee engagement.[2543]

Cal Advocates recommends a forecast of $4.180 million for CFO Support, which is $1.099 million lower than SDG&E's request of $5.279 million.[2544] Cal Advocates states that its adjustment to labor is due to different forecast methodologies and adjustment to non-labor is based on expenses incurred in 2020 being deemed a one-time expense.[2545]

First, Cal Advocates appears to be cherry-picking its use of forecasting methodologies. For example, Cal Advocates states, "it does not oppose SDG&E's requests for Customer Field Operations, Supervision, or Work Management," and presumably SDG&E's consistent use of a BY 2021 forecasting methodology across those areas.[2546] However, Cal Advocates turns around and argues against SDG&E's use of a similar BY 2021 forecasting methodology for CFO Support. As such, SDG&E urges the Commission disregard Cal Advocates' inconsistent, selective, and arbitrary, forecasting methodology.

Second, SDG&E disagrees with Cal Advocates' recommendation of a reduction to the TY 2024 CFO Support labor forecast as Cal Advocates fails to provide reasonable analysis as to how it reached its recommendation.

Further, Cal Advocates provided no evidence to justify the proposed adjustment to non-labor expenses. Instead, Cal Advocates merely recommended a reduction after "observ[ing]" that

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2541 Ex. SDG&E-17-R (Thai) at 27.

2542 *Id*. at 25.

2543 *Id*.

2544 Ex. CA-10 (Campbell) at 4, 26, 28.

2545 *Id*. at 28-29.

2546 *Id*. at 4, 26.

"the 2020 non-labor expenses were the highest level compared to the past three years but comparable to base year 2021 and 2022 adjusted-recorded."[2547] Cal Advocates' "observation" is not a sufficient justification for this type of proposed reduction.

As noted, SDG&E expects FSD efforts to accelerate and continue during program implementation.[2548] As such, SDG&E budgeted for system development, testing, and deployment.

TURN disagrees with SDG&E's CFO Support TY2024 O&M forecast of $5.279 million and proposes a forecast of $3.399 million resulting in a reduction of $1.880 million.[2549]

TURN argues that incremental full-time positions are not necessary because "[c]learly, all of the activities listed above are activities that SDG&E should have been performing for many years already."[2550] However, TURN's assumption disregards the fact that changes to business requires incremental resources to continue to lead critical customer-facing field teams, develop training materials, etc.[2551] It is logical to infer that as workloads continue to grow, additional field leadership will be required.[2552]

Further, TURN "believes" that "the most appropriate forecast would be a historical average."[2553] TURN uses a five-year average (2018 – 2022), including two full years before the pandemic. Ironically, TURN's proposed forecast acknowledges that the past three years of recorded expenses (2020, 2021, and 2022) are the highest of the past five years.[2554] To selectively include pre-pandemic years to reduce SDG&E's request, without any rationale beyond TURN's "belief" that it is "the most appropriate," is arbitrary, at best. Both Cal Advocates and TURN, cherry-pick their use of differing forecasting methodologies while SDG&E consistently applied its BY 2021 forecasting methodology.

Lastly, UCAN recommends SDG&E's CFO Support request for FSD O&M TY 2024 forecast of $1.490 million be denied it its entirety.[2555] SDG&E's CFO Support TY 2024 incremental request for FSD is $912,000, by UCAN denying SDG&E's TY 2024 estimated FSD

2547 *Id*. at 30.

2548 Ex. SDG&E-217 (Thai) at 11.

2549 Ex. TURN-09-2R (Cheng) at 21.

2550 *Id*. at 20.

2551 *See* Ex. SDG&E-217 (Thai) at 15.

2552 *Id*. at 16.

2553 Ex. TURN-09-2R (Cheng) at 21.

2554 *Id*.

2555 Ex. UCAN-01-E (Woychik) at 300.

O&M forecast of $1.490 million UCAN also denies SDG&E's base year 2021 embedded costs for FSD of $578,000.[2556] UCAN argues that SDG&E's proposed expenditures (capital and O&M) "would finance a platform that will soon be obsolete and outmoded, as not economically justified."[2557] As noted, and as further discussed below, UCAN's argument is unfounded and contradictory to UCAN's own proposal – to maintain first-generation SM system while replacing specific equipment. UCAN's proposal would force SDG&E to deploy and maintain a technology that will soon become obsolete.[2558] As such, UCAN's proposed reductions should be ignored.

For these reasons, SDG&E urges the Commission disregard Cal Advocates,' TURN's and UCAN's proposed reductions and instead adopt SDG&E's forecast of $5.279 million for CFO Support as reasonable.

21.3.1.2 Smart Meter Operations

SDG&E is requesting $13.287 million for TY 2024 costs associated with SM Operations (SMO).[2559] SMO supports the delivery of customer services on premises, responds to customer inquiries and resolves customer problems, and ensures safe, accurate, and reliable metering for SDG&E meters.[2560]

Cal Advocates recommends a forecast of $11.259 million for TY 2024, a disallowance of $2.028 million from SDG&E's SMO request.[2561] Despite no opposition on "moving forward" with a program to replace meters, ***as required***, Cal Advocates "proposes to moderate the level of funding requested," by proposing to fund the program at 50%.[2562] However, Cal Advocates provides no explanation as to the arbitrarily chosen percentage, and no reason explaining why the request needs to be "moderated."

TURN recommends a forecast of $9.063 million for SMO, which is $4.224 million lower than SDG&E's request. TURN recommended its adjustment based on its outright rejection of all SMO incremental O&M. TURN argues that the Commission should reject funding for this project in its entirety, so "[n]aturally, the O&M expenses associated with the program should be rejected

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2556 Ex. SDG&E-217 (Thai) at 7, 16-17.

2557 Ex. UCAN-01-E (Woychik) at 300, *see also* Ex. SDG&E-217 (Thai) at 7, 16-17, 42.

2558 Ex. SDG&E-217 (Thai) at 42.

2559 *Id.* at 30.

2560 *Id*.

2561 Ex. CA-10 (Campbell) at 31.

2562 *Id*. at 34 (emphasis added).

as well."[2563] UCAN too recommends a reduction to SDG&E's forecast to $11.252 million for SMO, which is $2.035 million lower than SDG&E's request. UCAN recommended its adjustment based on its outright rejection of SM2.0 related O&M. Both TURN and UCAN's cavalier disregard for the Smart Meter 2.0 Project in its entirety does not support a justification for the proposed disallowances.

For these reasons and the reasons included below, SDG&E urges the Commission to disregard Cal Advocates,' TURN's and UCAN's proposed reductions and instead adopt SDG&E's forecast of $13.287 million for SMO.

21.3.1.3 Capital Project Cost for Smart Meter 2.0

SDG&E's forecast for Smart Meter 2.0 for 2022, 2023, and 2024 is $4.292 million, $32.802 million, and $58.459 million, respectively.[2564] Smart Meter 2.0 is the Company's replacement to its initial AMI system, that was deployed in the 2009 to 2010 timeframe.[2565] AMI enables secure two-way communication between SDG&E's business and customers' meters.[2566] Smart Meter 2.0 consists of integrated meter systems and controls, communication networks, data processing and management systems.[2567] Since the original deployment, incremental modernization efforts have occurred to the existing AMI system, however SDG&E's current meters are nearing the end of their useful life.[2568] Smart Meter 2.0 leverages proven technology with years of futureproofing to ensure long-term secure and accurate relay of customer meter data information.[2569] SDG&E seeks to first replace its gas modules and subsequently transition to electric meter replacements.[2570]

As mentioned above, Cal Advocates proposes funding the SM 2.0 IT capital project at 50% of SDG&E's requested funding.[2571] This results in a reduction of $2.146 million in 2022, $16.401

2563 Ex. TURN-09-2R (Cheng) at 22.

2564 Ex. SDG&E-17-R (Thai) at 41.

2565 *Id*.

2566 *Id*.

2567 *Id*.

2568 *Id*.

2569 *Id*. at 43.

2570 *Id*. at 41.

2571 Ex. CA-10 (Campbell) at 34.

million in 2023, and $29.229 million in 2024.[2572] Cal Advocates also proposes funding 50% of SDG&E's PTY capital exceptions revenue requirement for SM 2.0.[2573]

SDG&E disagrees with Cal Advocates' proposal to arbitrarily reduce the level of requested funding. Further, the proposal is contrary to the fact that Cal Advocates "does not take issue with SDG&E's justification for the current meter replacement initiative."[2574] Cal Advocates' proposal would eliminate SDG&E's efforts to prevent significant and catastrophic levels of gas module and electric meter failures.[2575] If the current system fails there will be negative impacts to customer bills, requiring SDG&E to estimate and/or delay bills.[2576] Further, outage detection and restoration will be discontinued, the illegal behind-the-meter generation detection apparatus would not function, putting field workers and the public in potentially dangerous conditions.[2577] The CCAs, Demand Response Providers, and NEM customers in SDG&E' service territories would also be negatively impacted.[2578]

Lastly, reducing the funding by 50% is infeasible because it would not provide adequate funding to remediate the SM 1.0 system failures.[2579] SDG&E forecasts approximately 863,000 gas module failures from 2023 – 2027.[2580] Cal Advocates' reduction would only allow for replacement of 573,872 gas modules.[2581] Not only will this delay the replacement of the electric modules, but will also cause harm to customers, because it will result in approximately 140,000 electric customers experiencing estimated bills.[2582]

TURN and UCAN both recommend that SDG&E's SM 2.0 IT capital project costs be denied. TURN rejects the project in its entirety, and proposes a capital reduction of $4.292 million in 2022, $32.802 million in 2023, $58.459 million in 2024, $59.989 million in 2025, $69.169

2572 *Id*.

2573 Ex. CA-20 (Hunter) at 22-23 and 19 (Table 20-12).

2574 Ex. CA-10 (Campbell) at 34.

2575 Ex. SDG&E-217 (Thai) at 23.

2576 *Id*. at 24.

2577 *Id*.

2578 *Id*.

2579 *Id*. at 25.

2580 *Id*. at 26.

2581 *Id*.

2582 *Id*. at 27.

million in 2026, and $54.163 million in 2027.[2583] UCAN recommends SDG&E's SM 2.0 total O&M forecasts of $4.42 million be denied and recommends the IT capital project costs of $58.46 million in 2024 be denied.[2584] UCAN does not address project costs in 2022 or 2023, but recommends that the post test-year ratemaking capital costs be denied in 2025, in 2026, and in 2027.[2585]

TURN and UCAN both assert that SDG&E does not offer adequate justification for the SM 2.0 project, and therefore the costs should be rejected.[2586] SDG&E vehemently disagrees with both. SDG&E has proven that its smart meter system is reaching end of life and expected failures require immediate attention.[2587] SDG&E's SM 1.0 program, which was deployed in 2009, is coming to the end of its useful life, whether TURN and UCAN would like to admit it.[2588] As SDG&E has emphasized emphatically, funding is necessary to remediate SM 1.0 system failures.[2589] Failures that are to be expected with infrastructure and technology as antiquated as it is.[2590] If either of TURN or UCAN's proposals are adopted, hundreds of thousands of SDG&E's customers subject to failures will be left without a remedy.[2591] For the foregoing reasons, SDG&E urges the Commission disregard TURN and UCAN's positions.

Additionally, SDG&E reiterates that there is no viable alternative to SM 2.0 – whether pursued today or addressed after mass failures, technology life is finite. As exhibited by Witness Thai, when repeatedly questioned by TURN whether SDG&E believes gas module battery replacement to be a sufficient alternative to the SM 2.0 project, Witness Thai emphasized during evidentiary hearings, "we [SDG&E] would be now spending twice as much money to eventually have to replace those assets for battery replacements initially and eventually gas module replacement shortly thereafter."[2592]

[2583] Ex. TURN-09-R (Cheng) at 4.

[2584] Ex. UCAN-01-E (Woychik) at 294.

[2585] Ex. UCAN-01-E (Woychik) at 317. SDG&E notes that UCAN erroneously references $69.2 million in [2028] and $54.16 million in [2029], which should reflect 2026 and 2027, respectively.

[2586] Ex. TURN-09-R (Cheng) at 22-23. *See also* Ex. UCAN-01-E (Woychik) at 296.

[2587] Ex. SDG&E-217 (Thai) at 31-32.

[2588] *Id*. at 33.

[2589] *Id*.

[2590] *Id*.

[2591] *Id*. at 34.

[2592] Tr. V23:4029-4030:3 (Thai).

The concept of gas module battery replacements would not only be cost prohibitive, but it would not be prudent as the technology is nearing end of life. As addressed by Witness Thai, "the alternative of maintaining the status quo of redeploying first generation technology as a corrective measure is not practical nor prudent for the ratepayer."[2593] Further invalidating the notion that an alternative exists, whether a gas module battery replacement for legacy hardware or in-kind legacy gas modules are utilized for replacements, they both require waiting 60 plus weeks for gas modules, due to supply chain issues.[2594] In both instances you are deploying technology inefficiently, and deploying technology reaching end of life, inclusive of outdated Smart Meter technology which will require replacement in a matter of years – assuming the inventory is available. SDG&E believes this outcome is highly undesirable for both SDG&E operations and, more importantly, SDG&E's customers.[2595]

As such, SDG&E maintains its proposed SM 2.0 Project is the only viable solution and should be accepted to prevent previously noted impacts to operations and SDG&E customers. Importantly, "[i]t would not be judicious for SDG&E to chase unit by unit failures throughout its service territory over the long-term . . . the [end of] useful life for the initial Smart Meters is fast approaching and SDG&E customers are experiencing failures now."[2596]

For the foregoing reasons, SDG&E urges the Commission to disregard Cal Advocates, TURN, and UCAN's proposals, and instead adopt SDG&E's request as reasonable. In the event the Commission does not approve SDG&E's requested SM 2.0 costs, SDG&E alternatively requests the need to establish a two-way balancing account to track O&M and capital-related expenditures attributable to the inevitable failures.[2597] A two-way balancing account establishes a

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2593 Ex. SDG&E-217 (Thai) at 3; *see also* Tr. V23:4027:5-21 (Thai).

2594 Battery replacement in gas modules is not performed at the customer premise. *See*, *e.g.*, Tr. V23:4019:7-4020:6 (Cheng/Thai), 4034:8-14 (Thai), 4040:1-16 (Woychik/Thai). For this reason, a temporary surplus gas module must be installed pending the vendor's return of the gas module with new batteries. The supply constraint on gas modules applies whether the gas module is procured for replacement purposes or to serve as a surplus module while the legacy batteries are being replaced.

2595 Replacing the gas module battery will offer a maximum of a few years before it reaches its technology end of life. As such, SDG&E customers will require a subsequent gas module replacement. *See* Ex. SDG&E-313, Attachment A at 11 (Itron Gas Module technical sheet reflecting 15-17 yr. battery life and 20-yr design life). Further, "Itron does not extend the previous warranty or create a new warranty for modules updated by battery replacement." *See* Ex. SDG&E-317 at 6 (battery replacement does not extend or substitute warranty).

2596 Ex. SDG&E-217 (Thai) at 3; *see also* San Diego Gas & Electric Company's Motion in Compliance with ALJ's Request on Smart Meter Costs (July 31, 2023) at 3.

2597 Ex. SDG&E-217 (Thai) at 29.

means to deploy SM2.0 as necessary to mitigate first-generation meter system failure rates.[2598] These actions are necessary to ensure accurate and timely billing of consumption, meter data acquisition for SDG&E operations and CCAs, customer programs, and other third-party energy service providers.[2599]

21.3.1.4 Capital Project Cost for Field Service Delivery (FSD)

SDG&E's forecasts for FSD Scheduling & Dispatch Phase/Data & Analytics Platform for 2022, 2023, and 2024 are $13.400 million, $13.839 million, and $19.296 million, respectively.[2600] FSD is a multi-year program to implement integrated, cohesive, and modern technology solutions for field operations and supporting business organizations.[2601] FSD will replace end of life and unsupported software, consolidate software applications, and improve customer experience and satisfaction.[2602]

For Field Service Delivery, Cal Advocates' recommends $13.400 million for 2022, 2023, and 2024, representing a $439,000 reduction and $5.896 million reduction for years 2023 and 2024, respectively.[2603] Cal Advocates claims that SDG&E's discovery responses "do not support the funding request" and instead proposes $13.400 million across all three years. In addition to providing additional information on the project to Cal Advocates through discovery, the requested funding, and what it will be used for, is detailed, by year, in Figure DT-4.[2604] Cal Advocates, again, arbitrarily chose a figure – in this case, $13.400 million – to use as their forecast for all three years. Aside from Cal Advocates' alleged disdain with SDG&E's response to discovery, Cal Advocates provides no support for its arbitrary forecast and forecasting methodology. As such, SDG&E urges the Commission reject Cal Advocates' proposed disallowances.

TURN recommends a capital reduction to SDG&E's FSD project in its entirety – a capital reduction of $13.400 million in 2022, $13.839 million in 2023, and $19.296 million in 2024.[2605] UCAN recommends SDG&E's Customer Field Operations Support request for FSD O&M TY

2598 *Id*.

2599 *Id*.

2600 Ex. SDG&E-17-R (Thai) at 44.

2601 *Id*.

2602 *Id*.

2603 Ex. CA-10 (Campbell) at 35; *see also* Ex. SDG&E-217 (Thai) at 44.

2604 Ex. SDG&E-217 (Thai) at 45; *see also* SDG&E response to TURN-SEU-052, Question 2b.

2605 Ex. TURN-09-R (Cheng) at 4.

2024 forecast of $1.490 million be denied it its entirety.[2606] TURN and UCAN allege that SDG&E does not offer adequate justification for the FSD project. SDG&E disagrees with this assertion. SDG&E, since the original deployment of field systems in 2010, has prudently pursued, and implemented, incremental enhancements to the existing system.[2607] As noted, inaction or retaining the status quo of an aging and unsupported system could only lead to increased inefficiencies.[2608] Consistent with, and as explained in the Capital Project Cost for Smart Meter 2.0 section above, inaction would lead to the "obsolete" technology that UCAN so adamantly opposes.[2609] Failure to address such obsolescence increases SDG&E's risk of cybersecurity threats, potential unauthorized breaches to systems and customer data, and will have a direct negative impact in the delivery of reliable, safe, efficient, and secure services to SDG&E's customers.[2610]

For the foregoing reasons, SDG&E urges the Commission to disregard Cal Advocates, TURN, and UCAN's proposed disallowances for its FSD project.

21.3.1.5 Capital Project Cost for Smart Meter Product/Upgrade

SDG&E's forecast for Smart Meter Product and Upgrade for 2022, 2023, and 2024 are $5.141 million, $6.208 million, and $3.663 million, respectively.[2611] The Smart Meter Product teams will upgrade production and non-production Meter Data Management System (MDMS) application software OpenWay Collection Engine (OWCE) application software, What's Up Gold (WUG) network monitoring application software and Certicom Decryption and Encryption Key Servers to their latest vendor provided version.[2612] The Smart Meter Product team will develop numerous reporting, analytics, workflow, and process automation tools to align with significant changes in the enterprise.[2613] Lastly, the Smart Meter Product teams will implement numerous technical investments in Application Test Automation and system monitoring and reporting.[2614]

2606 Ex. UCAN-01-E (Woychik) at 300. SDG&E notes that UCAN erroneously uses the acronym FSB, rather than FSD, throughout testimony. The correct acronym is FSD.

2607 Ex. SDG&E-217 (Thai) at 47.

2608 *Id*.

2609 Ex. UCAN-01-E (Woychik) at 300 (enforcing "SDG&E's existing FS[D] is obsolete.").

2610 Ex. SDG&E-217 (Thai) at 48.

2611 Ex. SDG&E-17-R (Thai) at 45.

2612 *Id*.

2613 *Id*.

2614 *Id*.

Cal Advocates recommends SDG&E's SM Product (CWP 00900D) and SM Upgrade (CWP 00900E) IT capital project costs for 2022, 2023, of $5.141 million per year, and $0 funding for 2024.[2615] This results in a reduction of $1.067 million for 2023 and a reduction of $3.3663 million for 2024 to SDG&E's forecasted IT capital SM Product/Upgrade project costs. Cal Advocates argues that the business rational of these projects are unjustified due to the belief that SDG&E's testimony, revised workpapers, numerous DR responses, and information provided in virtual meeting for the capital projects were not sufficient.[2616] SDG&E disagrees with Cal Advocates' disallowances and outright rejection of funding in 2024. SDG&E clearly showed in its rebuttal testimony (Ex. SDG&E-217 (Thai)) at DHT-49-52 that these two projects have two critical roles in the operation and provided a sample list of ongoing activities displayed in Table DT-14 Smart Meter Product / Upgrade Activities. Successfully accomplishing such efforts for SM Product ensure customers have online access and presentment of interval data, ensures successful third-party data sharing to demand response providers and CCA's.[2617] And provide support for the remote meter configuration for net metering, ensure reliable power outage notification transmission to grid operations to support customer outage detection.[2618] The efforts of the teams are required to support existing SM 1.0 systems.[2619] Further, Smart Meter Upgrade as conveyed in Table DT-14 is currently undergoing a major upgrade endeavor.[2620] Major upgrades are performed regularly in order to keep critical apparatuses (Headend, MDMS) and the underlying infrastructure (hardware, Operating System, security technologies, etc.) current and insure compatibility and interoperability.[2621] Failure to fund these capital projects at their forecasted levels would be devastating to SDG&E operations and its customers. SDG&E's first-generation smart meter systems will be operational through 2030, the responsibility of supporting them until then is pivotal.[2622]

2615 Ex. CA-10 (Campbell) at 37-38.

2616 *Id*. at 38-39.

2617 Ex. SDG&E-217 (Thai) at 50.

2618 *Id*.

2619 *Id*.

2620 *Id*. at 52.

2621 *Id*.

2622 *Id*.

UCAN recommends SDG&E's Smart Meter Upgrade (CWP 00900E) and Smart Meter Product (CWP 00900D) TY 2024 IT capital project costs be denied.[2623] The TY 2024 IT capital project costs in TY 2024 are $0 and $3.663 million, respectively.[2624] UCAN provides no explanation, other than its recommended disallowance of SDG&E's SM 2.0 project outright, for its recommended disallowance to the Smart Meter Upgrade and Smart Meter Product. UCAN appears to support "replacing specific equipment," yet it's proposed disallowances will not allow SDG&E to replace said equipment.[2625] Instead, UCAN's proposal essentially reverts SDG&E back to manual meter reading.[2626] As noted above, SDG&E's SM 2.0 project is imperative to continue to deliver safe, reliable, and efficient service to its customers. At stake are customers' online access and interval data, third party data sharing, bill impacts, and impacts to demand response providers and CCAs in SDG&E's service territory.[2627]

For these reasons, SDG&E urges the Commission disregard Cal Advocates' and UCAN's proposed disallowances to its Smart Meter Product/Upgrade IT capital projects.

21.4 Customer Services Office Operations

21.4.1 SoCalGas Summary of Office Operations Request

Table 21.10

CS - OFFICE OPERATIONS (in 2021$)			
O&M	2021 Adjusted-Recorded ($000)	Estimated TY 2024 ($000)	Change ($000)
Non-Shared	79,118	85,018[2628]	5,900
Shared	4,346	4,556	210
Total O&M	**83,464**	**89,574**	**6,110**

2623 Ex. UCAN-01-E (Woychik) at 316.

2624 Ex. SDG&E-25-CWP-R (Exon) at 37.

2625 Ex. UCAN-01-E (Woychik) at 295.

2626 Ex. SDG&E-217 (Thai) at 53.

2627 *Id*. at 53-54.

2628 This amount reflects a reduction of $36,000 to TY 2024 forecast to correct an error in workpapers for CSOO's Billing Services, in response to a data request by Community Legal Services (CLS), which CLS accepted. *See* Ex. SCG-215-E (Sides) at 13 and Ex. CLS-01 (Gondai) at 48-49. This amount also reflects the update to Credit and Collections Postage and Remittance Processing Postage, addressed in the Update Testimony. *See* Ex. SCG-401/SDG&E-401 (Sides) at 16-17.

Table 21.11

CS - OFFICE OPERATIONS (in 2021$)			
Capital	Estimated 2022 ($000)	Estimated 2023 ($000)	Estimated TY 2024 ($000)
Total CAPITAL	14,520	20,657	15,763

SoCalGas seeks $89.574 million for operations and maintenance (O&M) costs in TY 2024 to support the shared and non-shared services activities within Customer Services – Office Operations (CSOO), to deliver safe, efficient, reliable and effective service through the Customer Contact Centers (CCC), Branch Offices (BO) and Authorized Payment Locations (APL), Billing & Payments, Credit and Collections, and other related customer service support functions.[2629] The forecast is composed of $85.018 million for non-shared activities and $4.556 million for shared activities.[2630] This forecast represents an increase of $6.110 million over 2021 adjusted-recorded costs (BY 2021), and includes $117,000 in RAMP-related costs.[2631] The RAMP activities represented and supported as part of Ms. Sides' testimony are Emergency Calls, Workforce Violence Prevention Programs, and Contract Security, as further detailed in Section II of Ms. Sides' direct testimony.[2632] The incremental funding request supports ongoing management of risks by CSOO. For example, RAMP-related costs for branch office locations include costs related to contract security guards to secure and protect assets and people at SoCalGas's 43 branch office locations.[2633] Additional details regarding these RAMP activities and their respective cost forecasts are detailed in Section II of Ms. Sides' direct testimony.[2634]

The CSOO's TY 2024 request also includes Postage and the Uncollectible Rate. CSOO forecasts Credit and Collections Postage expenses of $42,884 increase in 2022, a $114,210 increase in 2023, and a $114,210 increase in TY 2024, and Remittance Processing Postage expenses of $423,000 increase in 2022, a $1,167,000 increase in 2023, and a $1,048,000 increase in TY 2024.[2635] For the Uncollectible Rate, SoCalGas is requesting to increase the authorized

2629 Ex. SCG-15-R-2E (Sides) at 1-2.

2630 *Id.* at iv; Ex. SCG-401/SDG&E-401 (Sides) at 15-16.

2631 Ex. SCG-15-R-2E (Sides) at 4-5.

2632 *Id.* at 4-7, 11-17.

2633 *Id.* at 16-17.

2634 *Id.* at 4-7, 11-17.

2635 Ex. SCG-401/SDG&E-401 (Sides) at 16-17.

uncollectible expense rate from the current authorized rate of 0.278% to 0.310%.[2636] SoCalGas's proposed rate is based on a ten-year rolling average of actual and reserve write-offs for the period of 2012 through BY 2021.[2637] CSOO also sponsors the business justification for IT Capital expenditures of $14,520 million in 2022, $20,657 million in 2023, and $15,763 million in 2024, to deliver an improved customer experience, replace obsolete technology, deliver operational efficiencies and comply with regulatory mandates.[2638] The estimated operating expenses and IT capital projects support CSOO's fundamental goal of maintaining operational excellence and are required to provide basic, convenient, responsive, efficient, reliable, and safe customer service.[2639] In addition, SoCalGas filed Supplemental Testimony to provide an analysis, as required by Senate Bill 598, of the impact of rates of disconnections for non-payment.[2640] For the CSOO sponsored capital projects, estimated capital expense requests are included in the testimony and workpapers of SoCalGas witness William J. Exon.[2641]

CSOO provides various types of services including responding to customer calls, processing customer service requests, resolution of billing exceptions, investigation of delinquent accounts, printing of customer bills, processing of customer payments, and business support for system changes to the customer information system. CSOO's activity described in Ms. Sides' testimony advances the State's climate goals and align with SoCalGas's sustainability priorities.[2642] For instance, SoCalGas is encouraging and forecasting increased adoption of customer paperless billing which is reducing the amount of paper, printing, and postage. Going paperless reduces deforestation, decreases the amount of waste that is disposed in landfills, reduces energy consumption, and helps lessen the impact of climate change.[2643]

SoCalGas used a BY methodology to forecast the estimated TY 2024 expenses of because BY 2021 represented the most recently available adjusted recorded expenditures, transactions and activity levels, customer service policies, practices and procedures prior to the May 2022 filing of

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2636 Ex. SCG-15-R-2E (Sides) at 45.

2637 *Id.*

2638 *Id.* at 46-55.

2639 *Id.* at 46.

2640 *See* Ex. SCG-15-S (Sides). No parties commented upon or contested SoCalGas's SB 598 analysis.

2641 Ex: SCG-15-R-2E (Sides) at 46; *see also,* Ex. SCG-21-R-E (Exon); Ex. SCG-21-WP-R-2E (Exon).

2642 Ex: SCG-15-R-2E (Sides) at 7-8.

2643 *Id.*

Ms. Sides' prepared direct testimony. Cal Advocates did not oppose the BY forecasting methodology and did not oppose SoCalGas's TY 2024 forecast for both CSOO's shared and non-shared O&M expenses.[2644] However, TURN recommended adjustments to SoCalGas's TY 2024 forecasts based on a five-year historical average forecast methodology, which includes two full years before the pandemic, based on its erroneous assertion that "[t]he Commission should reject SoCalGas's COVID-19 argument because during the pandemic, it pocketed the reduced O&M costs as earnings for shareholders which allowed Sempra to achieve record profits."[2645] In each instance, as described in detail below, TURN was unjustifiably selective in both the historical average period used to create TURN's own forecasted revenue requirement, and in using 2022 actual recorded costs. As discussed below, 2022 recorded data were not available at the time SoCalGas filed its 2024 GRC Application and the use of base year +1 data (in this case 2022 data) is outside the scope of the Rate Case Plan.[2646]

Table 21.12

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SOCALGAS	83,464	89,574[2647]	6,110
CAL ADVOCATES	83,464	88,448	4,984
TURN	83,464	86,644	3,180
CLS	83,464	86,672	3,208

Table 21.13

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	14,520	20,657	15,763	50,940	0
CAL ADVOCATES	14,520	20,657	15,763	50,940	0
TURN	13,267	8,145	1,616	23,028	-27,912

2644 Ex. CA-10 (Campbell) at 41-43.

2645 Ex: TURN-09-2R (Cheng) at 11-13.

2646 D.07-07-004, Appendix A at A-31. The Rate Case Plan specifically requires applicants to "furnish base year historical and estimated data and subsequent years with evaluation of changes up to and including the test year."

2647 The numbers provided in this Table have been adjusted as part of SoCalGas's Update Testimony. Ex. SCG-401/SDG&E-401 (Update Testimony) dated July 7, 2023 was served after Cal Advocates March 27, 2023 testimony. While the Table 21.3.C reflects SoCalGas's updated Postage forecast, SoCalGas has not adjusted Parties' numbers, which is the reason for the variance in values.

The only parties to rebut portions of SoCalGas's O&M revenue request were TURN, Community Legal Services (CLS) and SBUA. Only TURN opposed SoCalGas's business justification for IT Capital expenditure requests. SBUA also made no specific funding proposals. The only areas where TURN, CLS and SBUA recommended adjustments to SoCalGas's revenue request concerned the following cost centers:

- Branch Offices (SCG-15-WP 2OO002.000): a reduction of $1.334 million from a total TY 2024 request of $12.246 million (labor and non-labor);
- Credit and Collections (SCG-15-WP 2OO004.000): a reduction of $0.470 million from a total TY 2024 request of $5.934 million;
- Payment Entry Processing units (SCG-15-WP 2OO002.000) a reduction of $77,000 for SoCalGas's non-labor costs;
- Remittance Processing (SCG-15-WP 2OO005.000) – a reduction of $671,000 in labor costs for SoCalGas's request for an additional 7.5 FTEs, and a request for SoCalGas to enter into another Memorandum of Understanding (MOU) and commit to utilizing $610,000 in non-labor spending;[2648]
- Customer Service Other Office Operations & Technology (SCG-15-WP 2OO005.000)– a reduction of $262,000 for SoCalGas's forecast for the three requested incremental Full Time-Equivalents (FTEs);
- Payment Processing (SCG-15-WP 2200-0355.000) – a reduction of $171,000 for SoCalGas's request for two incremental FTEs;
- CCC Technology Modernization (SCG-21-CWP-R-00754V): a reduction of $1.253 million in 2022, $12.512 million in 2023, and $2.141 million in 2024 respectively which is being requested in the testimony and capital workpapers of Jamie Exon (Ex. SCG-21-R-E - Chapter 2, SCG-21-CWP-R). Ms. Sides' testimony sponsors the business justification for the project; and
- Advanced Meter and HeadEnd and Meter Data Management Next Generation (AclaraOne) (SCG-21-CWP-R-00754T): a reduction of $12.06 million in 2024, which is being requested in the testimony and capital workpapers of Jamie Exon

[2648] Ex. CLS-01 (Gondai) at 52, 57-58.

(Ex. SCG-21-R-E, Chapter 2 and Ex. SCG-21-CWP-R). Ms. Sides' testimony sponsors the business justification for the project.

Each of the areas recommended for adjustment will be discussed below. The following areas were not objected to by intervenors and the Commission should adopt these requests as reasonable:

- No party opposed SoCalGas's shared service request for Billing Services[2649] of $5,178 million (SCG-15-WP 2OO003.000), Credit & Collections Postage $5,934 million (SCG-15-WP 2OO004.001), Remittance Processing Postage $9,550 million (SCG-15-WP 2OO005.001), Measurement Data Operations $1,098 million (SCG-15-WP 2OO007.000); and Manager of Remittance Processing $498,000 (SCG-15-WP 2200-2247.000).
- No party contested SoCalGas's justification for the recovery of recorded costs in the Residential Disconnection Protection Memorandum Account (RDPMA), Residential Disconnection Memorandum Account (RDMA), Emergency Customer Protection Memorandum Account (ECPMA), Wildfire Customer Protections Memorandum Account (WCPMA), or California Consumer Privacy Act Memorandum Account (CCPMA).
- No party opposed SoCalGas's proposed rate based on a ten-year rolling average of actual and reserve write-offs for the period of 2012 through BY 2021.
- No party opposed SoCalGas's IT capital project business justifications for the following projects:
    - Centralized Customer Data Management (SCG-21-CWP-R- 00754Q) for $1,753,000, $1,871,000, and $1,471,000, in 2022, 2023, and 2024 respectively;
    - Gas Measurement and Analysis System (GMAS) (SCG-21-CWP-R-00754K) for $3,361,000, $4,839,000, and $0 in 2022, 2023, and 2024 respectively;

[2649] As discussed above, CSOO made a reduction of $36,000 to TY 2024 forecast to correct an error in workpapers for CSOO's Billing Services, in response to a data request by CLS, which CLS initially raised in its testimony and CSOO agreed to remove. CLS does not have any other issues with Billing Services so there are no remaining issues. *See* Ex. SCG-15-R-2E (Sides) at 13 and Ex. CLS-01 (Gondai) at 48-49.

- o Senate Bill 711 Bill Volatility Project (SCG-21-CWP-R- 00754D) for $1,497,000, $1,182,000, and $0 in 2022, 2023, and 2024 respectively;
- o Project Monaco (SCG-21-CWP-R- 00755D) for $649,000, $159,000 and $0 in 2022, 2023, and 2024 respectively;
- o Speech Analytics and Workforce Management Upgrades (SCG-21-CWP-R- 00754A) for $3,729,000, $0, and $0 in 2022, 2023 and 2024, in 2022, 2023, and 2024 respectively;
- o Major Market to Cloud (M2C) - Billing Viewer (SCG-21-CWP-R- 00754M) for $1,175,000, $0, and $51,000 in 2022, 2023, and 2024 respectively;
- o Advanced Meter HeadEnd and Meter Data Management System (MDMS) Refresh (SCG-21-CWP-R- 00754I) for $412,000, $0, and $0, in 2022, 2023, and 2024 respectively;
- o Intelligent Workload Distribution (IWD) ((SCG-21-CWP-R- 00755K) for $173,000, 7 $0, and $0, in 2022, 2023, and 2024 respectively, and
- o CQMX Replacement (SCG-21-CWP-R-00786L) for $518,000, $94,000, 25 and $94,000, in 2022, 2023, and 2024 respectively.

21.4.1.1 Branch Offices

SoCalGas currently operates 43 branch offices throughout its service territory, which provide customers with the option of paying their bills in-person, inquire about accounts, and complete other customer service transactions.[2650] Approximately 98% of all branch office transactions are related to bill payments. Branch offices are open from 9:00 a.m. to 5:00 p.m., Monday through Friday, and employ approximately 80 full-time and 43 part-time employees.[2651] Although branch office transaction volumes are declining at some locations, branch offices are staffed at optimal levels to provide service during current operating hours, and labor costs are not projected to decline.[2652] The majority of non-labor expenses are fixed and not sensitive to transaction volume reductions.[2653] SoCalGas also provides customer payment services through a network of Authorized Payment Locations (APLs). These APLs provide similar payment services

2650 Ex. SCG-15-R-2E (Sides) at 15.

2651 *Id.*

2652 *Id.* at 16.

2653 *Id.*

for SoCalGas customers and offer convenient locations and extended hours with no transaction fee to the customer. SoCalGas has enhanced access to APLs by expanding the APL network to over 350 locations, including more than 135 Walmart store locations in the SoCalGas service territory. SoCalGas requests $12.246 million in TY 2024, an increase of $2.597 million, which is composed of $2.520 million for 31 FTEs to return to normal staff levels after temporary branch office closures due to the COVID-19 pandemic, and $77,000 for Equipment.[2654] Cal Advocates does not take issue with the TY O&M forecast for Branch Offices.[2655]

TURN recommends a reduction of $1.334 million (labor, and non-labor not specified) to SoCalGas's forecast based on its use of a five-year average, which includes two full years before the pandemic (2018-2022) in order "[to] arrive at the estimate with the most conservative reduction."[2656] TURN also argues that "[t]he Commission should reject SoCalGas's COVID-19 argument because during the pandemic, it pocketed the reduced O&M savings as earnings for shareholders, which allowed Sempra to achieve record profits."[2657]

TURN's use of a five-year average is unreasonable and should be rejected. First, TURN relies on SoCalGas's adjusted recorded actuals from 2018-2022, which ignores the fact that 2022 actuals were not available for forecasting purposes at the time Ms. Sides' testimony was developed.[2658] Second, TURN has not provided any evidence that SoCalGas "pocketed the reduced O&M costs as earnings for shareholders."[2659] TURN fails to understand that if SoCalGas spends less than the GRC-authorized amount for certain activity, that does not mean that the difference is "earnings for shareholders." GRC O&M funding can also be reprioritized to fund other company activities unless they are required to be tracked separately in a regulatory account and used for a specific purpose.[2660] SoCalGas explained that lower 2022 O&M expenses were due to modification of full-service processing of customer payments at the branch offices during the pandemic to prevent the spread of COVID-19, accepting payments only through the Company

2654 Ex. SCG-15-R-2E (Sides) at 17.

2655 Ex. CA-10 (Campbell) at 41.

2656 Ex. TURN-09-2R (Cheng) at 11-12.

2657 *Id*. at 12.

2658 Ex. SCG-215-E (Sides) at 11. The Commission also noted in SDG&E and SoCalGas's TY 2019 final decision, "it is generally not feasible or prudent to continue to update forecasts to reflect actual data during the pendency of the GRC proceeding. *See* D.19-09-051 at 612.

2659 Ex. TURN-09-2R (Cheng) at 11.

2660 Ex. SCG-215-E (Sides) at 12.

drop boxes and not in-person. Therefore, this reduced working hours for part-time employees and delayed filling vacant full-time positions at the branch office.[2661] Furthermore, avoided costs were included in the Company's regulatory balancing account for CEMA recovery in 2020 and 2021, thereby reducing SoCalGas's request for CEMA recovery.[2662]

Finally, the Commission should reject TURN's argument that "[i]n fact, PG&E has already proposed to permanently close all of its Branch Offices which is further evidence that increased funding for Branch Offices is not necessary."[2663] SoCalGas cannot simply close all 43 branch offices just because another utility decided to close its branch offices. There are important requirements that SoCalGas must follow before obtaining the Commission's decision allowing SoCalGas to close its branch offices. Pursuant to D.16-06-046, SoCalGas must file an application and specifically "meet its burden of proof by demonstrating that the closure of its branch offices … is reasonable and in the best interest of its customers and that such closure will not disproportionately impact vulnerable customers."[2664] The Commission, in determining whether to allow SoCalGas to close its 43 branch office, also considers (1) whether customers would have reasonably comparable alternatives to the level of service offered by a branch office if the branch office were to close; (2) the extent to which customers would have reasonably comparable alternatives for receiving the services provided by the branch offices other than receipt of payments; and (3) whether the impact of closing branch offices would fall disproportionately on customers who are low-income, elderly, or who have disabilities.[2665] The Commission in D.08-07-046 also explained:

> The reality is that some customers are more expensive to service than others: we cannot presume all to have internet bill-paying capability or even checking accounts. Therefore, we must find a way to serve these customers' needs for bill payment, customer service, and information. The traditional branch offices serve these functions.[2666]

Therefore, TURN's arguments are irrelevant and out of scope for the GRC, as SoCalGas branch office closure decision-making by the Commission has not occurred. Careful

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2661 *Id.*

2662 *Id.*

2663 Ex. TURN-09-2R (Cheng) at 11-12.

2664 D.16-06-046 at 7.

2665 *Id.* at 26 (citation omitted).

2666 D.08-07-046 at 20-21.

considerations must be made before SoCalGas makes the final determination as to whether closing 43 branch offices will impact customers without comparable alternatives or certain customers who are low-income, elderly, or who have disabilities. Ms. Sides testified that SoCalGas is currently evaluating the closure of branch offices, including these considerations; however, SoCalGas has not completed the analysis.[2667] As long as the branch offices remain open, that assumption must form the basis for SoCalGas's GRC forecast and TURN has failed to refute SoCalGas's reasonable assumption that branch offices need to be staffed at optimal levels to provide service during current operating hours, and the requested funding is necessary to operate and provide the required services to SoCalGas's customers.[2668] Any issues relating to the closure of SoCalGas's branch offices, including reasonableness of office closure or whether SoCalGas should track and record the ongoing O&M savings after each branch office closure, should be addressed by the Commission in a separate proceeding, if and when SoCalGas files its application to close its branch offices.[2669] For all the reasons set forth above, TURN's proposed reduction to TY 2024 O&M funding request for branch offices is unreasonable and should be rejected.

CLS recommends a reduction of $101,000 to SoCalGas's TY 2024 O&M forecast for the total cost of $307,000 to replace branch office Payment Entry Processing (PEP) scanners and printers.[2670] CLS states that the Commission should reject the $50,000 "implementation fee" and adopt a revised forecast cost for PEP units of $206,000, a reduction of $101,000.[2671] SoCalGas disagrees with CLS's recommended reduction. CLS fails to provide prudent business practice in their analysis. The process to obtain printers and scanners for 43 branch offices requires due diligence, and SoCalGas made the decision to use the compatible PEP unit based on the requirements of SoCalGas's banking partner and the Company's operational needs.[2672] The

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2667 Tr. V12:2184:8-10 (Sides).

2668 Ex. SCG-215-E (Sides) at 12.

2669 The Commission in D.16-06-046 ruled: "SoCalGas shall track and record the ongoing O&M savings after each branch office closure and the costs to achieve such closure. The net savings shall be credited to SoCalGas's CFCA. Branch office-related outreach costs shall be funded through the existing GRC revenue requirement. *See* D.16-06-046 at 48.

2670 Ex. CLS-01 (Gondai) at 47.

2671 *Id*.

2672 Ex: SCG 215-E (Sides) at 10-11. SoCalGas also explained that its customer check images must meet banking specifications and requirements and if scanning requirements are not met, the format standards of the images may not be readable by other banks and thus result in the inability to process customer checks. *See* Ex. CLS-02, Excerpts from Data Request Responses (June 6, 2023) at 12.

Commission should therefore reject CLS's recommendation in its entirety as it does not meet the requirements of SoCalGas's banking partner and the Company's operational needs, nor do they consider the necessary additional costs.

21.4.1.2 Remittance Processing

Remittance Processing provides printing and inserting services for customer bills, notices, letters, and other customer correspondence as well as management support for payment processing activities. Expenses include the labor costs associated with these activities as well as non-labor costs for paper stock, bill forms, envelopes, stationery items, printer and inserter machine maintenance and associated consumable supplies.[2673] SoCalGas provides electronic bill presentment and payment services (EBPP) through the SoCalGas MyAccount website where customers can access their current and historical billing statements.[2674] SoCalGas also provides electronic bill delivery through multiple bill consolidation networks (consolidators) that allow customers to receive SoCalGas electronic bills at the website of their financial institution.[2675]

SoCalGas is requesting a TY 2024 O&M forecast for a total of $7.083 million in TY 2024, an increase of $1.124 million for Remittance Processing.[2676] SoCalGas is requesting a TY 2024 O&M forecast for a total increase of 10.5 FTEs above 2021 levels for an additional $956,000 in labor costs.[2677] SoCalGas's labor request consists of an incremental $671,000 for 7.5 FTEs (Mail Equipment 6 Operators Level-2 responsible for bill insertions) which are a combination of employees' intermittent (Long-Term Disability) LTD time off, temporarily assigned to capital projects, and delay in filling vacancies.[2678] SoCalGas also requests $610,000 in non-labor expenses for identifying and correcting accessibility issues on bills presented in MyAccount as well as other documents on socalgas.com in accordance with the Joint Accessibility Proposal (JAP) adopted in D.19-09-051.[2679]

Other scanner recommended in CLS' testimony are not compatible with SoCalGas's existing banking partners' requirements. *See* Ex: SCG 215-E (Sides) at 10.

2673 Ex. SCG-15-R-2E (Sides) at 31.

2674 *Id.*

2675 *Id.*

2676 *Id.* at 32.

2677 *Id.* at 32, Table BMS-32.

2678 *Id.*

2679 *See* D.19-09-051 at 724 (approving the Memorandum of Understanding (MOU) between the Center for Accessibility Technology (CforAT) and SoCalGas).

CLS recommends that the Commission reject the incremental $671,000 requested for 7.5 FTEs because historical staffing levels for Remittance Processing, from 2017-2021, stayed consistent at 22.2-24.8 FTEs, and Remittance Processing "already added three new positions in 2021."[2680] CLS also argues that "SoCalGas did not clarify what positions were now necessary and why."[2681] SoCalGas disagrees with CLS' recommendation. As explained in testimony and in data request responses, SoCalGas provided details, including market-based analysis it used to determine comparable pay for specific job titles.[2682] SoCalGas also explained the increased workload and the need for staffing to handle the workload.[2683] SoCalGas's request to return to full level of staffing to be effective in its operations is reasonable and therefore the Commission should reject CLS's recommendation and adopt SoCalGas's forecast as reasonable.[2684]

CLS also challenges SoCalGas's non-labor spending pursuant to the MOU with the CforAT.[2685] CLS questions why SoCalGas responded in a data request that it "spent $140,000 on accessibility improvements in 2021, while their annual report indicates $1,744,136" and recommends that "SoCalGas enter into another MOU with interested parties and commit to utilizing their requested $610,000 on accessibility improvements for the 2024 GRC period."[2686] SoCalGas disagrees with CLS because its recommendation is misplaced. As explained in the data request response and in testimony, SoCalGas met the overall compliance goal found in the JAP and spent $1.774 million in capital projects, including automatic door openers at the Branch Office locations in 2021.[2687] The JAP does not specify the funding sources and is not limited to O&M expenses.[2688] Although SoCalGas met its compliance goal under the JAP, it intends to further enhance the accessibility for our disabled customers and is requesting an additional $610,000 for costs to identify and resolve remaining or emergent accessibility issues including improving the

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2680 Ex. CLS-01 (Gondai) at 52.

2681 *Id.*

2682 *See* SCG-15-R-2E (Sides) at 30-33; Ex. SCG-215-E (Sides) at 16-17 and Appendix B at 30-31.

2683 *Id.*

2684 Ex. SCG-215-E (Sides) at 17.

2685 Ex. CLS-01 (Gondai) at 55-56.

2686 *Id.* at 55-57.

2687 *See* A.17-10-007/008, Prepared Direct Testimony of Melissa W. Kasnitz and Charles R. Manzuk Developed Jointly by the Center for Accessible Technology, San Diego Gas & Electric Company and Southern California Gas Company (April 14, 2018) at 1. *See also,* Ex. SCG- 215-E (Sides) at 18.

2688 *Id.*

accessibility of the PDF Accessible bills presented in MyAccount as well as various forms and documents on socalgas.com.[2689] These improvements are in accordance with the JAP adopted in D.19-09-051.[2690] Because SoCalGas has met is compliance goals under the JAP and intends to continue the activities provided in the MOU with CforAT to support SoCalGas's ADA customers, CLS' recommended reduction should be rejected.[2691] The current JAP is expected to expire in December 2023 and SoCalGas remains open to entering into another JAP with interested parties.

21.4.1.3 Credit and Collections

Credit and Collections establishes and implements policies and procedures so that authorized credit and collections-related tariff rules are followed, and collections activity is effectively performed. Credit and Collection services at SoCalGas consist of two distinct organizations: (1) credit and collections for residential and small commercial and industrial customers ("Mass Market Credit and Collections"); and (2) credit and collections for large commercial and industrial customers ("Major Market Credit and Collections").[2692] Credit and Collections has broad responsibility, including establishing credit, mitigating credit risk, maintaining collateral, negotiating contract terms, monitoring accounts receivable, and performing collections activity.[2693]

SoCalGas requested a Test Year 2024 O&M forecast of $5.934 million for Credit and Collections, which is a $1.15 million increase from 2021, to restore the full level of staffing and for collection agency expenses that is expected to increase to pre-pandemic levels after the expiration of the disconnection moratorium.[2694] Again, based on its unsubstantiated argument that "[t]he Commission should reject SoCalGas's COVID-19 argument because during the pandemic, it pocketed the reduced O&M costs as earnings for shareholders, which allowed Sempra to achieve record profits," TURN recommends a reduction of $0.470 million for Credit and Collections based on using a five-year historical average methodology.[2695] SoCalGas disagrees that a five-year historical average provides an appropriate forecast for its request. First, as previously stated,

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[2689] Ex. SCG-15-R-2E (Sides) at 33.
[2690] D.19-09-051 at 24.
[2691] Ex. SCG-215-E (Sides) at 18.
[2692] Ex. SCG-15-R-2E (Sides) at 23.
[2693] *Id.* at 23-24.
[2694] *Id.* at 22-27 and Table BMS-23.
[2695] Ex. TURN-09-2R (Cheng) at 12-13.

TURN's proposed reduction in Credit and Collections was based upon SoCalGas's adjusted recorded actuals from 2018-2022, which ignores the fact that 2022 actuals were not available for forecasting purposes at the time CSOO testimony was developed.[2696] TURN also included pandemic years when collection activities did not take place because of a CPUC-mandated disconnection moratorium and customer protections[2697] that were just lifted at the end of February 2023.[2698]

Second, not funding the full-year effect due to partial-year vacancies discounts the realities of business operations and is inconsistent with past GRC treatment.[2699] The Commission in the Companies' 2019 General Rate Case rejected TURN's two-year average forecast methodology for SDG&E's credit and collection O&M forecast, stating that "[w]e find SDG&E's base year method appropriate and that TURN's recommendation to use a two-year average does not take into account vacancies in 2017."[2700] These positions have been backfilled and roles are currently occupied now that SoCalGas will be resuming its collections practices again since the CPUC mandated emergency COVID-19 customer protections have ended.[2701] Finally, if TURN's proposed reduction is accepted, it could negatively impact SoCalGas's ability to perform its collection activities in TY 2024 as it would (1) be unable to fill positions under the Mass Market Credit and Collections group, and (2) may have to reduce costs relating to third-party collection agencies, which would harm ratepayers by reducing the recovery of bad debt and increasing uncollectible expenses that would be passed onto ratepayers.[2702] For all the reasons stated above, the Commission should reject TURN's recommendation of using a five-year average and adopt SoCalGas's forecast as reasonable.

21.4.1.4 Customer Contact Center (CCC) Support

SoCalGas seeks $8.991 million for CCC Support expenses, representing a $315,000 increase over BY 2021, for three FTEs to fill the vacancy in 2021 and handle anticipated increase

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[2696] Ex. SCG-215-E (Sides) at 14:5-8.

[2697] Res. M-4848; D.19-07-015.

[2698] Executive Department State of California, *A Proclamation by the Governor of the State of California Terminating State of Emergency* (February 28, 2023), *available at*: https://www.gov.ca.gov/wp-content/uploads/2023/02/COVID-SOE-Termination-Proclamation-2.28.23.pdf?emrc=1db54f.

[2699] D.19-09-051 at 345.

[2700] *Id.*

[2701] Res. M-4848; D.19-07-015.

[2702] Ex. SCG-215-E (Sides) at 15-16.

in call volumes and CSRs as well as supporting advancements in cloud services to further improve legacy contact center infrastructure.[2703] CCC provides the necessary services to maintain efficient and effective CCC operations, through forecasts of customer call volume, CSR planning, scheduling and training, handling customer complaints, analysis, strategy and continuous improvement and monitoring of customer experience to identify improvement opportunities.[2704] SoCalGas's request for CCC support addresses evolving customer interaction preferences and the resulting requirements to manage the increased complexity of customer interactions with SoCalGas. They also reflect incremental activities to better understand how customers interact with the CCC (and the experience they receive) in order to improve service quality as well as drive incremental efficiency.[2705] Cal Advocates does not take issue with the TY 2024 O&M forecast for CCC Support.[2706]

SBUA takes issue with SoCalGas's Test Year 2024 O&M forecast for CCC Support. SBUA states that SoCalGas "requests a notable funding increases for customer support and associated services based on a handful of buzzwords and unsubstantiated forecasts."[2707] SBUA also attacks CSOO's attempt to implement new ways to meet evolving customer preferences and attack's CSOO's budget forecast claiming "there appears to be little empirical basis."[2708] SBUA does not recommend a specific dollar amount for a budget decrease. SoCalGas disagrees with SBUA. SoCalGas explained that its technology improvements are based on market research and customer survey responses.[2709] SoCalGas gathered information about customers' interest in interacting with companies they do business with using the channel that works best for them and with low effort.[2710] SoCalGas is also making technology improvements to provide customers with more options to resolve their concerns quickly and efficiently by providing them with multiple ways to interact with SoCalGas.[2711]

2703 Ex. SCG-15-R-2E (Sides) at 13-15, Table BMS-14.
2704 *Id.* at 13-14.
2705 *Id.* at 14.
2706 Ex. CA-10 (Campbell) at 41.
2707 Ex. SBUA-01 (McCann/Moss) at 32.
2708 *Id.* at 32-33.
2709 Ex. SCG-215-E (Sides) at 9.
2710 *Id.*
2711 *Id.*

SoCalGas's forecast is also reasonable as it is based on a BY 2021 forecasting methodology and 2021 best represents the most recent recorded labor and non-labor costs for the current department activity.[2712] As for the higher forecasted demand level (2022-2024) compared to 2020 and 2021, SoCalGas has performed a review of historical order volumes and chose a method that best represents future activity - COVID 19-impacted orders were forecasted using 2019 historical order volumes and non-COVID-19- impacted orders were forecasted using BY 2021 historical order volumes.[2713] For all the foregoing reasons, the Commission should adopt SoCalGas's forecast as reasonable.

21.4.1.5 Customer Contact Center Operations

The CCC handles a variety of customer service needs with the largest volume of interactions consisting of billing and payment inquiries as well as customer-requested service orders. SoCalGas's CCC handles contacts for residential, commercial, and industrial customers through CSRs as well as automated self-service. Utilizing a BY forecasting methodology, SoCalGas requests $26.828 million (labor and non-labor) in TY 2024, accounting for incremental changes in CSR call volume, increasing customer self-service, changes in average handle time (AHT), customer growth, and updates of customer contact information resulting in a net reduction of 27.2 FTEs.[2714] Cal Advocates does not take issue with the Test Year O&M forecast for CCC Operations.[2715]

CLS recommends that SoCalGas evaluate demographic data and support the most "prevalent languages" spoken in SoCalGas's service territory but makes no specific funding proposals.[2716] CLS also recommends that SoCalGas be required to file testimony in its "next GRC on the evaluation they performed and criteria used to identify in-house language support needs in their territory, specify how many customer service representatives they had each year that spoke these languages, and what steps they will take to maintain appropriate in-house staffing to identify and meet ongoing and changing language support needs."[2717]

2712 Ex. SCG-15-R-2E (Sides) at 14-15.

2713 Ex. SCG-215-E (Sides) at 9-10; A description of each order type and whether the order type was COVID-19-impacted can be found in Appendix C to Ex. SCG-14-R, Revised Direct Testimony of Dan Rendler.

2714 *See* Ex. SCG-15-WP 2O0000.000 CCC- Operations Supplemental WP (Sides).

2715 Ex. CA-10 (Campbell) at 41.

2716 Ex. CLS-01 (Gondai) at 42.

2717 *Id.*

SoCalGas disagrees with CLS' recommendation. CLS's proposal incorrectly attempts to expand the Commission's "prevalent" language standard to SoCalGas's call centers based on a Commission directive for Public Safety Power Shut Off events. In D.20-03-004, the Commission defined a language as "prevalent" if it is spoken by 1,000 or more persons in the Investor-Owned Utilities (IOUs) territory.[2718] In D.21-06-034, the Commission directed the electric IOUs "to rely on the definition of "prevalent" languages in D.20-03-004 regarding education and outreach performed in connection with PSPS events."[2719] This directive is electric IOU specific and in the context of PSPS events. Moreover, as stated in Ms. Sides' testimony, SoCalGas has in-house support for the most common languages, English, Spanish, Cantonese, Korean, Mandarin, and Vietnamese, and it utilizes LanguageLine Solutions for all other languages.[2720] The services provided by the LanguageLine are an effective way of supporting the diverse communities that SoCalGas serves. Because there is no way to predict when prevalent language calls will come in, providing in-house support for prevalent language calls is not realistic.[2721] Finding and hiring CSRs who are multilingual in the multitude of non-English languages is impractical, and CLS provided no evidence or data to show that SoCalGas's LanguageLine services are a deterrent to customers who contact SoCalGas.[2722] Therefore, the Commission should reject CLS's recommendation that SoCalGas file testimony in the next GRC on in-house language support needs in SoCalGas's service territory.

21.4.1.6 Customer Service Other Office Operations and Technology Support

Customer Services Other Office Operations (OOO) and Technology serves as a business liaison with IT to support customer-related systems and data. Customer Service Technology Project Management helps customer-related IT projects deliver the intended business value in alignment with the priorities of the Customer Services and Customer Solutions organizations by developing and managing the governance and standards for customer service technology projects, and monitors and reports on project status.[2723] SoCalGas requests $6.188 million, a $82,000

2718 D.20-03-004 at 9.

2719 D.21-06-034 at 98.

2720 Ex. SCG-15-R-2E (Sides) at 10:23-25.

2721 Ex: SCG-215-E (Sides) at 6-7.

2722 *Id.*

2723 Ex. SCG-15-R-2E (Sides) at 35-42.

increase from 2021 adjusted recorded expense level to bolster the Company's Customer Privacy Program oversight, as well as administering and educating third parties who request customer data, and to provide increased support for data analytics, mobile customer applications and Advanced Meter and technology support.[2724] The adjustments, including a forecasted decrease in professional services of $1.561 million, are explained in Ms. Sides' direct testimony.[2725] Cal Advocates does not take issue with the TY O&M forecast for Customer Service OOO & Technology.[2726]

CLS recommends reducing SoCalGas Customer Service OOO and Technology labor forecast by $262,000, removing the funding for an additional full year analyst, and two Senior Business Analysts for the financial analyst group.[2727] However, CLS's recommendation is based on its erroneous assumption that these positions are unnecessary because the group did not exist before 2019, and its assertion that " there is no indication that SoCalGas was unable to appropriate meet their regulatory and financial commitments prior to that time."[2728] CLS also makes a baseless claim that the activities performed by this group "further shareholder interests over ratepayer interests."[2729] SoCalGas disagrees with CLS. SoCalGas has provided detailed testimony regarding justifications for the incremental labor requests, including staff needed to comply with additional regulatory requirements related to Risk Assessment and Mitigation Phase (RAMP) and Risk Spending Accountability Report (PSAR) reporting, which has gradually increased since 2019.[2730] In summary, CLS's testimony fails to provide any information to determine whether the level of funding recommended by CLS is reasonable and sufficient for SoCalGas to comply with regulations. Therefore, the Commission should reject CLS's recommendation in its entirety and adopt SoCalGas's forecast as reasonable.

21.4.1.7 Payment Processing- Shared Services O&M

As described in the testimony of witnesses Le and Malin (Ex. SCG-30-R/SDG&E-34-R), Shared Services are activities performed by a utility shared services department for the benefit of:

2724 *Id.* at 35, Table BMS-35.

2725 *Id*. at 38.

2726 Ex. CA-10 (Campbell) 41.

2727 Ex. CLS-01 (Gondai) at 60-61.

2728 *Id.*

2729 *Id.* at 61.

2730 Ex SCG-215-E (Sides) at 19-20.

(i) SDG&E or SoCalGas, (ii) Sempra Corporate Center, and/or (iii) any affiliate subsidiaries.[2731] The utility providing Shared Services allocates and bills incurred costs to the entity or entities receiving those services.[2732] Payment processing expenses cover the cost of processing payments mailed to SoCalGas and SDG&E through the USPS as well as electronic payments received through home banking electronic data interchange, wire transfers and electronic payment programs, including direct debit, pay-by-phone, and MyAccount.[2733] SoCalGas requests $4.058 million in TY 2024 O&M for Shared Services payment processing expenses, which is an increase of $210,000 over BY 2021 to two Payment Control Clerks to handle increased complexity in administration of electronic payments, and an incremental $39,000 for 0.5 FTEs which are a combination of employees' intermittent LTD time off and delay in filling vacancies.[2734] Cal Advocates does not take issue with the TY O&M forecast for Shared O&M expenses.[2735]

CLS recommends a reduction of $171,000 in labor increase for two Payment Control Clerk Level 4 positions based on its misunderstanding of data and its claim that "SoCalGas does not provide support for their claims that the complexity of administering electronic payment is increasing."[2736] SoCalGas is requesting two incremental FTEs to address the increased number of inquiries and timely and accurate customer payment postings. As customers continue to migrate to electronic payments functions and change residency, SoCalGas has to conduct additional research for various reasons, such as customers failing to update their new gas account number in their home banking systems.[2737] Timely responses to inquiries are also needed to minimize financial hardship and service disconnection for SoCalGas's impacted customers.[2738] For all the foregoing reasons, the Commission should reject CLS's recommendation.

21.4.1.8 CCC Technology Modernization Capital Project

The CCC Technology Modernization project is designed to replace the on-premise contact center technology platforms with a cloud solution to reduce technology complexity and improve

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2731 Ex. SCG 15-R-2E (Sides) at 42.

2732 Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 3.

2733 Ex. SCG-15-R-2E (Sides) at 43.

2734 *Id.* at 43-44.

2735 Ex. CA-10 (Campbell) at 43.

2736 Ex. CLS-01 (Gondai) at 62-63.

2737 Ex. SCG-215-E (Sides) at 20-21. *See also,* Ex. CLS-01 (Gondai), Appendix at 70.

2738 Ex. SCG-215-E (Sides) at 21.

maintainability and reliability. SoCalGas's Customer Contact Center (CCC) is the hub of SoCalGas's customers interactions and engagement.[2739] Currently, CCC handles over 7 million calls annually and its core operations run on multiple technologies/systems from different vendors with complex integration and support requirements.[2740] The current CCC mainframe is 10-years old and is reaching (or has reached) end of life.[2741] The CCC Modernization project will implement cloud-based "Contact Center of the future" capability through a comprehensive multi-year roadmap that addresses current service delivery challenges, while delivering enhanced customer experiences through new capabilities.[2742] This project will provide customers with resilient, reliable, cross channel services (voice, chat, email, SMS, IVR), Artificial Intelligence (AI), and natural language processing (NLP) enabled customer experience.[2743] The CCC Modernization Project will help enable SoCalGas to provide a clear view of customer data across the Company; advance analytic capabilities to support major initiatives; centralize, standardize, automate, and secure data access and other requests; streamline CPUC, audit, and California Consumer Privacy Act (CCPA) responses; and confirm customer data transfers to authorized third parties in compliance with all privacy, cybersecurity and CCPA requirements, including maintaining records of all customer data transferred for audit and CCPA response purposes.[2744] SoCalGas's forecast for CCC Technology Modernization for 2022, 2023, and 2024 are $1,253,000, $12,512,000, and $2,141,000 respectively which are being requested in the testimony and capital workpapers of Jamie Exon (Ex. SCG-21-R-E, Chapter 2 and Ex. SCG-21-CWP-R). Ms. Sides sponsors the business justification for the project.

Cal Advocates does not take issue with the capital forecast for SoCalGas's CCC Modernization Capital Project.[2745] TURN, however, recommends that the proposed CCC Modernization Project, and the associated capital dollars should be removed from the GRC -- $1.253 million in 2022, $12.512 million in 2023, and $2.141 million in 2024.[2746] TURN claims

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2739 *Id.*, Appendix B at 41.

2740 *Id.*

2741 Ex SCG 215-E (Sides) at 22.

2742 *Id.*

2743 Ex. SCG-15-R-2E (Sides) at 48.

2744 *Id.*

2745 Ex. CA-10 (Campbell) at 46.

2746 Ex. TURN-09-2R (Cheng) at 13-15.

that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits."[2747] TURN also states "SoCalGas has failed to present clear and convincing evidence that its requested capital spending for the CCC Technology Modernization Project is just and reasonable."[2748] TURN's arguments are without merit. First, as noted in response to other TURN recommendations above, TURN incorrectly demands a *clear and convincing* level of proof. In addition, through testimony and data request responses, SoCalGas has met its burden by providing details regarding the CCC Modernization Project, including the business case, cost-benefit analysis, project costs & benefits, the project timeline, and other information.[2749] Finally, the CCC Modernization Project is designed to update a system that is over 10-years-old and reaching obsolescence. Being able to innovate and rapidly redesign customer interactions that support evolving customer preferences and expectations is key in meeting SoCalGas's objectives and goals around customer service and experience.[2750] Without the CCC Modernization Project, SoCalGas's ability to serve its customers would be impacted since the current CCC technologies would be inadequate to meet key business requirements around resiliency, agility, and support for new capabilities.[2751] For all the reasons stated above, the Commission should reject TURN's proposal and approve SoCalGas's request for the CCC Modernization Project as reasonable.

21.4.1.9 Advanced Meter Headend and Meter Data Management Next Generation Aclara One

The purpose of the Advanced Meter HeadEnd and Meter Data Management Next Generation (AclaraONE) project is to modernize SoCalGas's Advanced Meter systems by upgrading HeadEnd and Meter Data Management System (MDMS) to the next generation of Aclara technology, AclaraONE, to meet SoCalGas business demands and support the Company's cloud strategy.[2752] The project will also modernize the Advanced Meter back-office systems to allow for active IT and vendor support and to meet future SoCalGas business demands.[2753] This project has many benefits which include, but are not limited (1) mitigating interruption of billing

[2747] *Id.*

[2748] *Id.* at 14.

[2749] Ex: SCG-15-R-2E (Sides) 48-49; Ex. SCG-215-E at 22-24 and Appendix B at 38, 79.

[2750] Ex. SCG-215-E (Sides), Appendix B at 41.

[2751] Ex. SCG-215-E (Sides) at 23.

[2752] Ex. SCG-15-R-2E (Sides) at 49.

[2753] *Id.*

process or safety incidents resulting from outdated AM technologies; (2) enabling AM systems to meet future SoCalGas business demands in billing and safety areas; (3) modernizing AM systems to allow for active IT and vendor support ; (4) allowing AM-related business opportunities and roadmap items to be realized as planned and (5) supporting the Company's cloud strategy by removing MDMS into the cloud.[2754] SoCalGas requests $12,006,000 for the Advanced Meter HeadEnd and Meter Data Management capital project.[2755]

Cal Advocates does not take issue with the capital forecast for SoCalGas's AclaraOne capital project.[2756] However, TURN recommends that the proposed AclaraOne capital project, and the associated capital dollars be removed from the GRC -- $12.06 million in 2024. TURN again claims that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits."[2757] TURN also demands a convincing level of proof.[2758] As stated above, the evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence, and SoCalGas met its burden of proof.[2759] Through testimony and data request response, SoCalGas has provided details regarding the AclaraOne Project, including the Concept Document containing the project benefit, and AclaraONE analysis containing the financial estimate of the project.[2760] SoCalGas also explained that "without AclaraONE, many Advanced Meter roadmap items and business opportunities/benefits, such as DCU 2+, end-to-end encryption, and support for S3500/S3600 MTUs, methane & cathodic protection etc., will not be realized due to hard dependency with AclaraONE."[2761] The Commission should reject TURN's recommendation to remove SoCalGas's proposed Advanced Meter HeadEnd and Meter Data Management Next-Generation AclaraOne Project, and adopt SoCalGas's forecast associated with the AclaraOne Project as reasonable.

2754 Ex. SCG-15-R-2E (Sides) at 50.

2755 *Id.* at 49.

2756 Ex. CA-10 (Campbell) at 46.

2757 TURN-09-2R (Cheng) at 9.

2758 *Id.* at 16.

2759 D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.").

2760 Ex. SCG-215-E (Sides), Appendix B at 104.

2761 *Id.*

21.4.2 SDG&E Summary of Office Operations Request

Table 21.14

CS - OFFICE OPERATIONS (In 2021 $)			
	2021 Adjusted-Recorded (000s)	**TY2024 Estimated (000s)**	**Change (000s)**
Total Non-Shared Services	34,804	37,922[2762]	3,118
Total Shared Services (Incurred)	0	0	0
Total O&M	**34,804**	**37,922**	**3,118**

Table 21.15

INFORMATION TECHNOLOGY (IT) CAPITAL (in 2021 $)			
Categories of Management	**Estimated 2022 ($000)**	**Estimated 2023 ($000)**	**Estimated TY 2024 ($000)**
CS-OFFICE OPERATIONS	**19,233**	**31,353**	**33,557**

SDG&E seeks $37.922[2763] million for operations and maintenance (O&M) costs in TY 2024 to support the non-shared services activities within Customer Services – Office Operations (CSOO), that deliver safe, convenient, responsive, efficient, and personalized customer service through the Customer Contact Center (CCC) Operations, Branch Offices (BO) and Authorized Payment Locations (APL), Billing Services, Credit and Collections, Operations Strategy and Compliance and related supporting functions including CCC Support, Remittance Processing, Postage, and CSOO Technology and Support.[2764] The CSOO request further includes forecasted Postage expenses of $128,000 increase in 2022, a $417,000 increase in 2023 and a $408,000 increase in TY 2024, as compared to the original application and corresponding testimony.[2765] CSOO also sponsors the business justification for IT Capital expenditures of $19.233 million in

[2762] SDG&E notes that the number provided here has been adjusted as part of SDG&E's Update Testimony. Ex. SCG-401/SDG&E-401 Update Testimony, (July 2023), was served after intervenor testimony on March 27, 2023. While this number reflects SDG&E's updated Postage forecast, SDG&E has not adjusted Parties' numbers, which is the reason for the variance in values.

[2763] *Id*.

[2764] Ex. SDG&E-18-E (Baule) at iii. SDG&E notes that its request increased from its original request of $37,512, to $37,922 as a result of the adjustment made to Postage in Update Testimony, discussed further below. *See also* Ex. SCG-401/SDG&E-401 at 17.

[2765] Ex. SCG-401/SDG&E-401 at 17.

2022, $31.353 million in 2023, and $33.557 million in 2024 to deliver an improved customer experience, replace obsolete technology, deliver operational efficiencies and comply with regulatory mandates.[2766]

Examples of the types of services offered by these cost centers include responding to customer calls, processing customer service requests, resolution of billing exceptions, investigation of delinquent accounts, printing of customer bills, processing of customer payments, and business support for system changes to the customer information system.[2767] The estimated operating expenses and IT Capital projects support the Office Operations' fundamental goal of maintaining operational excellence and are required to provide basic, convenient, responsive, efficient, reliable, and safe customer service. In addition, SDG&E filed Supplemental Testimony to provide an analysis, as required by Senate Bill 598, of the impact of rates on disconnections for nonpayment.[2768]

SDG&E used a base year (BY) methodology to forecast estimated TY 2024 costs.[2769] This method is most appropriate because the business functions and responsibilities of this organization most appropriately stem from the 2021 base year and build incrementally from there.[2770] TURN recommends adjustments to SDG&E Test Year (TY) 2024 forecasts based on a five-year average forecast methodology.[2771] In each instance described more fully below, TURN selectively chose a different forecast methodology for every area of CSOO it challenged. TURN was selective in both the historical average period used to create TURN's own forecasted revenue requirement, and in using 2022 actual recorded costs, when 2022 actuals were not available for consideration due to the timing of the filing.

The only parties to rebut portions of SDG&E's O&M revenue request were TURN, UCAN, and Community Legal Services (CLS). Only TURN opposed SDG&E's requested capital dollars for its Customer Information System (CIS) enhancements.[2772] Cal Advocates did not oppose

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[2766] Ex. SDG&E-18-E (Baule) at 38.

[2767] *See generally* Ex. SDG&E-18-E (Baule) at 9.

[2768] Ex. SDG&E-18-S (Baule).

[2769] *Id.* at iv.

[2770] Ex. SDG&E-18-E (Baule) at iv.

[2771] Ex. TURN-09-2R (Cheng) at 7.

[2772] Ex. TURN-09-2R (Cheng) at 32-34.

SDG&E's business rationale for the proposed capital projects for CSOO.[2773] The only areas where TURN, UCAN, and CLS recommended adjustments to SDG&E's revenue request concerned the following cost centers:

Table 21.16

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	34,804	37,922[2774]	2,708
CAL ADVOCATES	34,804	37,512	2,708
TURN	34,804	34,470	(334)
CLS	34,804	33,985	(819)

Table 21.17

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	19,233	31,353	33,557	84,143	NA
CAL ADVOCATES	19,233	31,353	33,557	84,143	0
TURN	0	316	0	316	(83,827)
UCAN	19,233	31,353	0	50,586	(33,557)

<u>TURN</u>

- TURN recommends a 2024 forecast of $34.47 million, which includes the following recommended reductions:
  - Customer Contact Center (CCC) Operations: TURN recommends a 2024 forecast of $10.941 million, which is a reduction of $2.799 million.[2775]
  - Customer Contact Center Support: TURN recommends a 2024 forecast of $3.787 million, which is a reduction of $0.243 million.[2776]
  - Customer Contact Center Operations (CCCO): TURN takes issue with the full year labor impact of Base Year 2021 hiring and proposes the use of a

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2773 Ex. CA-10 (Campbell) at 47.

2774 The numbers provided in this Table have been adjusted as part of SDG&E's Update Testimony. Ex. SCG-401/SDG&E-401 was served after Cal Advocates March 27, 2023 testimony. While the Table reflects SDG&E's updated Postage forecast, SDG&E has not adjusted Parties' numbers, which is the reason for the variance in values.

2775 Ex. TURN-09-2R (Cheng) at 29-30.

2776 *Id.* at 30.

five-year average forecast method for CCCO, which results in a reduction of $2.799 million.[2777]

- o TURN rejects SDG&E's request for additional analysts related to the Contact Center of the Future (CCotF)capital project and proposes a reduction of $243,000.[2778]
- o TURN recommends the Commission reject SDG&E's requested capital dollars for CCotF and reduce its forecast by $11.285 million in 2023 and $9.789 million in 2024 and related $703,000 of O&M expense, which includes the $243,000 referenced above, for the CCotF.[2779]
- o TURN recommends the Commission deny SDG&E's requested capital dollars for CIS enhancements and reduce its forecast by $19.233 million in 2022, $19.752 million in 2023, and $23.768 million in 2024.[2780]

UCAN

- UCAN recommends that the Commission not authorize recovery of the 2024 capital expenditures of $9.79M for the Contact Center of the Future.[2781]
- UCAN recommends that the Commission not authorize recovery of the 2024 capital expenditures of $23.77M for CIS enhancements.[2782]

Community Legal Services

- CLS recommends the Commission should reduce SDG&E's 2024 forecast postage cost of $3,597,000 by $179,343 to $3,418,000.[2783]
- CLS recommends the Commission reject SDG&E's three FTE minimum for its Branch Offices. Instead, the Commission should apply SoCalGas's 1-1.5 FTE per office ratio. This would reduce SDG&E's 2024 Branch Office labor costs of

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2777 *Id*. at 29-30.

2778 *Id.* at 31.

2779 *Id.*

2780 *Id.* at 34.

2781 Ex. UCAN-01-E (Woychik) at 323.

2782 *Id.*

2783 Ex. CLS-01 (Gondai) at 21. SDG&E notes that it has since increased its postage request in Update Testimony. The postage rate increase results in an increase of $128,000 in 2022, $417,000 in 2023, and a $408,000 increase in TY 2024 forecasted postage expenses. *See,* SCG-401/SDG&E-401 at 17.

$1,028,000 by $593,634, resulting in a $434,366 forecast cost.[2784] Alternatively, CLS recommends 12 FTEs, rather than SDG&E's proposed 14.2, reducing SDG&E's forecast of $1.028M by $159,268, resulting in a $868,732 labor forecast cost.[2785]

- CLS recommends the Commission reject SDG&E's request for 31.9 additional FTEs and reduce the 2024 labor forecast by $2,024,000, resulting in a $11,553 labor forecast cost.[2786]
- CLS recommends the Commission reject the request to hire more supervisors and reduce the 2024 labor forecast by $442,000 and non-labor forecast by $12,000.[2787]
- CLS recommends the Commission require SDG&E to file testimony in their next GRC on language support evaluation and criteria used to identify in-house language support needs.[2788]
- CLS argues that because the Customer Information Management Advisor position was not vacant in 2021, that the Customer Operations Compliance and Strategy 2024 forecast labor costs be reduced by $56,000. Further, CLS recommends the Consent to Share support costs be denied and reduce the forecast non-labor costs by $220,000.[2789]

Each of the areas recommended for adjustment will be discussed below. No party contested the following requests, and as such, the Commission should adopt them as reasonable:

- O&M Cost
  - Billing
  - Credit & Collections
  - Remittance Processing
  - The business justification for expenses recorded to the California Consumer Privacy Act Memorandum Account (CCPAMA), Wildfire Consumer Protections Memorandum Account (WCPMA), Residential Disconnection

2784 Ex. CLS-01 (Gondai) at 25.

2785 *Id*.

2786 *Id*. at 29.

2787 *Id*. at 31.

2788 *Id*. at 35-36.

2789 *Id*. at 39.

Protections Memorandum Account (RDPMA), and Emergency Customer Protections Memorandum Account (ECPMA).

- Capital Projects
  - Business justification and rationale for the Customer Energy Network (CEN) IT Capital project addressed by Customer Services – Office Operations.

21.4.2.1 Branch Offices

SDG&E currently operates 5 dedicated Branch Office facilities and one shared Branch Office facility throughout its service territory, which provide customers with the option of paying their bills in-person, inquire about accounts, and complete other customer service transactions.[2790] SDG&E requests $1.517 million in TY 2024, an increase of $159,000 in non-labor above BY 2021 for staff augmentation, which is necessary due to staff attrition that was not backfilled and to maintain service levels when the branch offices reopened to the public in May 2022.[2791]

CLS recommends the Commission reject SDG&E's "arbitrary" three FTE minimum for its Branch Offices as unsubstantiated.[2792] Instead, the Commission should apply SoCalGas's 1-1.5 FTE per office ratio.[2793] This would reduce SDG&E's 2024 Branch Office labor costs of $1,028,000 by $593,634, resulting in a $434,366 forecast cost.[2794] Alternatively, CLS recommends 12 FTEs, rather than SDG&E's proposed 14.2, reducing SDG&E's forecast of $1.028M by $159,268, resulting in a $868,732 labor forecast cost.[2795]

CLS claims that "SDG&E does not . . . support their claim that three employees are necessary in each branch office. Additionally, the claimed 'safety' rationale is not related to the actual job responsibilities or qualifications."[2796] However, CLS ignores Commission precedent, stating "[w]e expect SDG&E and SoCalGas to use the best practices available to ensure the safety of the workers and the general public."[2797] As noted, SDG&E's Corporate Security views

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2790 Ex. SDG&E-18-E (Baule) at 20.

2791 *Id.* at 21.

2792 Ex. CLS-01 (Gondai) at 25.

2793 *Id.*

2794 *Id.*

2795 *Id.*

2796 *Id.* at 24.

2797 D.08-07-046 at 44.

SDG&E's branch offices similar to financial institutions and encourages practices as such. Specifically, SDG&E uses the "buddy system" where two employees are involved in opening and closing, and back-ups are required in the event of illness or traffic.[2798]

CLS's alternative proposal, to reduce SDG&E's request from 14.2 FTEs to 12, ignores the need for supervisors. SDG&E's 14.2 FTE request consists of 11 Energy Service Specialists (ESS)/Associates, one supervisor, one associate supervisor, and one branch office specialist.[2799] The two supervisors and branch office specialist rotate between the four branch offices.[2800] SDG&E's incremental request of $159,000 is for contract resources that will rotate between branch offices to fill staffing gaps and provide coverage for illnesses, vacations, or a leave of absence, in addition to ensuring that employees are safe.[2801]

As such, based on Commission precedent, SDG&E urges the Commission disregard CLS's proposed reductions to SDG&E's Branch Office request.

21.4.2.2 Customer Contact Center Operations

SDG&E seeks $13,740 million for CCC Operations expenses, representing a $1,889 million increase over BY 2021, which is primarily due to forecasted call volume, increase, full year labor impact of vacancies and new hires, and incremental staff to support Contact Center of the Future (CCotF).[2802] The CCC costs are for a variety of customer interactions, including answering telephone calls; responding to incoming email; responding to customer inquiries through online chat features; answering written customer correspondence regarding customer account activity; following up on all California Public Utility Commission (CPUC) telephone referrals and informal and formal customer complaints; and responding to other customer account-related inquiries.[2803] SDG&E responds to emergency calls 24 hours per day, 365 days per year from a myriad of residential, commercial, industrial, and agricultural customers.[2804]

2798 Ex. SDG&E-218 (Baule) at 6.
2799 *Id*.
2800 *Id*.
2801 *Id*.
2802 Ex. SDG&E-18-E (Baule) at 5; *see also,* Ex. SDG&E-218 (Baule) at 7.
2803 Ex. SDG&E-18-E (Baule) at 22.
2804 *Id*.

TURN recommends a 2024 forecast of $10.941 million, which is a reduction of $2.799 million.[2805] Further, TURN argues that the most appropriate forecast for these costs would be a historical average, specifically a five-year average, which would also include two full years before the COVID-19 pandemic.[2806] However, TURN erroneously states that the full year labor impact was due to vacancies during the pandemic.[2807] The full year labor impact of vacancies and new hires was due to a pause in hiring during the implementation of the Customer Information System replacement project, not the COVID-19 pandemic.[2808] It would not have been prudent for SDG&E to hire new employees while existing employees were being trained on the new system.[2809] The CCC-Operations FTE count at the end of 2022 was 201.3, which is consistent with the 2022 forecast of 201.4 FTEs.[2810]

Further, TURN's use of the five-year average is not representative of SDG&E's current organization or what is required to successfully complete anticipated future activities for CCC Operations.[2811] Aside from "arriv[ing] at the estimate with the most conservative reduction," TURN does not explain, or justify, their proposal for using a five-year average in this instance.[2812] TURN cannot simply cherry-pick forecast methods to arrive at a "conservative" reduction. As noted, SDG&E chose to use a base year forecast method for CCC Operations because the last recorded year accurately reflects the expense level associated with current departmental activities.[2813] Additionally, the 2021 base year performance results were preferred over historical averages because changes in customer preferences of communication channel (phone, web, email, chat, mobile) and self-service channel improvements (IVR, web and mobile) have impacted ESS-handled calls in the last five years.[2814] TURN confirms this premise when affirming that "SDG&E has implemented and continues to implement increasing self-help options for customers."[2815]

2805 Ex. TURN-09-2R (Cheng) at 29.

2806 *Id*.

2807 *Id*.

2808 Ex. SDG&E-218 (Baule) at 8.

2809 *Id.*

2810 *Id.*

2811 *Id.*

2812 Ex. TURN-09-2R (Cheng) at 29.

2813 Ex. SDG&E-18-E (Baule) at 22.

2814 *Id.* at 23.

2815 Ex. TURN-09-2R (Cheng) at 29.

CLS recommends the Commission reject SDG&E's request for 31.9 additional FTEs and reduce the 2024 labor forecast by $2,024,000.[2816] CLS argues that SDG&E fails to demonstrate that 2021 staffing levels are no longer sufficient, considering 2021 and prior recorded years included "vacancies" and "other normal causes of attrition."[2817] As noted, the external call center utilized during BY 2021 was due to the implementation of the new Customer Information System (CIS) and addressed the transition staffing needs.[2818] Further, CCC-Operations incurred $447,000 in expenses to fund the external call center for the last two months of 2021 and therefore reduced its TY 2024 request by $447,000.[2819] In the first nine months of BY 2021 the external call center expense was more than $6,000,000 and was charged to the CIS Replacement project.[2820] The 30 additional FTEs on staff as of year-end 2022 are not incremental, rather they are performing the work that was handled by the external call center contract workforce in 2021.[2821]

As noted, past staffing levels and FTE counts have little bearing on future staffing needs. What has a much larger influence on staffing levels is call volume and average call handle time.[2822] While call volume has been reduced from 2019, average call handle time has increased.[2823] SDG&E expects this call volume and handle time trend to continue to increase in 2024 for various reasons, including SDG&E's resumption of residential credit and collections practices in March 2023, which ceased in March of 2020.[2824]

Further, CLS recommends that SDG&E "utilize ACS and US Census data to identify languages spoken by 10,000 or more households in their territory."[2825] And "require SDG&E to

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2816 Ex. CLS-01 (Gondai) at 29.

2817 *Id*.

2818 Ex. SDG&E-218 (Baule) at 9.

2819 *Id*.

2820 *Id*.

2821 *Id*.

2822 *Id*.

2823 *Id*.

2824 *Id*. at 12. Resolution M-4842, adopted on April 16, 2020, directed utilities to offer disconnection protections to all residential customers through April 16, 2021. The moratorium was subsequently extended and expired in September 2021, pursuant to D.21-06-036. However, SDG&E voluntarily continued the moratorium through February 2023. In March 2023, SDG&E began its resumption of residential credit and collections practices.

2825 Ex. CLS-01 (Gondai) at 35.

file testimony in their next GRC on the evaluation [] performed and criteria [] used to identify in-house language support needs."[2826]

In D.20-03-004, the Commission defined a language as "prevalent" if it is spoken by 1,000 or more persons in the Investor-Owned Utilities (IOUs) territory.[2827] Further, the Commission noted that "[t]hese utilities [an Investor Owned Utility or Small or Multijurisdictional Utility] will be responsible for determining which languages are prevalent.[2828] In D.21-06-034, the Commission directed the electric IOUs "to rely on the definition of 'prevalent' languages in D.20-03-004 regarding education and outreach performed ***in connection with PSPS events***."[2829] As such, CLS's proposal incorrectly attempts to create a "prevalent" language standard based on a Commission directive for Public Safety Power Shut Off events. As stated in discovery and testimony, SDG&E has in-house support for the most common languages, English and Spanish, and utilizes Language Line for all other languages.[2830] CLS provided no evidence that SDG&E Language Line services are inadequate or a deterrent to customers contacting SDG&E.

As such, SDG&E urges the Commission dismiss TURN and CLS's proposed reductions to SDG&E's CCC Operations request.

21.4.2.3 Customer Operations Compliance and Strategy

SDG&E requested $500,000 above BY 2021 costs for Customer Operations Compliance and Strategy.[2831] Customer Operations Compliance and Strategy is responsible for implementing and managing SDG&E's customer choice programs, Customer Services risk and compliance management functions, and Customer Services project/program management.[2832]

CLS takes issue with SDG&E's request for its Consent to Share application. Specifically, CLS recommends the Commission deny the expense and reduce the forecast by $220,000.[2833] Further, CLS recommends that the forecast labor costs be reduced by $56,000 "[b]ecause the Customer Information Management [CIM] Advisor position was not vacant in 2021."[2834]

2826 *Id*. at 35-36.

2827 D.20-03-004 at 2.

2828 *Id.* at 2.

2829 D.21-06-034 at 98 (emphasis added).

2830 Ex. SDG&E-218 (Baule) at 14.

2831 Ex. SDG&E-18-E (Baule) at 28.

2832 *Id*. at 29.

2833 Ex. CLS-01 (Gondai) at 39.

2834 *Id*.

First, and as noted, the Consent to Share application was funded in BY 2021.[2835] However, in 2022, there were on-going maintenance costs that became part of base business.[2836] Specifically, the labor costs in 2022 were $179,125 over the course of 10 months.[2837] When the 2022 cost is annualized (($179,125 x 365/296) = $220,880), SDG&E argues that the forecast is realistic.[2838]

Second, CLS incorrectly asserts that the CIM Advisor position was vacant in 2021. As noted in discovery, the position was vacant during the first quarter of 2022.[2839] However, while SDG&E noted the employee was on a Leave of Absence for six months in 2021 (April 2021 – September 2021) – the position was not vacant.[2840]

As such, SDG&E believes the Commission should reject CLS's requested disallowances related to the Consent to Share Application and the CIM Advisor position.

21.4.2.4 Customer Contact Center Support

SDG&E seeks $4,030 million for CCC Support expenses, representing a $280,000 increase over BY 2021.[2841] The CCC Support cost center activities include resource planning and scheduling; technology support (including software licensing, maintenance, and support service); training; quality assurance; policy and procedures support; planning and analysis functions; complaint resolution and clerical support.[2842] TURN recommends a 2024 forecast of $3.787 million, which is a reduction of $0.243 million.[2843] TURN objects to SDG&E's request for three additional data analysts as a result of the Contact Center of the Future (CCotF). As described further below, CCotF is a capital project that will deliver new capabilities that enable a customer centric approach to serving customers and utilize data analytics to support operational and strategic decision making and on-going continuous improvement.[2844] As noted, the three additional analysts will manage and analyze data to identify and interpret trends that will inform continuous

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2835 Ex. SDG&E-218 (Baule) at 16.

2836 *Id*.

2837 *Id*.

2838 *Id*.

2839 *Id*.

2840 *Id*.

2841 Ex. SDG&E-18-E (Baule) at 5; *see also* Ex. SDG&E-218 (Baule) at 15.

2842 Ex. SDG&E-18-E (Baule) at 27.

2843 Ex. TURN-09-2R (Cheng) at 30.

2844 Ex. SDG&E-218 (Baule) at 15.

improvement opportunities for CCC operations and the customer experience.[2845] CCotF will also deliver intelligent self-service capabilities, such as conversational IVR and virtual assistant.[2846] These analysts will implement and manage this capability.[2847]

As described above and below, SDG&E urges the Commission disregard TURN's proposed reductions related to Customer Contact Center Support and the CCotF.

21.4.2.5 Capital Project Impacts – Contact Center of the Future

SDG&E's forecast for Contact Center of the Future (CCotF) for 2022, 2023, and 2024 are $0, $11.285 million, and $9.789 million respectively.[2848] This project is a digital transformation of SDG&E's Customer Contact Center moving technology to a cloud-hosted environment and leveraging artificial intelligence (AI).[2849] CCotF will also enhance the reliability, resiliency and security of systems and data which is essential during emergency events.[2850] CCotF will deliver, a cloud-based Contact Center to enhance the stability, reliability, and resiliency of systems and applications and strengthen cyber security, AI enhancements to enable more self-service and improve the customer experience, modernization of training to enable a remote workforce and support on-going skill proficiency, amongst other things.[2851]

Cal Advocates reviewed SDG&E's testimony, workpapers, and data request responses and does not oppose the business rational for the CCotF.[2852]

TURN recommends the Commission reject SDG&E's requested capital dollars for Contact Center of the Future and reduce its forecast by $11.285 million in 2023 and $9.789 million in 2024.[2853] TURN states that it is premature to request funds for CCotF because the business case has not been finalized and objects to the five-year cost.[2854] TURN claims that SDG&E "concedes that it is not projecting any cost savings during this GRC cycle."[2855]

[2845] *Id.*
[2846] *Id.*
[2847] *Id.*
[2848] Ex. SDG&E-18-E (Baule) at 38.
[2849] *Id.*
[2850] *Id.*
[2851] *Id.* at 39.
[2852] Ex. CA-10 (Campbell) at 7.
[2853] Ex. TURN-09-2R (Cheng) at 31.
[2854] *Id.*
[2855] *Id.*

TURN's recommendation ignores the need for this project and the benefits it will deliver. The current technologies that SDG&E uses to support its CCC are made up of a large stack of applications and a variety of systems that have limited capabilities to address operational needs.[2856] CCotF is a project that will transfer and/or replace many of the CCC legacy systems to a cloud platform allowing for more frequent and quicker updates, modifications and enhancements to the CCC applications.[2857] Further, the reliability of the current CCC systems is diminishing, as the main Computer Telephony Interface (CTI) was first installed in 2000.[2858] The most recent upgrade to this CTI was in 2015 and is a version that is no longer supported by the vendor.[2859] As reiterated by Witness Baule during evidentiary hearings:

> "[T]hese technologies are becoming obsolete both in their ability to perform as well as a vendor's ability to support us . . . this is our customer contact center. This is a critical channel to serve our customers and support our customers, and so we've come to the point where we do need to replace the system."[2860]

As such, SDG&E believes it is reasonable and prudent to perform periodic modernization of its business capabilities to support the critical obligation to serve customers and this capital project and associated O&M expenses should be approved.[2861]

Further, TURN's focus on a conducting a fully complete business case or cost-benefit analysis, prior to requesting funds in this GRC, is flawed and misplaced. As SDG&E noted in discovery, "[b]efore an IT capital project is funded and moves into development, it must go through SDG&E's IT capital project approval process."[2862] The approval process includes five (5) stages: 1. IT Division Capital Plan Development, 2. Concepts, 3. Project Prioritization and Approval, 4. Business Case, and 5. Work Order Authorization.[2863] SDG&E noted that CCotF is in Stage 3, and as such, no business case is ***currently*** in development.[2864] As such, a business case will be developed in the next stage of the CCotF project. As noted, the timing of a GRC may not

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2856 Ex. SDG&E-218 (Baule) at 18.

2857 *Id*.

2858 *Id*.

2859 *Id*.

2860 Transcript (Tr.) V14: 2509:17-24 (Baule).

2861 Ex. SDG&E-218 (Baule) at 19.

2862 *Id.* at Appendix C at C-3.

2863 *Id.* at C-3-C-4.

2864 *Id.* at C-5 (emphasis added).

be consistent with an IT systems development lifecycle process.[2865] Delaying SDG&E's request until a business case is fully developed would mean a delay of four or more years for implemental of critical customer contact infrastructure systems.[2866] Realizing the criticalness of updating SDG&E's currently outdated infrastructure, SDG&E urges the Commission to disregard TURN's proposed disallowance.

UCAN recommends that the Commission not authorize recovery of the 2024 capital expenditures of $9.79M for the Contact Center of the Future.[2867] UCAN, aside from accusing SDG&E of "act[ing] as the hegemon," provides no factual evidence to support its proposed disallowance of SDG&E's request, nor substantiates its assertion.[2868] Further, UCAN did not provide any alternative in place of SDG&E's proposal to assist SDG&E's customers, despite UCAN's accusations that SDG&E "refuses" to "offer services that do not directly provide rate-base profits."[2869]

Lastly, CLS recommends the Commission "reject the request to hire more supervisors and reduce the 2024 labor forecast by $442,000 and non-labor forecast by $12,000" for a total reduction of $454,000.[2870] To form their proposal, CLS relies on the statement that "[h]istorically, the ratio had been about 1:20."[2871] CLS ignores the fact that "[p]ast staffing levels and FTE counts have little bearing on future staffing needs."[2872] Further, as noted, the more important factor is call volume and average call handle time, which SDG&E expects to increase in 2024, as noted previously.[2873] As such, SDG&E urges the Commission to disregard CLS's proposal.

For the reasons stated above, SDG&E urges the Commission to disregard TURN, UCAN, and CLS's recommendations and instead approve its forecast for Contact Center of the Future (CCotF) for 2022, 2023, and 2024 are $0, $11.285 million, and $9.789 million respectively.[2874]

2865 Ex. SDG&E-218 (Baule) at 18.

2866 *Id*.

2867 Ex. UCAN-01-E (Woychik) at 323.

2868 *Id*. at 322.

2869 *Id*.

2870 Ex. CLS-01 (Gondai) at 31.

2871 *Id*. at 30.

2872 Ex. SDG&E-218 (Baule) at 9.

2873 *Id*. 9-12.

2874 Ex. SDG&E-18-E (Baule) at 38.

21.4.2.6 Customer Information System (CIS) Enhancements

The forecast for SDG&E's CIS Enhancements for 2022, 2023, and 2024 are $19.233 million, $19.752 million, and $23.768 million, respectively.[2875] As noted, there are several CIS Enhancements, including but not limited to, enhancements to existing CCA reports, system changes and performance testing to support 2022 CCA transition, enhancements to support 24-month payment plans, MyAccount security enhancements, and continued enhancements to ensure field employees are provided real-time information to support customers.[2876]

TURN asks the Commission to deny SDG&E's requested capital dollars for CIS Enhancements in its entirety.[2877] TURN insinuates that these dollars should have been requested when SDG&E received approval to replace its CIS in 2018.[2878] Further, TURN again misplaces the importance of SDG&E completing its business case prior to requesting these dollars in its GRC.[2879]

First, as noted, these enhancements are required to meet new regulatory directives and orders, and were not known prior to April 2021, when the CIS went live.[2880] As such, it would have been impossible for SDG&E to forecast these costs in its 2018 request. Second, as stated in discovery, this is not a project with a finite timeline, which would warrant a business case.[2881] Thus, TURN's reliance on a completed business case is flawed. Lastly, and importantly, TURN was a party to the Settlement Agreement (SA) which authorized ongoing support costs that fall within SDG&E's current GRC cycle and ***directed*** SDG&E to include post-implementation costs outside of the SA in subsequent GRC applications.[2882] That is exactly what SDG&E requested in its application and corresponding testimony and workpapers.

2875 *Id*. at 40.

2876 Ex. SDG&E-218 (Baule) at 23 –25.

2877 Ex. TURN-09-2R (Cheng) at 34.

2878 *Id*. at 32.

2879 *Id.* at 33.

2880 Ex. SDG&E-218 (Baule) at 22. *See also,* Tr. V14:2522:1-5 (Baule) stating ("They [CIS Enhancements] are added capabilities to our foundational customer information system that . . . is what SDG&E utilizes for many things that the Commission has directed us to do.").

2881 Ex. SDG&E-218 (Baule) at 22.

2882 *Id*.

UCAN recommends a disallowance of $23.77 million for TY 2024 expenditures.[2883] UCAN argues that "SDG&E's lack of foresight means it will invest in many capital assets that will be obsolete if not stranded almost immediately . . . including its proposed . . . software for customer information systems."[2884] UCAN provides no factual evidence to support its proposed disallowance of SDG&E's request, nor substantiates its assertion that these assets will be stranded. As noted above, it would have been impossible for SDG&E to request these capital dollars prior to the CIS go-live event in April 2021. As such, and pursuant to the Settlement Agreement, SDG&E requested those dollars in the current GRC. Further, these Enhancements are necessary to fulfill past, and ongoing, Commission directives.

For the foregoing reasons and given SDG&E has demonstrated that its forecasting assumptions are reasonable and justified, SDG&E urges the Commission to disregard TURN and UCAN's proposed disallowances to SDG&E's CIS Enhancement request.

21.4.2.7 Postage

Postage includes the expense for mailing customer bills and notices through the United States Postage Service (USPS).[2885] Since filing its initial application and corresponding testimony, SDG&E has updated its Postage request. The increase is due to three postage rate increases which became effective July 10, 2022, January 22, 2023, and July 9, 2023, resulting in an increase of $128,000 in 2022, $417,000 in 2023, and a $408,000 increase in TY 2024 forecasted Postage expenses.[2886]

CLS recommends the Commission reduce SDG&E's 2024 forecast for Postage expenses of $3.597 million to $3.418 million, a reduction of $179,343.[2887] CLS bases their proposed reduction on "the delay in programming for the Group Mail process," that CLS claims "led to additional costs incurred in 2021."[2888] When SDG&E initially forecasts its Postage-related costs, SDG&E believes that all quantities of bills fell within the Group Mail definition. Upon further discussion, SDG&E's Information Technology (IT) department clarified that the capability was only for two

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2883 Ex. UCAN-01-E (Woychik) at 323.

2884 *Id*. at 319.

2885 Ex. SDG&E-18-E (Baule) at 19.

2886 Ex. SCG-401/SDG&E-401 at 17.

2887 Ex. CLS-01 (Gondai) at 21.

2888 *Id*. Group mail is a process where bills going to the same customer, at the same address, and on the same day are "grouped" together in a single envelope. *See also* Ex. SDG&E-218 (Baule) at 5, n.7.

bills, leaving SDG&E to continue to incur additional postage costs for group mail with three or more bills.[2889] As such, SDG&E updated its Postage cost forecast accordingly. SDG&E does not believe it should be penalized for a misunderstanding and based on this clarifying information, SDG&E requests that the Commission reject CLS's proposed reduction.

21.4.2.8 Uncollectible Rate

SDG&E requested that its uncollectible rate for TY 2024 be set at .219%.[2890] This reflects the 10-year rolling average (2012 – 2021) methodology as authorized in the TY 2019 GRC.[2891] However, while preparing its Opening Brief, SDG&E became aware of a discrepancy in its proposed uncollectible rate. SDG&E's proposed rate of .219% inadvertently included write-offs related to the Arrearage Management Payment (AMP) plan. The write-offs relating to AMP is balanced and recovered through the Residential Uncollectible Balancing Account (RUBA).[2892] As such, SDG&E is adjusting the requested uncollectible rate for TY 2024 to .205%, which excludes the AMP write-offs, as reflected in the table below.

AMENDED TABLE SFB-27
SDG&E Uncollectible Data 2012-2021

Recorded Uncollectible Expense: 2012-2021					
Year		Recorded Uncollectible Expense (a)		Sales Revenue (b)	Uncollectible Rate (a) / (b)
2012	$	5,027,626	$	3,030,246,377	0.166%
2013	$	4,911,906	$	3,225,416,802	0.152%
2014	$	5,309,773	$	3,779,062,099	0.141%
2015	$	6,455,318	$	4,033,166,170	0.160%
2016	$	6,427,130	$	3,737,413,809	0.172%
2017	$	6,500,662	$	3,984,777,398	0.163%
2018	$	7,815,235	$	4,233,059,153	0.185%
2019	$	6,121,705	$	4,172,249,811	0.147%
2020	$	10,236,392	$	4,299,420,991	0.238%
2021	$	21,090,548	$	4,443,082,421	0.475%
10 Year Average	**$**	**79,896,295**	**$**	**38,937,895,031**	**0.205%**
5 Year Average	$	51,764,542	$	21,132,589,774	0.245%
3 Year Average	$	37,448,646	$	12,914,753,223	0.290%

[2889] Ex. SDG&E-218 (Baule) at 5.

[2890] Ex. SDG&E-18-E (Baule) at 36.

[2891] D.19-09-051 at 349-350.

[2892] Ex. SDG&E-18-E (Baule) at 36-37.

21.5 Customer Service Information

21.5.1 Customer Service Information -- SoCalGas

Table 21.18

CS - INFORMATION (In 2021 $)			
	2021 Adjusted-Recorded (000s)	**TY2024 Estimated (000s)**	**Change (000s)**
Total Non-Shared Services	21,648	27,178	5,530
Total Shared Services (Incurred)	0	0	0
Total O&M	**21,648**	**27,178**	**5,530**

Table 21.19

INFORMATION TECHNOLOGY (in 2021$)			
CS – Information	**Estimated 2022 ($000)**	**Estimated 2023 ($000)**	**Estimated TY 2024 ($000)**
Improving Customer Experience	3,587	2,565	0
Total	**3,587**	**2,565**	**0**

In its Application, SoCalGas seeks $27.178 million for O&M costs for Customer Services Information (CS-I). The forecast represents an increase of $5.530 million over 2021 adjusted-recorded expenses (BY 2021) and includes $1.924 million in RAMP related costs, which are detailed in Mr. Prusnek's testimony.[2893] On August 11, 2023, SoCalGas and TURN reached a proposed resolution for SoCalGas's CSIN O&M forecast for TY 2024. The proposed amount is $25.445 million for TY 2024, which is a reduction of $1.732 million from SoCalGas's $27.178 million request for TY 2024. Pursuant to Rule 12.1(a), SoCalGas and TURN intend to file and serve a written Motion describing the proposal of settlement.

CS-I provides customers information and services through multiple channels to enhance the ability of SoCalGas's customers to understand and manage their energy usage. CS-I's communications include, but are not limited to, safety and reliability of the natural gas system, support to increase efficient use of natural gas, and environmental and climate policies, and programs to help customers manage their energy usage more efficiently and effectively.

[2893] Ex. SCG-16-2E (Prusnek) at 1, 9-11. The incremental RAMP-related request includes Natural Gas Appliance Testing (NGAT), which mitigates our customers' exposure to carbon monoxide. *See* Ex.SCG-16-2E (Prusnek) at 10.

Additionally, CS-I provides outreach, education, programs, and account management services to residential, energy markets, commercial and industrial customers, low-income, and customers in disadvantaged communities (DACs), as well as communications and marketing, customer research, and insight into the programs that serve these customers. Major divisions within the CS-I area include Strategic Communication and Engagement, Customer Programs and Assistance, and Customer Solutions.[2894] The activities performed by CS-I also advanced the State's climate change goals and align with SoCalGas's sustainability priorities. CS-I's activities support the transition to clean energy, protect the climate and improve air quality in our communities.[2895] CS-I also increases access to clean energy by providing various clean energy programs and services to all customer segments including the hard-to-decarbonize customers. Additional details regarding CS-I's activities to support SoCalGas's sustainability strategy are described in Mr. Prusnek's testimony.[2896]

The increase of $5.530 million[2897] over BY 2021 adjusted recorded expenses, is primarily due to an increase in safety marketing and communications, increased education and outreach to customers regarding clean transportation, new technologies including the hydrogen economy, carbon management, and increased renewable gas interconnections, which are not captured in historical costs.[2898] In particular, TY 2024 forecasted expenses include incremental funding necessary to: (1) expand safety communications and outreach to engage customers in disadvantaged communities; (2) streamline information on all communication mediums and increase services and communications through more e-channels (*e.g.*, short messaging service (SMS) text, email and Virtual Assistant/Chatbot; (3) expand customer research and analyses to enhance customer service offerings; (4) expand safety communication and outreach methods to engage customers; (5) increase support and analysis on the impacts to customers related to state environmental and climate change priorities, and communicate those priorities to customers; and

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2894 *Id.* at ii-iii.

2895 *Id.* at 11-13.

2896 *Id.*

2897 As noted above, SoCalGas has reached a proposed resolution of the O&M forecast with TURN. This resolution would adjust the amount forecast by SoCalGas in TY 2024 to $25.445 million. Due to the timing of this resolution and the challenge by other parties to the O&M forecast, SoCalGas has not reflected the impact of the proposed settlement in this Opening Brief. Impacts will be reflected in the Motion to Adopt Settlement that SoCalGas and TURN anticipate filing and SoCalGas's post-hearing reply brief.

2898 *Id.* at ii.

(6) account for increased costs driven by Energy Savings Assistance Natural Gas Appliance Testing, in compliance and consistent with Commission directives driven by the Energy Savings Assistance Program.[2899] CS-I is also providing business justifications for IT Capital expenditures of $3.587 million in 2022 and $2.565 million in 2023 to improve overall customer experience with customer facing systems (*e.g*., desktop, mobile devices, IVR, web, and others), and to further promote self-service utilization and paperless enrollment, along with improving web payment and billing functionality.[2900]

Table 21.20

TOTAL O&M - Constant 2021 ($000)			
	Base Year	**Test Year**	**Change to Base Year 2021**
SOCALGAS[2901]	**21,647**	**27,177**	**5,530**
CAL ADVOCATES[2902]	**21,647**	**4,415[2903]**	**(17,232)**
TURN	**21,647**	**23,763**	**2,116**
CEJA	**21,647**	**21,647**	**0**
INDICATED SHIPPERS	**21,647**	**25,966**	**4,319**

The only parties to rebut SoCalGas's O&M revenue request were Cal Advocates, TURN, CEJA, and Indicated Shippers (IS). Cal Advocates did not contest CS-I's TY 2024 O&M forecasts

[2899] *Id.* at 5.

[2900] *Id.* at 50-54. Information Technology (IT) capital costs for technology that supports Customer Services - Information are sponsored by SoCalGas witness, William J. Exon, Ex. SCG-21-R-E, Chapter 2 (Ballard/Exon).

[2901] As noted above, SoCalGas has reached a proposed resolution of the O&M forecast with TURN. This resolution would adjust the amount forecast by SoCalGas in TY 2024 to $25.445 million. Due to the timing of this resolution and the challenge by other parties to the O&M forecast, SoCalGas has not adjusted the numbers reflected in this summary of differences Table 21.4.1.C, and instead notes the new forecast for overall 2024 O&M that would result from its proposed resolution with TURN.

[2902] Cal Advocates submitted two chapters of testimony relevant to Customer Services. (*See* Ex. CA-10 (Campbell); Ex. CA-23-R-E (Castello). The positions taken by Cal Advocates in Mr. Castello's testimony, which relate exclusively to Cal Advocates' assertion that SoCalGas should have its revenue requirement reduced due to political advocacy activities, are addressed in Ex. SCG-245-E (Mijares). As noted below in footnote 9, however, the impacts of Mr. Castello's proposal, as it relates to Customer Services – Information, are reflected in Summary of Differences, Table 21.4-C.

[2903] Cal Advocates does not specify their total recommended TY 2024 forecast for Customer Services – Information. SoCalGas has first applied the 80% reduction recommended in Ex. CA-23, and then further reduced by the amount recommended in CA-10, based on Cal Advocates' proposal in Ex. CA-23. (*See* Ex. CA-23-WP-R-E (Castello) at 2, 6; Ex. CA-10 (Campbell) at 7-8. Calculation: $27,177 million x 20% = $5,423 million; $5,423 - $1,020 million = $4,415 million.

for Strategy Communications and Engagement, and Customer Programs and Assistance.[2904] No parties opposed SoCalGas's justification for IT capital projects.

21.5.1.1 Customer Services-Information's Total O&M Forecast

As discussed above, SoCalGas requested an increase of $5.530 million above BY 2021 for its non-shared O&M costs associated with all three areas of CS-I: Strategic Communications and Engagement, Customer Programs and Assistance, and Customer Solutions.

Cal Advocates submitted two chapters of testimony relevant to CS-I, Exhibit CA-10 sponsored by Ms. Campbell and Ex. CA-23-R-E sponsored by Mr. Castello, without specifying a total recommended O&M TY 2024 forecast for CS-I.[2905] Ms. Campbell, in Exhibit CA-10, only recommended reductions to CS-I's non-labor expenses for Customer Solutions.[2906] She did not take issue with CS-I's remaining test year O&M forecasts. However, Mr. Castello, in Ex. CA-23-E-R, recommended an approximately 1.8 percent disallowance of SoCalGas's total 2024 GRC O&M funding request, including "80% disallowance for the estimated total TY cost of $27.227 million associated with Customer Services- Information," based on his assertion that "[b]ecause SoCalGas has not shown that the costs of its Political Activities have been removed from this GRC request, it is only fair to assume these costs are imbedded in historical costs and improperly reflected in the utility's GRC request as routine costs of doing utility business."[2907] Because Cal Advocates did not specify a total recommended TY 2024 forecast for CS-I, SoCalGas first applied the 80 percent reduction recommended in Exhibit CA-23-P-E and then further reduced the remaining amount recommended in Exhibit CA-10, resulting in total O&M forecast for CS-I of $4.415 million for TY 2024, which is $22.763 million less than SoCalGas's forecast of $27.178 million.[2908] As discussed in SoCalGas's testimony in Ex. SCG-245-E (Mijares)[2909] and Ex. SCG-

2904 Ex. CA-10 (Campbell) at 49.

2905 *Id.* at 7, 48-53; Ex. CA-23-E-R (Castello) at 2-3, 37.

2906 Ex. CA-10 (Campbell) at 48-49.

2907 Ex. CA-23-E-R (Castello) at 1-2; Ex. CA-23-WP-R-E (Castello) at 2, 6.

2908 Ex. SCG-216 (Prusnek) at 1. Cal Advocates does not specify their total recommended TY 2024 forecast for Customer Services – Information. Therefore, SoCalGas has first applied the 80% reduction recommended in Ex. CA-23, and then further reduced by the amount recommended in CA-10, based on Cal Advocates' proposal in Ex. CA- 23. (*See* Ex. CA-23-WP-R-E (Castello) at 2, 6; Ex. CA-10 (Campbell) at 7-8. Calculation: $27,177 million x 20% = $5,423 million; $5,423 - $1,020 million = $4,415 million.

2909 The positions taken by Cal Advocates in Castello's testimony, which relate exclusively to Cal Advocates' assertion that SoCalGas should have its revenue requirement reduced due to political

216 (Prusnek), and as discussed below, Cal Advocates' proposed reductions to CS-I's O&M requests set forth in both Ex. CA-10 and Ex. CA-23, are without merit and should be rejected.[2910] Cal Advocates' recommended reductions to non-labor expense forecast in Customer Solutions is addressed below in the following section. SoCalGas's responses to Cal Advocate's 1.8 percent disallowance of SoCalGas's total 2024 GRC O&M funding request, including "80% disallowance for the estimated total TY cost of $27.178 million associated with CS-I and other groups, are addressed in the rebuttal testimony of Ms. Mijares (Ex. SCG-245-E) and in section 48.2 of this brief.

CEJA recommends a wholesale rejection of $5.530 million increase for CS-I's non-shared O&M costs based on its erroneous assumption that "[a] primary use of this department is to promote hydrogen [and] other alternative fuel end uses and projects such as its Hydrogen Home, which constitute promotional advertising, the costs of which are properly borne by SoCalGas shareholders."[2911] CEJA's recommendation should be rejected as it misunderstands the primary objective of CS-I organization and the detailed explanations of activities performed by CS-I, including, but not limited to: (1) all customer communications, research, outreach and education; (2) safety communications to the public, customers, and employees; (3) services for low-income and disadvantaged customers; (4) account management services to residential, small and medium business, commercial, and industrial, and clean transportation customers as well as energy market customers and producers; and (5) services that focus on a sustainable future by reducing greenhouse gas emissions (GHGs) emissions and improving local air quality including supporting cleaner transportation, renewable gas options to decarbonize, and accelerate the transition to clean energy fuels.[2912] In addition, CEJA's recommendation is inconsistent with CS-I's activities that align with State policy that allows use of hydrogen to combat regional air pollution and climate change.[2913] As outlined in Executive Order B-48-18, described in witness Armando Infanzon's rebuttal testimony (Ex. SCG-212), "further boosting California's zero-emission vehicle market

advocacy activities, are addressed in the rebuttal testimony of Ms. Mijares (Ex. SCG-245-E), as well as in section 48.2 of this brief.

2910 Ex. SCG-245-E (Mijares) at 3-26; Ex. SCG-216 (Prusnek) at 13-14.

2911 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 4.

2912 Ex. SCG-16-2E (Prusnek) at 1-2; Ex. SCG-216 (Prusnek) at 7-8.

2913 Ex. SCG-216 (Prusnek) at 7-8. Further discussions and support for SoCalGas's hydrogen position is discussed in the Clean Energy Innovation rebuttal testimony, Ex. SCG-212 (Infanzon) at 7-8.

will strengthen the economy, improve air quality and public health, lower fuel costs for drivers and reduce the state's dependence on fossil fuels."[2914] The Executive Order B-48-18 also ordered "that all State entities work with the private sector and all appropriate levels of government to spur the construction and installation of 200 hydrogen fueling stations by 2025."[2915]

Therefore, CEJA's proposed recommendation is unjustified and should be rejected. CS-I has justified the funding needed to perform the incremental activities, which are described in SoCalGas's direct and rebuttal testimony.[2916]

TURN[2917] proposed reductions to TY O&M forecasts for Strategic Communications and Engagement and Customer Solutions, which are addressed below.[2918] TURN did not address TY forecast for Customer Programs and Assistance. Indicated Shippers' recommended reductions to O&M forecast for Customer Solutions area, are addressed below.[2919] Indicated Shippers did not address SoCalGas's TY 2024 forecast for Strategic Communications and Engagement and Customer Programs and Assistance. Thus, the only areas where parties recommended adjustments to SoCalGas's CS-I O&M revenue request were the following:

21.5.1.2 Strategic Communications and Engagement

SoCalGas requested $11.396 million in TY 2024, an increase of $2.253 above BY 2021 for the Strategic Communications and Engagement (SC&E) group.[2920] The primary functions of SC&E are to manage SoCalGas's customer communications across all segments and medium. In order to inform customers and effectively manage customer communications, SC&E teams are responsible for determining customer needs, perceptions and behavior and then creating and delivering targeted communications, through various digital and traditional channels, designed to

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2914 Office of the Governor of the State of California, *Executive Order B-48-18* (January 26, 2018) *available at:* https://www.library.ca.gov/wp-content/uploads/GovernmentPublications/executive-order-proclamation/39-B-48-18.pdf (emphasis added).

2915 *Id.*

2916 Ex. SCG-16-2E (Prusnek) at 5 and Ex. SCG-216 (Prusnek) at 8-9.

2917 Note that SoCalGas and TURN have reached a proposed resolution for the overall Customer Services-Information O&M forecast. Due to the timing of this resolution and the challenge by other parties to the O&M forecast, SoCalGas has not reflected the impact of the proposed settlement in this Opening Brief. Impacts will be reflected in the Motion to Adopt Settlement that SoCalGas and TURN anticipate filing and SoCalGas's post-hearing reply brief.

2918 Ex. TURN-09-2R (Cheng) at 17-19.

2919 Ex. IS-02 (Gorman) at 9-10 and Schedule MPG-2.

2920 Ex. SCG-16-2E (Prusnek) at 13.

build awareness and provide customers and stakeholders with information relevant to the existing and new utility programs, products and services.[2921] The five areas of SC&E: Customer Marketing and Communications, Employee/Executive Communications and Creative Services, Customer Insights and Analytics, Digital Engagement, and Brand Identity, Visual Services and Outreach share the responsibility to inform and enhance customer experience and offerings for the entire Company. Third-party services are also contracted to help create messages for customers. As such, the SC&E teams collaborate with internal and external subject matter experts so that content and material is relevant to customer interests.

Cal Advocates does not take issue with SoCalGas's forecast for Strategic Communications and Engagement.[2922] However, TURN recommends that "the Commission should adopt the 2021 level of spending at $9.191 million"[2923] and rejects SC&E's O&M increase request of $2.253 million.[2924] TURN takes issue with SC&E's 2024 Test Year O&M forecast, arguing that "SoCalGas is currently engaged in all of these activities already- executive and employee communications, digital engagement, marketing, brand & visual services, and customer insights & analysis."[2925] TURN further argues that "SoCalGas's assertion that the drastically increased spending in 2024 is necessary is not credible when it clearly wasn't necessary in 2022, when SoCalGas spent even less than 2021."[2926] TURN's proposed rejection of SC&E's incremental O&M funding request is based on simply cherry picking certain historical years, which do not reflect the future activities that need to be performed, and therefore should be rejected. First, TURN incorrectly demands a *clear and convincing* level of proof.[2927]
This is not the standard of proof required for a GRC. The evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence. The Commission affirmed in the S-MAP D.14-12-025 that this standard specifically applies to a GRC.[2928] SoCalGas has met its

[2921] *Id.* at 13-17.

[2922] Ex. CA-10 (Campbell) at 49.

[2923] SoCalGas's 2021 recorded expenses for Strategic Communication and Engagement is $9.143. *See* Ex. SCG-16-WP-R-E at 6.

[2924] Ex. TURN 09-2R (Cheng) at 18. *See* SoCalGas notes on its resolution with TURN, *supra*.

[2925] *Id.* at 17.

[2926] *Id.* at 18.

[2927] *Id*. at 17.

[2928] D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.")

burden by providing details in numerous pages of testimony submitted by SC&E regarding the new and expanded activities that are not captured in historical costs and are necessary to meet the needs and expectations of customers in TY 2024.[2929]

In addition, TURN's argument that "SoCalGas is already engaging in all of these activities already," does not justify an automatic reduction to the proposed funding. TURN fails to take into consideration that just because some activities are being performed, it does not mean there are no other factors that impact those activities, such as increased complexities, volumes of activities, expansion of customer demands, or new or increased regulations. These factors can increase costs for these activities. TURN ignores numerous pages of testimony submitted by SC&E regarding the new and expanded activities that are not captured in historical costs and are necessary to meet the needs and expectations of customers in TY 2024. As Mr. Prusnek explained, the incremental funding is necessary to support SC&E to perform, for example, "additional activities that we need to communicate to customers" and there are "new climate change policies, new laws, new requirements that we have to inform our customers about."[2930] These activities cannot be performed without incremental funding, and SoCalGas explained the resulting consequences.[2931] For example, while SoCalGas is already engaged in protecting its customers against cybersecurity attacks, due to a rise in cybersecurity dangers, and more funding is needed to implement new cybersecurity and fraud protections to adequately defend the Company and the customers against the ever-evolving cybersecurity threats.[2932] In addition, TURN's recommended disallowance will also impact SC&E's ability to keep customers informed and engaged on updates to important topics such as safety, and customer service and assistance programs, as well as impacting SC&E's ability to collect and analyze customer feedback and improve customer service.[2933]

Finally, the lower spend in 2022 is attributable to normal variations in spending over the GRC cycle.[2934] As explained by Mr. Folkmann in his testimony, the Commission has "a longstanding forecasted ratemaking process, which is based on the best information about expected future events combined with historical trends. The Commission does not generally authorize rates

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[2929] Ex. SCG 16-2E (Prusnek) at 13-19; Ex. SCG-216 (Prusnek) at 9-13.

[2930] Tr. V11: 2011:4-7 (Prusnek); V11: 2016:22-25- 2017:1-12 (Prusnek).

[2931] Ex. SCG-16-2E (Prusnek) at 13-29; Ex. SCG-216 (Prusnek) at 10-13.

[2932] *Id.*

[2933] Ex. SCG-216 (Prusnek) at 10-13.

[2934] Ex. SCG-216 (Prusnek) at 10.

based upon actual historical costs—or penalize a utility when it spent less money in an area than forecasted. Nor does the Commission utilize formula ratemaking based upon actual costs."[2935] The Commission has also acknowledged that utilities may need to reprioritize spending between GRCs."[2936] Thus, SoCalGas's use of BY 2021 with adjustments for growth related to expanded support functions within SC&E is reasonable.[2937]

21.5.1.3 Customer Solutions

SoCalGas requested $11.676 million in TY 2024, an increase of $1.211 above BY 2021 for the Customer Solutions (CS) organization.[2938] The primary goal of CS is to strategically manage SoCalGas's customer segments to ensure relevant information, services, products, programs, and other offerings are provided to meet and manage customers' energy and clean transportation needs.[2939]

Cal Advocates claims SoCalGas's "funding request for its labor and non-labor test year forecast is not justified" and recommends $9.379 million in labor expenses for TY 2024, which is based on 2022 adjusted- recorded labor expense. Cal Advocates also proposes $1.277 million in non-labor expenses for TY 2024 based on its opposition to the incremental funding request for the Innovative Kitchen Management Pilot Project.[2940] Cal Advocate's proposed reductions are unjustified and should be rejected. First, Cal Advocates provides no explanation as to why 2022 adjusted-recorded labor expense is appropriate for TY 2024, nor does it provide any justification for its reduction to SoCalGas's incremental labor expense request in TY 2024. As explained in SoCalGas's testimony, the base year forecast methodology was used as a basis for the TY 2024 with an incremental $1.211 million request above base-year to provide for necessary resources to address increased education and outreach for clean transportation, new technologies, the hydrogen economy, carbon capture utilization and sequestration, and increased renewable gas interconnections that are captured in historical costs.[2941] Not only has the number of RNGV

2935 *See* Ex. SDG&E-201 (Folkmann) at 7-8 (*citing* D.20-01-002 at 8, 38; accord *id.* at 33, 36).

2936 *Id.* at 8. To show differences between actual and authorized expenditures, the Commission requires utilities to submit a Risk Spending Accountability Report (RSAR).

2937 Ex. SCG-16-2E (Prusnek) at 19.

2938 *Id.* at 34.

2939 *Id*.

2940 Ex. CA-10 (Campbell) at 50-51.

2941 Ex. SCG-16-2E (Prusnek) at 41-42.

stations increased by 15% on average from 2019 to 2021,[2942] but SoCalGas has seen a growth in requests for hydrogen station evaluations.[2943]

Cal Advocates also rejects SoCalGas's incremental non-labor expense request of $1.024 million related to the Innovative Kitchen Management Pilot Project for TY 2024 based on its erroneous assumption that the pilot program "only benefits certain customers in the Commercial and food service industry." [2944] However, as explained in SoCalGas's testimony, the Innovative Kitchen Management Pilot will benefit several types of customers (*e.g.* schools, offices, retail, lodging, multi-meter facilities, etc.), including residential customers.[2945] First, the Innovative Kitchen Management Pilot identifies and measures amounts of fugitive methane emissions so the appropriate repair/replacement of problem apparatuses and components can be made.[2946] By addressing problems such as incomplete combustion, resulting in high utility procurement cost, costs that can be passed on to customers can be avoided.[2947] Second, GHG reduction realized from the Innovative Kitchen Management Pilot can also contribute to California's carbon neutral goal.[2948] Third, methodologies utilized in the Innovative Kitchen Management Pilot for identifying and measuring ambient methane emissions can also be used as a baseline approach in other customer sectors such as residential and commercial sectors.[2949] Finally, the Innovative Kitchen Management Pilot can provide a methane emission "predictive model" which can be used as a remediation to problems before they occur.[2950] Therefore, Cal Advocates' rationale for reducing SoCalGas's non-labor request is incorrect and should be rejected.

TURN[2951] recommends 2021 recorded O&M expenses of $10.461 million for Customer Solutions' TY 2024, which is a reduction of $1.211 million for Customers Solutions O&M,

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2942 *Id.* at 36.

2943 Ex. SCG-12-R (Infanzon) at 31 (*stating* "SoCalGas has also observed an increase in customer interest and requests for hydrogen station natural gas utility service. For example, in 2020, SoCalGas received a single request to evaluate a location for hydrogen station natural gas utility service. In 2021, this figure jumped to sixteen requests.").

2944 Ex. CA-10 (Campbell) at 51.

2945 Ex. SCG-16-2E (Prusnek) at 47; Ex. SCG-216 (Prusnek) at 13-15.

2946 *Id.*

2947 Ex. SCG-216 (Prusnek) at 15.

2948 *Id.* at 14.

2949 *Id.*

2950 *Id*. at 15.

2951 *See* SoCalGas notes on its resolution with TURN, *supra*.

claiming that "SoCalGas is currently engaged in all of these activities already…" and that "SoCalGas's assertion that the increased spending in 2024 is necessary is not credible when it clearly wasn't necessary in 2022, when SoCalGas spent even than in 2021."[2952] Again, TURN incorrectly applies a clear and convincing level of proof in a GRC,[2953] and ignores the new and expanded activities described in detail in SoCalGas's testimony, which are additional activities not previously captured in historical costs.[2954] Further, as explained in the previous section and in SoCalGas's testimony, a lower spend in 2022 forecast year is due to normal variation in spending over the GRC cycle.[2955] Mr. Prusnek explained these new activities include activities that: (1) support the State's climate change policy initiatives that directly impact all customer segments, (2) address customer demands from increases in customers who operate hydrogen fuel cell vehicles and other renewable gas vehicles, and (3) provide support on renewable gas interconnections and tariffs.[2956] Therefore, TURN's recommended disallowance of $1.211 million for Customer Solutions O&M should be denied.

Indicated Shippers recommends removing $1.211 million associated with the Clean Fuels Transportation Program, claiming that "these costs are not related to providing natural gas to both sales and transportation customers."[2957] Indicated Shippers erroneously cites to Pub. Util. Code § 399.20(f)(2)(D), which states "[t]he Commission shall encourage gas and electrical corporations to develop and offer programs and services to facilitate development of in-state biogas for a broad range of purposes," to support its argument that "the costs are not incurred for gas delivery and should be removed from the GRC revenue requirement in this case."[2958] As discussed below, IS' argument lacks merit and should be rejected.

As explained previously in Mr. Prusnek's testimony, the Clean Transportation group within Customer Solutions plays a key role in facilitating the transition from diesel-fueled vehicles to cleaner renewable natural gas vehicles (RNGVs) in the transportation sector, as well as supporting

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2952 Ex. TURN-09 (Cheng) at 18-19.

2953 *Id.* at 18. But as discussed above, *see* D.14-12-025 at 20-21 (The Commission affirmed, "[i]t is clear . . . that the standard of proof that a utility has to meet in a GRC is one of preponderance of the evidence.").

2954 Ex. SCG-216 (Prusnek) at 15-16.

2955 *Id.*

2956 *Id.*

2957 Ex. IS-02 (Gorman) at 9-10; Schedule MPG-2.

2958 *Id.* *See also,* PUC § 399.20(f)(2)(D).

the expansion of private and public RNGV stations.[2959] The Clean Transportation group also performs many activities that benefit our customers, including customer education, training and outreach, to raise awareness on environmental and climate change policies, market adoption for cleaner fuels, benefits, and funding programs, including specifically targeting information to disadvantaged communities. Thus, not only are the activities performed by this group consistent with Pub. Util. Code § 399(f)(2)(D), as they facilitate the transition to RNGVs, but more importantly, the Commission has previously approved utility customer information, education and training programs in the Utility Low Emission Vehicle (LEV) Application Proceeding,[2960] and approved funding for Clean Transportation group in SoCalGas's 2019 GRC.[2961] In the LEV proceeding, the Commission provided reasonable "funding for the utilities' customer education programs that primarily further the goals of ratepayer safety, reliability of electric and natural gas systems, control of ratepayer costs, inform customers about related load impacts and methods for mitigating them in a manner that is responsive to their and the public's needs" and allowed the utilities to submit LEV programs and related costs in their GRCs or other cost-of-service proceedings.[2962] In summary, the Clean Transportation group's activities, which include customer outreach tools and materials, grant funding assistance, truck loan program, safety measures and training on market subjects and regulations,[2963] meet these goals and the Commission should adopt SoCalGas's request to continue its efforts to provide necessary information, education and training related to Clean Transportation.

21.5.2 SDG&E Summary of Information Request

Table 21.21

CS - INFORMATION (In 2021 $)			
	2021 Adjusted-Recorded (000s)	**TY2024 Estimated (000s)**	**Change (000s)**
Total Non-Shared Services	21,021	24,353	3,332
Total Shared Services (Incurred)	0	0	0
Total O&M	**21,021**	**24,353**	**3,332**

2959 Ex. SCG-16-2E (Prusnek) at 36; Ex. SCG-216 (Prusnek) at 17.

2960 *See* A.02-03-047, In the Matter of the Joint Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 M) for Authority to Continue Funding of Low Emission Vehicle Programs (March 25, 2002).

2961 D.05-05-010 at 15-16 (COL 3) and 17 (OP 4); *See also,* D.19-09-051 at 359.

2962 *Id*.

2963 Ex. SCG-16-2E (Prusnek) at 37.

Table 21.22

INFORMATION TECHNOLOGY (IT) CAPITAL (In 2021 $)			
	Estimated 2022 ($000)	**Estimated 2023 ($000)**	**Estimated TY 2024 ($000)**
CS - Information	4,969	4,367	0
Total CAPITAL	**4,969**	**4,367**	**0**

In its Application, SDG&E's Customer Services – Information (CSIN) seeks $24.353 million for TY 2024, which represents a 15.9% increase from BY 2021 adjusted recorded costs.[2964] The requested funding supports SDG&E's goal of being the trusted energy advisor for all segments of customers by providing safe, efficient, effective, timely and personalized customer service, and this request will allow SDG&E to provide customers with residential customer services, business services, marketing and communications, research and analytics, customer assistance programs, and customer pricing, among other services.[2965] On August 11, 2023, SDG&E and TURN reached a proposed resolution for SDG&E's CSIN O&M forecast for TY 2024. The proposed amount is $22.691 million for TY 2024, which is a reduction of $1.662 million from SDG&E's $24.353 million request for TY 2024. Pursuant to Rule 12.1(a), SDG&E and TURN intend to file and serve a written Motion describing the proposal of settlement.

The CSIN further includes forecasted: IT Capital expenditures for the Demand Response Management System (DRMS) replacement.[2966] The forecasts for 2022, 2023, and 2024 at $4,968,900, $4,367,841, and $0 respectively.[2967] This project will implement a DRMS that will manage the entire portfolio of Demand Response (DR) programs at SDG&E.[2968] SDG&E's DR programs are currently managed via several systems, complex middleware, and a significant number of manual processes. This project, which replaces the current DRMS system that has reached its useful life, will not only simplify the existing Demand Response system, but its capabilities include program event management, reporting and monitoring, device management,

2964 Ex. SDG&E-19-E (Baule) at ii.

2965 *Id.* at ii - iii.

2966 *Id.* at 39.

2967 *Id.*

2968 *Id.*

demand response load forecasting, California Independent System Operator market integration, and electric vehicle supply equipment.[2969]

SDG&E used a base year methodology to forecast estimated TY 2024 costs.[2970] This method is most appropriate because the business functions and responsibilities of this organization most appropriately stem from the 2021 base year and build incrementally from there.[2971] TURN recommended adjustments to SDG&E's forecast based on a five-year average forecast methodology.[2972] In each instance described more fully below, TURN selectively chose a different forecast methodology for every area of CSIN it challenged. TURN was selective in both the historical average period used to create TURN's own forecasted revenue requirement, and in using 2022 actual recorded costs.

Table 21.23

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E[2973]	21,021	24,353	3,332
CAL ADVOCATES	21,021	24,353	3,332
TURN	21,021	21,201	180
UCAN	21,021	24,233	3,212

The only parties to rebut portions of CSIN's O&M revenue request were TURN and UCAN. Cal Advocates does not oppose SDG&E's TY 2024 CSIN forecast.[2974]

The only areas where TURN and UCAN recommended adjustments to SDG&E's revenue request concerned the following cost centers:

2969 *Id.*

2970 *Id.* at iii.

2971 *Id.*

2972 *See* Ex. TURN-09-2R (Cheng) at 34.

2973 As noted above, SDG&E has reached a proposed resolution of the TY 2024 O&M forecast with TURN. This resolution would adjust the amount forecasted by SDG&E in TY 2024 to $22.691 million. SDG&E has not adjusted the numbers reflected in this Table but notes the new forecast for overall TY 2024 O&M that would result from its proposed resolution with TURN.

2974 Ex. CA-10 (Campbell) at 8.

TURN[2975]

- TURN recommends a $879,000 reduction to SDG&E's TY 2024 forecast for Customer Pricing, Load Research, Analysis and Forecasting.[2976] SDG&E's TY 2024 forecast is $4,423,000.[2977] TURN proposes $3,544,000 be adopted.[2978]
- TURN recommends a $2,273,000 reduction to SDG&E's TY 2024 forecast for Customer Programs and Business Services.[2979] SDG&E's TY 2024 forecast is $6,907,000.[2980] TURN proposes $4,634,000 be adopted.[2981]

UCAN

- UCAN recommends a disallowance of $120,000 for marketing and outreach materials in support of SDG&E's Smart Meter 2.0 request.[2982]

Each of the areas recommended for adjustment will be discussed below. No party contested the following requests, and as such, the Commission should adopt them as reasonable:

- The business justification and rationale for the IT capital projects addressed in Customer Services – Information.
- The business justification for the costs incurred for rate reform activities between January 1, 2019 and March 31, 2022 that have been posted to the RRMA.

21.5.3 Customer Pricing, Load Research, Analysis and Forecasting

SDG&E requested a total of $4,423,000 in O&M in 2024, or $969,000 above BY 2021,[2983] to reflect the full year impact for Load Research, Analysis and Forecasting staff who were hired during 2021, to add necessary resources to comply with the Commission decision which directed SDG&E to file a separate application to develop and implement a two-stage, Real Time Pricing

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2975 Note that SDG&E and TURN have reached a proposed resolution for the overall Customer Services-Information TY 2024 O&M forecast. Due to the timing of this resolution and the challenge by other parties to the O&M forecast, SDG&E has not reflected the impact of the proposed settlement in this Opening Brief. Impacts will be reflected in the Motion to Adopt Settlement that SDG&E and TURN anticipate filing and SDG&E's post-hearing reply brief.

2976 Ex. TURN-09-2R (Cheng) at 35.

2977 Ex. SDG&E-19-E (Baule) at 8, Table 6.

2978 Ex. TURN-09-2R (Cheng) at 35.

2979 *Id.* at 35 - 36. SDG&E notes that TURN's testimony states that "the Commission should adopt a 2024 forecast of $4.634 million," and that it is "a reduction of $2.446 million." However, SDG&E's proposed forecast of $6.907 million minus TURN's proposed reduction of $2.446 million equals $2.273 million. As such, SDG&E reflects $2.273 million above.

2980 Ex. SDG&E-19-E (Baule) at 8, Table 6.

2981 Ex. TURN-09-2R (Cheng) at 35 - 36.

2982 *See generally* Ex. UCAN-01-E (Woychik) at 13 - 14.

2983 Ex. SDG&E-19-E (Baule) at 8, Table 6.

SFB-11 (RTP) pilot,[2984] and to reflect shifts in costs associated with an analyst who will continue to provide analysis and support for electric load forecasting, electric rate development, and new or on-going regulatory and 2 legislative requirements.[2985]

Customer Pricing consists of multiple groups that are responsible collectively for analytical, technical, and policy support for electric rates, rate design, rate strategy, electric load research, electric load analysis, and electric demand forecasting.[2986]

TURN recommends a $0.879 million reduction of the amount requested and asserts that SDG&E's basis for the increase is unsupported based on the 2022 recorded actuals compared to the BY 2021.[2987] TURN then uses the 2022 recorded figure, which it calls "barely higher than 2021," to draw a conclusion that "[b]ased on the fluctuating historical spend, TURN believes that the most appropriate forecast would be a historical average."[2988] Subsequently, TURN uses a five-year average to arrive at its forecast estimate with the reduction.[2989]

TURN's justification for its use of a five-year average is flawed. First, TURN uses the years 2018 – 2022 for its five-year average method, despite the Rate Case Plan dictating that the five-year average consists of ***five years of history up to and including the base year***.[2990] If TURN used the five-year average, as dictated by the Rate Case Plan, TURN would have used years 2017 - 2021. Second, as noted, using a five-year average is not representative of the current organization or what is required to complete anticipated future activities.[2991] Lastly, as explained, the 2022 recorded expenses are lower than the actuals because some of the 2022 expenses are currently

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2984 *See* D.21-07-010 at 78 and OP 6, directing SDG&E to file a separate application to develop and implement a two-stage, Real Time Pricing SFB-11 (RTP) pilot. D.21-07-010 also authorizes SDG&E to establish an internal RTP department and 2 track costs associated with developing the RTP pilot to the RRMA for recovery in its next rate case. *See also* SDG&E Advice Letter 2769-E, approved September 22, 2015 and effective July 31, 2015, *available at* https://tariff.sdge.com/tm2/pdf/2769-E.pdf.

2985 As explained, the costs associated with this analyst is currently recorded in the Vehicle Grid Integration Memorandum Account (VGIMA) but VGIMA will be closed effective December 31, 2023, and the ongoing costs of the program are included in the 2024 Test Year. Thus, costs associated with position will shift from VGIMA to O&M account in 2024. *See* Ex. SDG&E-19-E (Baule) at 11 - 12. *See also* Ex. SDG&E-43-R-E (Kupfersmid) at 8.

2986 Ex. SDG&E-19-E (Baule) at 8.

2987 Ex. TURN-09-2R (Cheng) at 35. *See* SDG&E notes on its resolution with TURN, *supra.*

2988 *Id.* at 34.

2989 *Id*.

2990 Ex. SDG&E-219 (Baule) at 3 (emphasis added).

2991 *Id*. at 3.

recorded in the memorandum accounts (Rate Reform Memorandum Account and Vehicle Grid Integration Memorandum Account) and not in 2022 O&M accounts.[2992] However, those memorandum accounts will close at the end of 2023, and the expenses will then be recorded in O&M accounts beginning in 2024 for recovery in SDG&E's future general rate case.[2993] In addition, TURN incorrectly assumes that staffing is static.[2994] There has been continuous movement due to retirements, leaves of absence, resignations, and new hires, which is reflected in the 2022 adjusted recorded expenses.[2995]

For the foregoing reasons, SDG&E urges the Commission to disregard TURN's proposed disallowance. TURN's rationale is insufficient for an adjustment where SDG&E met its burden to demonstrate that additional resources are needed and will be fully engaged to support the additional workload, particularly to comply with the Commission's directive on the RTP pilot. The Commission should therefore adopt SDG&E's request as reasonable.

21.5.4 Customer Programs and Business Services

SDG&E's TY 2024 forecast for Customer Programs and Business Services is $6,907,000.[2996] The Customer Programs department consists of the Customer Assistance Programs (CAP) and specific activities that are funded through the GRC rather than the Low Income proceeding.[2997] Business Services consists of various groups that perform functions for, and provided services to, business customers.[2998]

TURN recommends the Commission adopt a 2024 forecast of $4.634 million for Customer Programs and Business Services.[2999] TURN again cherry-picks its use of a five-year average, and again, an incorrect use of the average according to the RCP, to arrive at this proposed reduction. TURN's use of a five-year average is based on its erroneous assumption that that "SDG&E has been performing these activities already[3000] As noted above, first, TURN's use of a five-year

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2992 *Id*. at 5 – 6.

2993 D.21-07-010 at OP 6 and D.16-01-045 at 3-4; *See also,* Ex. SDG&E-219 (Baule) at 5.

2994 Ex. SDG&E-219 (Baule) at 6.

2995 *Id*.

2996 Ex. SDG&E-19-E (Baule) at 8.

2997 *Id*. at 26.

2998 *Id*.

2999 Ex. TURN-09-2R (Cheng) at 35. *See* SDG&E notes on its resolution with TURN, *supra.*

3000 *Id*.

average and its underlying assumptions are inappropriate and inconsistent with direction in the RCP.

Second, TURN fails to consider the incremental needs of SDG&E to carry out various Commission mandates when it proposed reductions in funding for the Customer Programs and Business Services. As noted above, the Customer Programs department consists of the CAP and specific activities that are funded through the GRC, rather than the Low Income proceeding.[3001] This includes dollars requested for Natural Gas Appliance Testing (NGAT), which is required as part of the CPUC-approved Energy Savings Assistance (ESA) program and addresses the safety risks posed from installing air infiltration measures through energy efficiency improvements.[3002] The Medical Baseline Program (MBL), implemented pursuant to the California Public Utilities (P.U.) Code, requires energy utilities to provide customers with specified medical conditions or who rely on life-support equipment an additional quantity of electricity and gas at the lowest, or "baseline," rate to meet their medical needs.[3003] Additionally, the Commission in D.20-06-003, and Resolution (Res.) E-5169, required the IOUs to implement improvements to the MBL program, including: enabling e-signatures for qualified medical professionals on applications, outreach programs, working with the medical community and county public health office, and furthering outreach via Community Based Organizations to promote MBL.[3004] TURN's baseless reductions ignore SDG&E's need to continue to expand its marketing and outreach efforts to meet the increasing legislative and regulatory requirements around customer assistance programs.

Lastly, TURN's argument that "SDG&E has already been performing these activities" does not justify automatically reducing the incremental expenses associated with these activities, nor prove that the volume of work is reducing, or the level of complexity and analysis required to support the activities has remained the same. Rather, SDG&E has shown that its incremental funding request is needed to improve and fund incremental work and business operations and to provide dedicated resources to meet the ever-expanding needs of customers.[3005]

As such, SDG&E urges the Commission adopt SDG&E's request as reasonable.

[3001] Ex. SDG&E-19-E (Baule) at 26.

[3002] Ex. SDG&E-219 (Baule) at 9.

[3003] Ex. SDG&E-19-E (Baule) at 27. *See also* Pub.Util. Code Section 739(c)(1).

[3004] D.20-06-003 at 76 – 77 and 152 – 153; *see also* Res. E-5169 at 3. SDG&E requested $297,000 to support Res. E-5169. *See* Ex. SDG&E-19-E (Baule) at 33 and Ex. SDG&E-219 (Baule) at 8.

[3005] Ex. SDG&E-219 (Baule) at 8.

21.5.5 Marketing, Communications, Research and Analytics

SDG&E requests $13.023 million for TY 2024 costs associated with Marketing, Communications, Research, and Analytics, a $552,000 increase over BY 2021.[3006] The Marketing, Communications, Research and Analytics group is responsible for developing strategic integrated marketing and communications plans and determining communication tactics across various channels and platforms such as mass media, digital media, social media, and direct customer outreach, among others.[3007]

UCAN objects to this request and recommends a disallowance of $120,000 for TY 2024 estimated expenses for Smart Meter 2.0 customer outreach and education as part of the whole disallowance for all Smart Meter 2.0 O&M and capital expenditures.[3008] However, UCAN provides no justification for this proposed disallowance. As noted, for the implementation of Smart Meter 2.0, communications, SDG&E proposes that both email and direct mail will be sent to customers in targeted zip codes in advance of installation.[3009] SDG&E will also develop bilingual collateral, FAQs, social media posts, bill package messaging, etc.[3010] Thus, SDG&E argues that customer outreach and education, which is essential to the Smart Meter 2.0 project, should be approved and urges the Commission disregard UCAN's proposed, and unsubstantiated, disallowance.

21.5.6 Customer Pricing, Load Research, Analysis and Forecasting

SDG&E requested a total of $4,423,000 in O&M in 2024, or $969,000 above BY 2021,[3011] to reflect the full year impact for Load Research, Analysis and Forecasting staff who were hired during 2021, to add necessary resources to comply with the Commission decision which directed SDG&E to file a separate application to develop and implement a two-stage, Real Time Pricing SFB-11 (RTP) pilot,[3012] and to reflect shifts in costs associated with an analyst who will continue

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3006 Ex. SDG&E-19-E (Baule) at 12.

3007 *Id*. at 12 – 13.

3008 *See generally* Ex. UCAN-01-E (Woychik) at 13 – 14.

3009 Ex. SDG&E-19-E (Baule) at 23.

3010 *Id*.

3011 Ex. SDG&E-19-E (Baule) at 8, Table 6.

3012 *See* D.21-07-010 at 78 and OP 6, directing SDG&E to file a separate application to develop and implement a two-stage, Real Time Pricing SFB-11 (RTP) pilot. D.21-07-010 also authorizes SDG&E to establish an internal RTP department and 2 track costs associated with developing the RTP pilot to the RRMA for recovery in its next rate case. *See also* SDG&E Advice Letter 2769-E, to provide analysis and support for electric load forecasting, electric rate development, and new or on-going regulatory and 2 legislative requirements.[3013]

Customer Pricing consists of multiple groups that are responsible collectively for analytical, technical, and policy support for electric rates, rate design, rate strategy, electric load research, electric load analysis, and electric demand forecasting.[3014]

TURN recommends a $0.879 million reduction of the amount requested and asserts that SDG&E's basis for the increase is unsupported based on the 2022 recorded actuals compared to the BY 2021.[3015] TURN then uses the 2022 recorded figure, which it calls "barely higher than 2021," to draw a conclusion that "[b]ased on the fluctuating historical spend, TURN believes that the most appropriate forecast would be a historical average."[3016] Subsequently, TURN uses a five-year average to arrive at its forecast estimate with the reduction.[3017]

TURN's justification for its use of a five-year average is flawed. First, TURN uses the years 2018 – 2022 for its five-year average method, despite the Rate Case Plan dictating that the five-year average consists of ***five years of history up to and including the base year***.[3018] If TURN were to correctly use the five-year average, as dictated by the Rate Case Plan, TURN would have used years 2017 - 2021. Second, as noted, using a five-year average is not representative of the current organization or what is required to complete anticipated future activities.[3019] Lastly, as explained, the 2022 recorded expenses are lower than the actuals because some of the 2022 expenses are currently recorded in the memorandum accounts (Rate Reform Memorandum Account and Vehicle Grid Integration Memorandum Account) and not in 2022 O&M accounts.[3020] However, those memorandum accounts will close at the end of 2023, and the expenses will then be

approved September 22, 2015 and effective July 31, 2015, *available at* https://tariff.sdge.com/tm2/pdf/2769-E.pdf.

3013 As explained, the costs associated with this analyst is currently recorded in the Vehicle Grid Integration Memorandum Account (VGIMA) but VGIMA will be closed effective December 31, 2023, and the ongoing costs of the program are included in the 2024 Test Year. Thus, costs associated with position will shift from VGIMA to O&M account in 2024. *See* Ex. SDG&E-19-E (Baule) at 11 - 12. *See also* Ex. SDG&E-43-R-E (Kupfersmid) at 8.

3014 Ex. SDG&E-19-E (Baule) at 8.

3015 Ex. TURN-09-2R (Cheng) at 35.

3016 *Id.* at 34.

3017 *Id*.

3018 Ex. SDG&E-219 (Baule) at 3 (emphasis added).

3019 *Id*. at 3.

3020 *Id*. at 5 – 6.

recorded in O&M accounts beginning in 2024 for recovery in SDG&E's future general rate case.[3021] In addition, TURN incorrectly assumes that staffing is static.[3022] There has been continuous movement due to retirements, leaves of absence, resignations, and new hires, which is reflected in the 2022 adjusted recorded expenses.[3023]

For the foregoing reasons, SDG&E urges the Commission to disregard TURN's proposed disallowance. TURN's rationale is insufficient for an adjustment where SDG&E met its burden to demonstrate that additional resources are needed and will be fully engaged to support the additional workload, particularly to comply with the Commission's directive on the RTP pilot. The Commission should therefore adopt SDG&E's request as reasonable.

21.5.7 Customer Programs and Business Services

SDG&E's TY 2024 forecast for Customer Programs and Business Services is $6,907,000.[3024] The Customer Programs department consists of the Customer Assistance Programs (CAP) and specific activities that are funded through the GRC rather than the Low Income proceeding.[3025] Business Services consists of various groups that perform functions for, and provided services to, business customers.[3026]

TURN recommends the Commission adopt a 2024 forecast of $4.634 million for Customer Programs and Business Services.[3027] TURN again cherry-picks its use of a five-year average, and again, an incorrect use of the average according to the RCP, to arrive at this proposed reduction. TURN's use of a five-year average is based on its erroneous assumption that that "SDG&E has been performing these activities already[3028] As noted above, first, TURN's use of a five-year average and its underlying assumptions are inappropriate and inconsistent with direction in the RCP.

Second, TURN fails to consider the incremental needs of SDG&E to carry out various Commission mandates when it proposed reductions in funding for the Customer Programs and

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3021 D.21-07-010 at OP 6 and D.16-01-045 at 3-4; *See also,* Ex. SDG&E-219 (Baule) at 5.

3022 Ex. SDG&E-219 (Baule) at 6.

3023 *Id*.

3024 Ex. SDG&E-19-E (Baule) at 8.

3025 *Id*. at 26.

3026 *Id*.

3027 Ex. TURN-09-2R (Cheng) at 35.

3028 *Id*.

Business Services. As noted above, the Customer Programs department consists of the CAP and specific activities that are funded through the GRC, rather than the Low Income proceeding.[3029] This includes dollars requested for Natural Gas Appliance Testing (NGAT), which is required as part of the CPUC-approved Energy Savings Assistance (ESA) program and addresses the safety risks posed from installing air infiltration measures through energy efficiency improvements.[3030] The Medical Baseline Program (MBL), implemented pursuant to the California Public Utilities (P.U.) Code, requires energy utilities to provide customers with specified medical conditions or who rely on life-support equipment an additional quantity of electricity and gas at the lowest, or "baseline," rate to meet their medical needs.[3031] Additionally, the Commission in D.20-06-003, and Resolution (Res.) E-5169, required the IOUs to implement improvements to the MBL program, including: enabling e-signatures for qualified medical professionals on applications, outreach programs, working with the medical community and county public health office, and furthering outreach via Community Based Organizations to promote MBL.[3032] TURN's baseless reductions ignore SDG&E's need to continue to expand its marketing and outreach efforts to meet the increasing legislative and regulatory requirements around customer assistance programs.

Lastly, TURN's argument that "SDG&E has already been performing these activities" does not justify automatically reducing the incremental expenses associated with these activities, nor prove that the volume of work is reducing, or the level of complexity and analysis required to support the activities has remained the same. Rather, SDG&E has shown that its incremental funding request is needed to improve and fund incremental work and business operations and to provide dedicated resources to meet the ever-expanding needs of customers.[3033]

As such, SDG&E urges the Commission adopt SDG&E's request as reasonable.

21.5.8 Marketing, Communications, Research and Analytics

SDG&E requests $13.023 million for TY 2024 costs associated with Marketing, Communications, Research, and Analytics, a $552,000 increase over BY 2021.[3034] The Marketing,

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3029 Ex. SDG&E-19-E (Baule) at 26.

3030 Ex. SDG&E-219 (Baule) at 9.

3031 Ex. SDG&E-19-E (Baule) at 27. *See also* P.U. Code Section 739(c)(1).

3032 D.20-06-003 at 76 – 77 and 152 – 153; *see also* Res. E-5169 at 3. SDG&E requested $297,000 to support Res. E-5169. *See* Ex. SDG&E-19-E (Baule) at 33 and Ex. SDG&E-219 (Baule) at 8.

3033 Ex. SDG&E-219 (Baule) at 8.

3034 Ex. SDG&E-19-E (Baule) at 12.

Communications, Research and Analytics group is responsible for developing strategic integrated marketing and communications plans and determining communication tactics across various channels and platforms such as mass media, digital media, social media, and direct customer outreach, among others.[3035]

UCAN objects to this request and recommends a disallowance of $120,000 for TY 2024 estimated expenses for Smart Meter 2.0 customer outreach and education as part of the whole disallowance for all Smart Meter 2.0 O&M and capital expenditures.[3036] However, UCAN provides no justification for this proposed disallowance. As noted, for the implementation of Smart Meter 2.0, communications, SDG&E proposes that both email and direct mail will be sent to customers in targeted zip codes in advance of installation.[3037] SDG&E will also develop bilingual collateral, FAQs, social media posts, bill package messaging, etc.[3038] Thus, SDG&E argues that customer outreach and education, which is essential to the Smart Meter 2.0 project, should be approved and urges the Commission disregard UCAN's proposed, and unsubstantiated, disallowance.

22. Supply Management & Logistics and Supplier Diversity

22.1 Supply Management, Logistics and Supplier Diversity (SoCalGas)

SoCalGas requests the Commission to adopt its forecasts of $35.489 million for O&M and $17.697 million, $10.364 million, and $1.703 million, for 2022, 2023, and 2024, respectively, for capital, to support SoCalGas's Supply Management, Logistics and Supplier Diversity group (Supply Management) with the purchase, distribution, and inventory of materials, supplies, and services. This represents a $1.056 million increase over the 2021 Base Year adjusted recorded costs in this area. All costs use a Base Year forecast methodology. Base-year forecasting method was selected as the 2021 recorded costs that most accurately reflect the expected operating expenses for Supply Management.

3035 *Id*. at 12 – 13.

3036 *See generally* Ex. UCAN-01-E (Woychik) at 13 – 14.

3037 Ex. SDG&E-19-E (Baule) at 23.

3038 *Id*.

SUPPLY MGT, LOGISTICS, & SUPPLIER DIVERSITY (In 2021 $)	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services	30,116	31,022	906
Total Shared Services (Incurred)	4,317	4,467	150
Total O&M	**34,433**	**35,489**	**1,056**

SUPPLY MGT, LOGISTICS, & SUPPLIER DIVERSITY (In 2021 $)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated TY 2024 (000s)
Total Capital	**17,697**	**10,364**	**1,703**

Supply Management is responsible for identifying, purchasing, and managing the procurement contracts of products and services needed to run SoCalGas's businesses. The departments deliver value to the businesses (and ratepayers) by leveraging market and spend intelligence to meet their purchasing needs, developing and executing strategies to reduce costs, and managing contract performance. These goods and services include gas distribution and transmission equipment, such as piping, meters, fleet vehicles and equipment, construction services, engineering services, environmental services, and other professional and technical services. The group also tracks and promotes diversity in its suppliers in furtherance of Commission and Company goals.[3039]

No party opposed SoCalGas's Supply Management requests in testimony. Only Community Legal Services (CLS) made suggestions with respect to goals that the Supplier Diversity program should focus on.

The following activities are included in SoCalGas's Supply Management request:

Non-Shared Services

- Vice President Supply Chain & Operations Support Services (VP SC&SS)
- Inventory & Logistics
- Procurement / Category Management
- Supplier Diversity
- Document Management and Office Services
- Supply Chain & Support Services PMO

[3039] Ex. SCG-17-E (Chow) at 2:6-3:2.

Shared Services

- Application: Procurement / Category Management Portfolio.

Capital

- DBE Spend Reporting Enhancements
- Supply Management & Logistics Modernization
- Enterprise Source to Pay
- Supplier Risk Management

22.1.1 SoCalGas's Supply Management Activities

22.1.1.1 Shared Services

The VP SC&SS is responsible for the day-to-day executive oversight of all activities relating to supply management, logistics, supplier diversity, fleet, and facility functions at SoCalGas. The VP is responsible for overseeing the planning, development, and implementation of the Company's key procurement activities and functions, processes, and policies as they relate to safety, supply chain sustainability, reliability, and compliance for all business units.[3040]

There are two major functions that fall under Inventory & Logistics: Inventory Warehouse & Logistics, and Fabrication & Tool Repair. Inventory Warehouse & Logistics maintains inventory levels to support day-to-day field operations through timely and accurate ordering, receiving, and issuing of materials and supplies, and through periodic physical inventory counts. The group also provides daily loading and unloading of materials in support of crews, emergency response for service restoration, coordination of ordering and repairing tools, coordination of shipping hazardous waste, and management of surplus and removed materials. The cost drivers result from increases in Company projects, support system expansion, compliance with regulatory and environmental requirements, outside pressures (such as supply chain volatility), rising prices of raw materials, and increased costs from labor markets from contractors and suppliers. Fabrication and Tool Repair is focused on a facility that is a small manufacturing facility that makes and repairs the unique types of tools and equipment used by SoCalGas operation crews. The group helps meet the demand of gas distribution tools, fabrications, and repairs, which would otherwise need to be outsourced. Cost drivers for Fabrication and Tool Repair are also from rising

[3040] *Id.* at 6:6-7:9.

labor costs and shortages/supply chain disruptions of materials, and upward pressures due to the increase of Company projects to improve maturing infrastructure.[3041]

The Procurement/Category Management group includes portfolio managers, category managers, procurement project managers, category advisors, procurement project advisors, category analysts, contracting agents, and buyers who: (1) develop and execute supply management strategies that support operating requirements, supplier diversity, and supply chain sustainability; (2) develop and execute strategies to reduce the purchase price of an asset plus the cost of operation; and (3) collaborate with various departments to leverage new methodologies and technologies. Drivers for increase costs include the growing needs of the Company based on new project and sourcing demands in addition to supporting the design and implementation of a new supplier relationship management function and program.[3042]

The Supplier Diversity group conducts outreach efforts in under-represented areas with woman, minority, disabled veteran, lesbian, gay, bi-sexual and transgender (WMDVLGBT) owned business enterprises and facilitates compliance with GO 156 that sets a spending goal for regulated utilities of 22% with WMDVLGBT and persons with disabilities-owned business enterprises (diverse businesses). Supporting diverse businesses is not only a CPUC mandate, but aligns with SoCalGas's corporate principles commitment to the communities we serve.[3043] As recognized by CLS in its intervenor testimony, "[CLS] acknowledges SoCalGas's efforts and accomplishments in their Supplier Diversity Program over the years."[3044] Supplier Diversity not only facilitates SoCalGas's compliance with GO 156, but the Company has surpassed the CPUC goal for the past 29 years, and has more than doubled the CPUC target by reaching over 40% for the last 10 years. Supplier Diversity continues to expand its outreach in under-represented areas for diverse businesses.[3045]

Document Management and Office Services are services include courier and mail services, document archiving, travel agency costs, and other services that are managed by SDG&E

3041 *Id*. at 8:6-10:4.

3042 *Id.* at 11:13-12:9.

3043 *Id.* at 13:10-14:26.

3044 Ex. CLS-01 (Gondai) at 12:18-19.

3045 *See* Ex. SCG-17-E (Chow) at 14:21-15:12 (*citing* SoCalGas's Supplier Diversity 2021 Annual Report and 2022 Annual Plan, *available at:* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-andoutreach/documents/bco/go-156-procurement-plans/2021/socalgas-supplier-diversity_2021-annualreport_2022-annual-plan.pdf.)

internally but provided by a third-party contractor and directly charged to SoCalGas. SoCalGas is not requesting any increase in its forecast, although increased fuel costs have put upward pressure on these costs.[3046]

The Supply Chain & Support Services PMO provides support services such as policy development and compliance, online procurement, supply chain sustainability, analytics, reporting, and project management to optimize performance of the Supply Management, Logistics, Supplier Diversity, Fleet, and Facilities departments. It provides data reporting, analytics, and modeling for these departments as well. The team drives continuous improvement through system upgrades and implementation of new applications. It also provides oversight for specific enterprise-wide initiatives such as sustainability and risk management. The group forecasts an increase of $160,000 for the test year for the cost of three additional FTEs with data analytic skills who will fulfill the increased need for data reporting, analytics, and modeling for the Supply Chain & Support Services organization.[3047]

22.1.1.2 Shared Services

The following Shared Services are activities performed by SoCalGas Supply Management. SoCalGas allocates and bills incurred costs to the entity or entities receiving those services. The allocation for Shared Services is addressed in Section 35.

SoCalGas includes one shared service for Supply Management in this GRC: Procurement / Category Management Portfolio. The group is composed of a team of portfolio managers, category managers, procurement project managers, category advisors, procurement project advisors, category analysts, contracting agents, and buyers who: (1) develop and execute supply management strategies that support operating requirements, supplier diversity, and supply chain sustainability; (2) develop and execute strategies to reduce the purchase price of an asset plus the cost of operation; and (3) collaborate with various departments to leverage new methodologies and technologies. The group works to strategically develop and execute plans and sourcing/contracting activities to meet business requirements by aligning resources with purchasing requirements, while leveraging market and spend intelligence to maximize value for the Company (and therefore ratepayers). The group supports both SoCalGas and SDG&E procurement activities. SoCalGas

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3046 *Id.* at 17:10-17.

3047 *Id.* at 18:20-13.

forecasts an increase of $150,000 over the test year to support increasing projects and procurement related activities.[3048]

22.1.1.3 Capital Projects

Four IT projects are proposed in the Application that support SoCalGas's Supply Management, Logistics, and Supplier Diversity activities: DBE Spend Reporting Enhancements; Supply Management & Logistics Modernization; Enterprise Source to Pay (ES2P); and Supplier Management System. The costs of these projects are discussed in Section 27.

The DBE Spend Reporting Enhancements project provides structure improvements and automation to allow for more consistent and repeatable efforts concerning DBE reporting and audits. The project will provide more secure automated data reconciliation to prevent errors compared to the current antiquated manual systems that have many cyber security vulnerabilities.[3049]

Supply Management and Logistics Modernization is a three-phased project[3050] that will update IT to handle significant upward pressures from new and existing capital initiatives, retiring workforce, increasing inventory levels, and an expanding scope of work for Supply Management to include Transmission, Storage, and Major Projects. These optimization and process improvements will lead to more accurate levels of inventory for the right material traceability, and facilitate SOX compliance.[3051]

ES2P which will move the entire procurement business process under a single, integrated, SAP Ariba ecosystem to maximize efficiency, compliance, and sourcing effectiveness. The project implementation consists of five SAP modules, which will enable requisitions, sourcing management, supplier registration, contract management, e-procurement, and invoice management. The SAP suite will replace six different systems from six different providers, significantly reducing technical debt and extensive custom integrations, all while streamlining support and maintaining a consistent user interface. This change will allow the Company to better maintain the system and continue to improve as new features are introduced.[3052]

[3048] *Id*. at 21:5-23.

[3049] *Id.* at 23:7-17.

[3050] *Id*. at 24:1-28.

[3051] *Id.*

[3052] *Id.* at 24:30-25:15.

Finally, the Supplier Management System (SxM) is a collection of supplier-centered applications that bridge the gaps between and beyond the core source-to-pay applications. The supplier management suite includes applications for improved supplier management, including supplier information, risk, compliance, and performance monitoring.[3053]

22.1.2 Response to Other Party Recommendations

Only two parties, Cal Advocates and CLS, provided any testimony specifically concerning SoCalGas's requests. Cal Advocates stated that it did not oppose any part of SoCalGas's request.[3054] CLS did not propose any reductions to SoCalGas's revenue request, but instead, CLS recommends certain new activities and tracking for SoCalGas with respect to just the Supplier Diversity group Non-Shared Services area.

CLS recommends that SoCalGas utilize their authorized Supplier Diversity resources by continuing to focus on technical assistance, supplier outreach, and capacity building.[3055] SoCalGas agrees with the importance of this, however, SoCalGas already focuses on these areas by: (1) conducting focus sessions with former attendees from technical assistance programs (and incorporating that feedback); (2) hosting Meet the Primes and Business Showcases where suppliers are allowed to provide their capabilities to SoCalGas project managers and prime suppliers; and (3) partnering with key Community Based Organizations (CBOs) to identify diverse suppliers, including through an extensive CBO Forum at the beginning of each year.[3056]

CLS also recommends setting goals to increase the total number (and not just percent) of diverse vendors, the number of small DBEs, and the amount of spending with small DBEs (CommLegal recommends that SoCalGas set a goal to increase their number of vendors by 2.5% per year – from 578 in 2022 to 592 by 2023 and 607 by 2024).[3057] Instead of increasing the raw number of DBEs that SoCalGas does business with, since 2021 SoCalGas has focused on increasing the use of the groups with lowest level of engagement (African American, Native American, disabled veteran, and LGBT-owned businesses), and has shown significant growth in

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3053 *Id.* at 25:17-24.

3054 Ex. CA-11 (Waterworth) at 8.

3055 Ex. CLS-01 (Gondai) at 13:10-17.

3056 Ex. SCG-217 (Chow) at 4:4-23.

3057 Ex. CLS-01 (Gondai) at 15:5-16:15.

these areas year over year.[3058] Although SoCalGas supports increasing the numbers of small DBEs, SoCalGas intends to focus on narrowing the gap with higher-performing categories, all while maintaining its exceptional performance in exceeding the DBE requirements set by the Commission.

CLS recommends SoCalGas make sure adequate training is provided for SoCalGas supplier diversity staff and that it share knowledge gained with SDG&E.[3059] Again, SoCalGas generally agrees with CLS's recommendation regarding training and sharing knowledge. SoCalGas is identifying specialized training programs for its supplier diversity staff, and SoCalGas currently collaborates closely with SDG&E, with both companies sharing best practices.

22.2 Supply Management, Logistics and Supplier Diversity (SDG&E)

SDG&E requests the Commission to adopt its forecasts of $20.719 million for O&M to support SDG&E's Supply Management, Logistics and Supplier Diversity (Supply Management) group with the purchase, distribution, and inventory of materials, supplies, and services. This represents a $0.903 million increase over the 2021 Base Year adjusted recorded costs in this area. All costs use a Base Year forecast methodology. Base-year forecasting method was selected as the 2021 recorded costs that most accurately reflect the expected operating expenses for Supply Management.

2021 Adjusted Recorded vs Test Year 2024 Summary of Total Costs

SUPPLY MGT, LOGISTICS, & SUPPLIER DIVERSITY (In 2021 $)	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services	14,290	15,569	1,279
Total Shared Services (Incurred)	5,526	5,150	-376
Total O&M	**19,816**	**20,719**	**903**

Similar to SoCalGas, the SDG&E Supply Management, Logistics, & Supplier Diversity department (Supply Management) is responsible for identifying, purchasing, and managing the procurement contracts of products and services needed to run SDG&E's business.[3060] Supply

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[3058] Ex. CLS-03 (Excerpts from Sempra Response to DR_CLS-010, Q01-Q06) at 14 (showing 21%, 49%, and 18% for African American spend in 2020, 2021, and 2022 respectively, and 42%, 23%, and 16% for Native American and LGBT spend for 2020, 2021, and 2022, respectively; Ex. SCG-217 (Chow) at 5.

[3059] Ex. CLS-01 (Gondai) at 18:22-19:2.

[3060] Ex. SDG&E-20 (Castillo) at iii.

Management delivers value to its internal business clients and ratepayers by leveraging technology and tools to assess market and spend intelligence to meeting purchasing needs while reducing costs and managing contract performance.[3061] SDG&E's Supplier Diversity program advocates for diverse businesses to encourage participation in contracting opportunities with SDG&E.[3062] Notable factors that influence costs in Supply Management are increasing company-wide capital spending, increasing number of suppliers, increasing inventory of products, and incorporating sustainability within the supply chain, complying with CPUC DBE goals.[3063]

No party opposed SDG&E's Supply Management requests in testimony. Cal Advocates stated that it does not oppose SDG&E's request.[3064] CLS suggested ways that SDG&E could "strengthen" its Supplier Diversity program.[3065]

The following activities are included in SDG&E's Supply Management request:

Non-Shared Services

- Procurement / Category Management
- Strategy and Supply Chain Sustainability
- Logistics & Inventory Management
- Supplier Diversity
- Office Services

Shared Services

- Procurement / Category Management
- Shared Office Services
- Technology, Intelligence, Policy, & Solutions

22.2.1 SDG&E's Supply Management Activities

22.2.1.1 Non-Shared Services

Similar to SoCalGas, the SDG&E Procurement/Category Management group includes portfolio managers, category managers, procurement project managers, category advisors, procurement project advisors, category analysts, and contracting agents who: (1) develop and

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3061 *Id.*

3062 *Id.*

3063 *Id.*

3064 Ex. CA-11 (Waterworth) at 8.

3065 Ex. CLS-01 (Gondai) at 3.

execute supply management strategies that support operating requirements, supplier diversity, and supply chain sustainability; (2) develop and execute strategies to reduce the purchase price of an asset plus the cost of operation; and (3) collaborate with various departments to leverage new methodologies and technologies for these functions. Drivers for increase of $0.510 million in costs include an additional manager and four advisors to meet the growing needs of SDG&E based on new project and sourcing demands in addition to supporting the design and implementation of a new supplier relationship management function and program.[3066]

The Strategy and Supply Chain Sustainability area is focused on improving broader strategic and sustainability issues relating to supplies procured by SDG&E. Strategic category management addresses evolving supply chain complexities, including long term supply chain strategies, implementation of best practices, reducing risks and costs, and mitigating disruptions related to constrained material and labor markets, climate change, and geopolitical issues. The Supply Chain Sustainability program helps align supply management with SDG&E's Sustainability Strategy, integrating social responsibility, environmental stewardship, financial, and governance aspects into decision-making throughout the supply chain to improve long-term performance and reduce risk. The program has developed an actionable roadmap and work with the Company's suppliers and partners on continuous and sustainable improvement. Specifically, the program performs outreach, education, and shared best practices for sustainability with suppliers, conducts annual sustainability assessments with suppliers (and to understand the Company's Scope 3 GHG emissions); engages consultants to benchmark SDG&E's Supply Chain Sustainability Program; and pursues alignment between internal and external stakeholders to holistically address sustainability factors and refine supply chain risks and opportunities. Increased forecasted costs of $0.490 million over the base year are for the hiring of two managers and for additional non-labor costs (including consultant work described above).[3067]

The Logistics & Inventory Management team forecasts, orders, receives, inventories, distributes, and accounts for tools, equipment, and materials needed by SDG&E crews and contractors across eleven storeroom locations and multiple laydown yards. The group also provides daily loading and unloading of materials in support of in-house and contract crews, emergency response for service restoration, job site deliveries of materials, and the management of

[3066] Ex. SDG&E-20 (Castillo) at 6:8-7:2.

[3067] *Id*. at 7:19-9:23.

scrap material, hazardous material and removed-from-service material. The group is requesting an additional $0.195 million for a material scheduler, senior material requirement advisor, and other costs for increasing capital spend and suppliers.[3068]

Similar to SoCalGas, the Supplier Diversity team collaborates with internal stakeholders, suppliers, and community organizations to advocate for diversity in supply chain opportunities. SDG&E has had success in including diverse business suppliers with 39.1% of total procurement going to diverse business enterprises in 2021. SDG&E is committed to supplier diversity as a core business value and strategy that fosters innovation and cost-effectiveness and supports a supplier base that represents the communities we serve. Supplier Diversity requests an increase of $0.025 million above the 2021 adjusted-recorded cost for increases in company-wide capital projects, supplier contracts, and Supplier Clearing House fees.[3069]

As with SoCalGas, SDG&E's Office Services provides document services such as: operating and maintaining the copy centers and distributed multifunctional copier/scan/printer machines; distributing U.S. Mail, other document/package delivery services; conducting courier services; and facilitating mass mailings. This group manages a third-party service provider for archives and records management, offsite storage of records, retention policy, retention schedules, and data management. Office Services also manages SDG&E's third-party travel services provider that handles business travel reservations and bookings, onsite travel agent services, airline contracts, hotel contracts, and car rental agreements for SDG&E's employees. Additionally, this group manages contracts for onsite food service providers for employee dining services at SDG&E. Officer Services requires $0.059 million above the adjusted base year costs due to a 3.5% increase for mail, copy, print services, shred & offsite records storage, and document management as part of the negotiated service rate escalation.[3070]

22.2.1.2 Shared Services

The following Shared Services are activities performed by SDG&E Supply Management SDG&E allocates and bills incurred costs to the entity or entities receiving those services. The allocation for Shared Services is addressed in Section 35. As discussed above, Procurement / Category Management includes: (1) developing and executing supply management strategies that

[3068] *Id*. at 10:10-20.

[3069] *Id*. at 11:16-12:9.

[3070] *Id*. at 13:5-14:2.

support operating requirements, supplier diversity, and supply chain sustainability; (2) developing and execute strategies to reduce the purchase price of assets; and (3) collaborating with various departments to leverage new methodologies and technologies. The group meets business requirements by aligning resources with purchasing requirements, while leveraging market and spend intelligence to maximize value for the Company (and therefore ratepayers). SDG&E forecasts an increase of $0.355 million over the test year to add three positions to support increasing contracting and sourcing events for multiple categories that involve high risk, high visibility and/or high dollar projects.[3071]

Also discussed above, Office Services manages third-party service contractors that operate and maintain the copy centers and mail rooms, handle archives and records management, provide travel reservation and booking services, and provide onsite food service for employee dining services. SDG&E does not forecast any increase over the test year.

The Technology, Intelligence, Policy, & Solutions (TIPS) team oversees policy and compliance activities, including policy management, procedure development, audit response and data request collections, Sarbanes-Oxley (SOX) testing, and advisory services. The team oversees technology integration, including the Enterprise Source to Pay (ES2P), discussed above and in Section 27, which is replacing six disparate procurement systems with SAP Fieldglass and the SAP Ariba suite of applications.[3072]

22.2.2 Response to Other Party Recommendations

As with SoCalGas, only two parties, Cal Advocates and CLS, provided any testimony specifically concerning SDG&E's requests. Cal Advocates stated that it did not oppose SDG&E's request,[3073] while CLS did not propose any reductions to SDG&E's revenue request, but only proposed ways to "strengthen" SDG&E's Supplier Diversity program.[3074]

CLS first recommends that SDG&E focus on supplier outreach and technical assistance by reinstating the Best in Class (BIC) program, suggesting the decline in diverse spend[3075] is the result

3071 *Id*. at 15:5-21.

3072 *Id.* at 17:9-20.

3073 Ex. CA-11 (Waterworth) at 8.

3074 Ex. CLS-01 (Gondai) at 3:2-4.

3075 Diverse Supplier performance from 2017 to 2021 was: 44.6% (2017), 43.9% (2018), 40.9% (2019), 41.6% (2020), 39.1% (2021).

of the discontinuation of the BIC.[3076] BIC was actually ended in 2020 (following several years of minor decreases) because of COVID restrictions.[3077] Based on the unique needs of SDG&E, the Company refreshed and refined its Supplier Diversity program, providing technical assistance to diverse suppliers, and developing relationships with key stakeholders and suppliers to increase their capacity. This program has contributed to SDG&E's increase in the percentage of supplier diversity spend in 2022.[3078]

As with SoCalGas, CommLegal recommends that SDG&E set a goal to increase their total number of diverse vendors by 2.5% per year.[3079] SDG&E opposes this recommendation. SDG&E has exceeded the CPUC diversity goals for 18 consecutive years, which is a testament to SDG&E's commitment to supplier diversity. In 2022, almost half of SDG&E's diverse spend was with local suppliers in SDG&E's region, many of which are small businesses. Furthermore, SDG&E collaborates with many local organizations whose members are primarily small diverse businesses to find opportunities to integrate them into the supply chain. To more strictly focus on SDG&E's count of small diverse suppliers would divert focus from the program as a whole that benefits all diverse suppliers, especially tier two suppliers.[3080]

CLS also recommends that SDG&E set spending goals for prime suppliers with subcontractors.[3081] SDG&E does not set separate internal aspirational goals for subcontractor spend. However, it appears CLS did not understand that SDG&E *does* set diverse subcontracting and aspirational goals for its prime suppliers.[3082]

CLS recommends that SDG&E should increase training for SDG&E supplier diversity staff.[3083] SDG&E agrees in principle to provide more training to supplier diversity staff to continue to develop skillsets to grow SDG&E's supplier diversity program. SDG&E's efforts

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3076 Ex. CLS-01 (Gondai) at 5:4-6:6.

3077 Ex. SDG&E-220 (Castillo), Appendix B at 18 (Response to DR CLS-006).

3078 Ex. SDG&E-220 (Castillo) at 3:14-4:4.

3079 Ex. CLS-01 (Gondai) at 8:8-9.

3080 Ex. SDG&E-220 (Castillo) at 4:8-17.

3081 Ex. CLS-01 (Gondai) at 9:14-15.

3082 Ex. SDG&E-220 (Castillo) at 4:21-26.

3083 Ex. CLS-01 (Gondai) at 11:9-10

have resulted in an increase in spend from 2021 to 2022.[3084] However, SDG&E disagrees that "The lack of appropriate training… may factor in the drop in [diversity spending]".[3085]

22.3 Common Issues for SoCalGas and SDG&E

Finally, CLS asks that with respect to its other recommendations, SoCalGas and SDG&E report on their efforts in the next GRC.[3086] SoCalGas and SDG&E oppose this proposal. SoCalGas and SDG&E already provide substantial reporting on diverse supplier spending and are required to do so pursuant to the CPUC requirements in General Order 156. SoCalGas and SDG&E already annually file a Supplier Diversity Report and Annual Plan with the CPUC, highlighting results and detailed descriptions on program activities. SoCalGas and SDG&E participate in the General Order 156 En Banc where it resents Supplier Diversity results and activities to the CPUC and state legislators.[3087] Furthermore, should intervenors such as CLS desire data on SoCalGas or SDG&E's progress on the metrics CLS identifies, they can simply issue data requests seeking such information. Creating a new reporting obligation will complicate and burden the GRC process unnecessarily.

23. SDG&E CLEAN TRANSPORTATION

SDG&E's Clean Transportation department enables the critical adoption of zero emission vehicles (ZEVs) throughout SDG&E's service territory, consistent with California directives, by creating and implementing programs and providing expertise to internal and external stakeholders.[3088] To support that goal, SDG&E requests $4,831,000 in O&M and $7,580,000 in capital.[3089] This funding is outside the scope of SDG&Es EV infrastructure programs funded through incremental Commission decisions.

Below is the funding sought relative to 2021:

O&M:

- $906,000 in non-labor to cover ongoing O&M for the 2016 Vehicle Grid Integration Pilot Program approved in D.16-01-045;
- $250,000 to fund a broad-based EV awareness campaign;

3084 Ex. SDG&E-220 (Castillo) at 5:12-16

3085 Ex. CLS-01 (Gondai) at 12:2-4

3086 *Id*. at 12:9-12.

3087 Ex. SCG-217 (Chow) at 5:22-6:7; Ex. SDG&E-220 (Castillo) at 5:19-22.

3088 Ex. SDG&E-21 (Reynolds/Faretta) at 2.

3089 Ex. SDG&E-221 (Faretta) at 2, 5.

- $250,000 in labor for two new TE positions that will support the proposed TE Advisory and Consultation Services function to advice customers; and

- $125,000 in labor for a new data scientist position beginning in 2023 to support SDG&E's CPUC-mandated EV data reporting and regional ZEV planning.[3090]

Capital:

- Establish a two-way balancing account—the Electric Vehicle Infrastructure Rule Balancing Account (EVIBA)—with a funding level of $7.58 million[3091] to support the new Rule 45: EV Infrastructure Rule, which is an optional new service rule for separately-metered EV charging sites, with the exception of single-family homes, established by the Commission in Resolution 5167-E, where SDG&E will install, own, and rate base the electrical distribution infrastructure and associated construction between the distribution system and utility meter.[3092]

The Clean Transportation Information Technology (IT) Product Team forecast of 2022, 2023, and 2024 of $1,125,000, $1,459,000, and $1,612,000, respectively, also supports SDG&E's clean transportation efforts. These IT Product Team costs are requested in the Information Technology testimony chapter.[3093]

SDG&E proposes closing the following regulatory accounts and transferring the under-collected balances to the Electric Distribution Fixed Cost Account (EDFCA) for inclusion in rates:

- Vehicle Grid Integration Balancing Account—a one-way interest-bearing balancing account that records the authorized revenue requirement and actual incremental costs from implementing the 2016 Vehicle Grid Integration Pilot Program as approved by D.16-01-045, which was marketed as the Power Your Drive Pilot (PYD Pilot);

- Vehicle Grid Integration Memorandum Account—an interest-bearing memorandum account that tracks long-term O&M expenses and participation payments for participating in the PYD Pilot;

- Clean Transportation Priority Balancing Account—a one-way balancing account to record SDG&E's authorized revenue requirement and costs associated with the SB 350 Priority Review Projects (PRPs) approved in D.18-01-024 and the Residential Charging Program approved in D.18-05-040;

- Working Group Facilitator Memorandum Account—an interest-bearing account to record costs associated with hiring a facilitator to organize the interagency Vehicle-Grid Integration Working Group (VGI Working Group);

3090 Ex. SDG&E-21 (Reynolds/Faretta) at 8-10.

3091 Ex. SDG&E-221 (Faretta) at 5.

3092 Ex. SDG&E-21 (Reynolds/Faretta) at 11.

3093 *Id*. at 12 (*citing* Ex. SDG&E-25).

- Electric Vehicle Infrastructure Memo Account (EVIMA)—an interest-bearing memorandum account that tracks the incremental costs associated with Rule 45: EV Infrastructure; and the
- High Power Interim Rate Waiver Balancing Account (HPWBA)—a two-way, interest-bearing balancing account that tracks under-collection or over-collection associated with SDG&E's Interim Rate Waiver.

No party opposes SDG&E's O&M proposals.[3094] On the capital request, SDG&E accepts Cal Advocates' position to adopt the EVIBA two-way balancing account with a $7.58 million forecast.[3095] Cal Advocates supported the creation of a two-way EVIBA balancing account, but opposed SDG&E's originally requested $20 million funding level.[3096] Although Cal Advocates conflates SDG&E's initial direct capital cost request of $20 million with the revenue requirement previously forecasted in Advice Letter 3908-E, which established the EVIMA for 2022 and 2023, SDG&E recognizes that the program's nascency makes it difficult to accurately project how many sites will be constructed each year.

SDG&E thus finds it reasonable to accept Cal Advocates' EVIBA proposal to establish the EVIBA two-way balancing account with a $7.58 million funding level. Most importantly, given the difficulty in projecting the results from a brand-new Electric Vehicle (EV) Infrastructure Rule, SDG&E agrees with Cal Advocates that the EVIBA be created as a two-way balancing account, ensuring that SDG&E can receive the funding necessary to comply with Resolution E-5167 and help achieve state emission goals.[3097]

FEA seemingly does not oppose SDG&E's request to establish the EVIBA.[3098] TURN takes issue with all of SDG&E's two-balancing account requests, including the EVIBA, that would provide for any undercollected balance to be "recovered through [the] utility's annual regulatory accounts update advice letter."[3099] It instead recommends that an application be required to recover any undercollection.[3100]

3094 Ex. SDG&E-221 (Faretta) at 2.

3095 *Id.* at 6.

3096 *Id.* at 4 (*citing* Ex. CA-11 (Waterworth) at 9 and 11).

3097 *Id.* at 5.

3098 Ex. FEA-01 (Smith) at 48.

3099 Ex. TURN-15 (Finkelstein) at 24.

3100 *Id.* at 25.

Yet the Commission often uses two-way balancing accounts where costs are difficult to predict and subject to variables beyond the applicant's control, such as with a relatively new program.[3101] And providing for recovery through an advice letter "does not weaken the [Commission's] ability to scrutinize and review the recorded balances in the respective account(s)."[3102] But requiring an application would require significantly more resources from the Commission and parties in situations, such as here, where forecasting the use of this program is exceedingly difficult since it is new and hard to predict.[3103]

UCAN contends that 11 IT assets that will be outmoded, obsolete, and stranded within this GRC period—including 00903H Clean Transportation Product Team 2023-2024.[3104] But that Clean Transportation IT Product Team designs and deploys new software applications to support its business activities and the implementation of Commission-approved EV Infrastructure programs, including the:

- Customer Relationship Management application used to record data elements and documents that are required for regulatory compliance reports; and
- EV Charging Station Operations application used for ongoing charging station maintenance and service, and the on-campus and fleet charging application.[3105]

These tools and the IT teams that support them are not funded through incremental EV programs. They instead must continue until SDG&E is no longer required to maintain its chargers, implement EV infrastructure programs, provide charging controls for its employees and fleet, or submit compliance reports to the Commission—which SDG&E anticipates to be throughout this GRC cycle.[3106]

No party opposes the closure of the above-listed regulatory accounts and the inclusion of any undercollections in the EDFCA for inclusion in rates, except for the following:

- Cal Advocates opposes closure of the VGIBA;[3107] and

3101 Ex. SDG&E-201 (Folkmann) at BAF-6 (*citing* D.19-09-051 at 155 and 695 (establishing a two-way balancing account for Southern California Gas Company work related to the Storage Integrity Management Program, because the federal regulations driving that program are dynamic and subject to change)).

3102 Ex. SDG&E-243 (Kupfersmid) at 3.

3103 *See* SDG&E-221 (Faretta) at 7.

3104 Ex. UCAN-01-E (Woychik) at 280-281.

3105 Ex. SDG&E-21 (Reynolds/Faretta) at 12; Ex. SDG&E-221 (Faretta) at 7.

3106 Ex. SDG&E-221 (Faretta) at 8.

3107 Ex. CA-11 (Waterworth) at 14.

- FEA opposes closure of the EVIMA.[3108]

Cal Advocates opposes closure of the VGIBA based upon its belief that SDG&E is now seeking to recover $76.5 million as opposed to the authorized $45 million budget.[3109] But Cal Advocates' desire for the VGIBA to remain open is based upon Cal Advocates conflating the total VGI revenue requirement of $76.5 million with the $45 million VGI start up budget authorized in D.16-01-045.[3110] SDG&E only seeks to recover $48.5 million recorded to the VGIBA—consisting of the approved $45 million budget plus the $3.5 million incremental costs attributable to the changes in ADA regulations.[3111]

Specifically, in January 2017, the California Building Code and the California Green Building Standards Codes (CALGreen) were updated to include new requirements for EV charging stations which, directly or by reference, changed the Americans with Disabilities Act (ADA) requirements for EV charging station installation.[3112] These changes amended the definition of a parking space to provide that spaces with EV charging are not considered parking for the purpose of computing the required number of accessible parking spaces, changing the number of ADA-compliant EV parking spaces required when EV is installed, increasing costs.

FEA seeks to keep the EVIMA open to continue to track Rule 45: EV infrastructure costs.[3113] But the Commission explicitly approved closing this memorandum account once Rule 45: EV Infrastructure costs could be recovered through a GRC proceeding.[3114] It is thus appropriate to establish the EVIBA and close the EVIMA now.

3108 Ex. SDG&E-221 (Faretta) at 2.

3109 Ex. CA-11 (Waterworth) at 14.

3110 *Id.* at 3.

3111 Ex. SDG&E-21 (Reynolds/Faretta) at 15; Ex. SDG&E-221 (Faretta) at 3.

3112 Ex. SDG&E-21 (Reynolds/Faretta) at 14 (*citing* CA.gov, DGS, California Building Standards Code, 2016 Triennial Edition of Title 24, stating ("The 2016 California Building Standards Code (Cal. Code Regs., Title 24) was published July 1, 2016, with an effective date of January 1, 2017."), *available at* https://www.dgs.ca.gov/BSC/Codes).

3113 Ex. FEA-01 (Smith) at 48.

3114 Ex. SDG&E-221 (Faretta) at 6.

24. Fleet Services

24.1 Common Issues (SoCalGas / SDG&E) – Non-Shared Services

SoCalGas's Fleet Services testimonies and workpapers, supported by witness Michael S. Franco,[3115] and SDG&E's Fleet Services testimonies and workpapers, supported by witness Arthur Alvarez,[3116] describe and justify SoCalGas's and SDG&E's respective forecasted activities from 2021-24. The Companies forecast a level of O&M costs in the test year necessary to plan, manage and operate fleets that are both service-ready and in compliance with applicable laws and regulations requiring the retiring of diesel-fuel vehicles and their replacement with alternative-fuel vehicles (AFVs). These forecasts also include the replacement of vehicles that are at the end of their useful lives, the purchase of zero emission vehicles (ZEVs) such as battery electric vehicles (BEVs) and hydrogen fuel cell electric vehicles (HFCEVs) which are RAMP costs to support California Governor Gavin Newsom's Executive Order[3117] mandating that all new passenger trucks and cars sold in the state be emissions-free by 2035, and California Air Resources Board's (CARB) Advanced Clean Truck Regulation[3118] which accelerates a large-scale transition of zero-emission medium and heavy-duty vehicles, and the purchase of incremental vehicles to support the incremental projects and FTEs at both Companies.

SoCalGas is requesting the CPUC to adopt its test year (TY) 2024 Fleet Services O&M forecast of $82.510 million for Non-Shared Services O&M, which consists of $48.333 million in Ownership Costs, $27.912 million in Maintenance Operations, $5.783 million for Fleet Management costs, and $0.482 million for Director.[3119]

SDG&E is requesting the CPUC to adopt its TY 2024 Fleet Services O&M forecast of $52.731 million for Non-Shared Services O&M, which consists of $23.824 million in Ownership

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3115 Ex. SCG-18-R-E (Franco), Ex, SCG-218 (Franco), Ex. SCG-18-WP-R-E (Franco); Ex. SCG-18-WP-C-R-E (Franco Confidential Workpapers).

3116 Ex. SDG&E-22-R-E (Alvarez), Ex. SDG&E-222-E (Alvarez), Ex. SDG&E -22-WP-R-2E (Alvarez), and SDG&E-22-WP-C-R-2E (Alvarez Confidential Workpapers).

3117 Executive Department of State of California, *Ca. Exec. Order N-79-20,* (September 23, 2020), *available at:* https://www.gov.ca.gov/wp-content/uploads/2020/09/9.23.20-EO-N-79-20-Climate.pdf.

3118 California Air Resources Board, *Accelerating Zero-Emission Truck Markets*, (August 20, 2021), *available at:*https://ww2.arb.ca.gov/resources/fact-sheets/advanced-clean-trucks-fact-sheet.

3119 Ex. SCG-18-R-E (Franco) at 1.

Costs, $25.123 million in Maintenance Operations, and $3.784 million for Fleet Management costs.[3120]

SoCalGas's and SDG&E's Rebuttal Testimonies address Fleet Services' cost-related testimonies submitted by Cal Advocates, TURN, and CEJA, whose respective cost positions are compared to SoCalGas's and SDG&E's costs in the tables below:

Table 24.1
SoCalGas Fleet Services

NON-SHARED O&M – Constant 2021 ($000)[3121]			
	Base Year 2021	**Test Year 2024**	**Change vs. SoCalGas TY 2024**
SoCalGas	$56,814	$82.510	$25,696
Cal Advocates	$56,814	$61,303	($21,207)
TURN	$56,814	$67,492	($15,018)
CEJA	$56,814	$63,850	($18,660)

Table 24.2
SDG&E Fleet Services

NON-SHARED O&M – Constant 2021 ($000)[3122]			
	Base Year 2021	**Test Year 2024**	**Change vs. SDG&E TY 2024**
SDG&E	$38,071	$52,731	$14,660
Cal Advocates	$38,071	$39,844	($12,877)
TURN	$38,071	$48,933	($3,798)
CEJA	$38,071	$52,705	($26)

SoCalGas and SDG&E respond to the assertions raised by Cal Advocates, TURN, and CEJA below.

24.1.1 Non-Shared Services O&M

24.1.1.1 Ownership Costs

Both SoCalGas Fleet Services and SDG&E Fleet Services lease finance their respective fleets of vehicles. For each vehicle over the term of each lease, both Companies incur (1) annual repayment of principal (amortization); (2) interest; and (3) license fees and use sales tax, less the amounts recovered from (4) salvage.[3123] Because the Ownership Costs are incurred for individual

[3120] Ex. SDG&E-22-R-E (Alvarez) at 6.

[3121] Ex. SCG-218 (Franco) at 4, Table MF-1.

[3122] Ex. SDG&E-222-E (Alvarez) at 1, Summary of Differences.

[3123] Ex. SCG-18-R-E (Franco) at 15-18; Ex. SDG&E-22-R-E (Alvarez) at 17-20.

vehicles with varying lease terms and payments, both Companies use a zero-based forecasting model, enabling them both to account for the lease payments, interest rates, and license fees over a lease term net of salvage.[3124]

In contesting both Fleet Services' forecasts of Ownership Costs, Cal Advocates asserts that the CPUC should use 2020 actual recorded ownership costs, because the 2020 recorded costs represent the highest recorded years costs.[3125] Both Cal Advocates and TURN argue that both Companies generally spend less than what they forecast.[3126] And both TURN and CEJA take issue with the Companies' plans to pursue pilot programs focusing on HFCEVs.

SoCalGas and SDG&E disagree with using 2020 actual costs to forecast their TY 2024 ownership costs, because this approach is flawed and overly simplistic, and fails to incorporate the *actual* business and operational realities that the Companies must address in 2024 and beyond.

To begin with, the reliance upon 2020 recorded costs implies an artificial level of accuracy that is unjustified and fails to consider real-world contingencies, i.e., the cost of existing leases, the need to replace aging vehicles, compliance with more stringent state and federal regulations, replacements on order, higher prices due to inflation, and increased interest rates and costs of replacement vehicles – primarily as a result of the recent COVID-19 pandemic and its aftermath, etc. – among other things.[3127] The economic anomaly that began in 2020, therefore, makes Fleet Services' 2020 recorded costs a poor and misleading indicator of what is needed in 2024 and beyond. Indeed, as SoCalGas's Mike Franco points out:

> 2020 adjusted-recorded figures do not present a true depiction of SoCalGas' spend as 2020 was the start of the pandemic and not a "normal" business year. As 2020 turned into 2021, the supply chain disruption plagued the automotive industry causing increased cost and demand. SoCalGas attempted to order vehicles to replace its aging fleet; however, the supply chain issues due to the pandemic made it difficult to place new vehicle orders. . . . SoCalGas was able to order 1,521 units starting in 2020. Notwithstanding the increased delays from the supply chain disruptions, most of these vehicles have yet to all be delivered. Therefore, the ownership costs for these vehicles [ordered in 2020] have either just started in 2023 or are scheduled to start towards the end of 2024.[3128]

3124 Ex. SCG-18-R-E (Franco) at 15-18; Ex. SDG&E-22-R-E (Alvarez) at 17-20.

3125 Ex. CA-11 (Waterworth) at 16-17.

3126 *Id.* at 17-18; Ex. TURN-10-R (Jones) at 4.

3127 *See, e.g.,* Ex. CA-11 (Waterworth) at 18-20; Ex. SCG-218 (Franco) at 5-7; Ex. SDG&E-222-E (Alvarez) at 4-10.

3128 Ex. SCG-218 (Franco) at 5.

SoCalGas and SDG&E submit that their forecasts more accurately account for the Ownership Costs that SoCalGas and SDG&E are likely to incur in TY 2024, because their respective forecasts consider the *actual* business context, including *current* and future commitments and obligations, the costs of complying with state and federal requirements (such as CARB's Advanced Clean Truck Regulation and Governor Newsome's Executive Order mandating emission-free trucks and cars), incremental vehicles to meet the needs of incremental FTEs and programs, vehicle replacements, sales tax, increased state fees for vehicle registrations, and salvage value.[3129]

These forecasts also address the Companies' need to procure incremental vehicles in order to enable the Companies' various business units to execute their incremental programs and projects, the justifications for each of which are set forth in the testimonies of their respective witnesses.[3130] While expressing dismay at Fleet Services redirecting them to the testimonies and workpapers of these business unit witnesses, the intervenors failed to identify which incremental projects and programs may have lacked the rationale for incremental vehicles.[3131]

It is unclear why the intervenors have chosen to ignore these realities. For example, Cal Advocates proposed to reduce SDG&E's ownership costs funding level from $23.824 million to $16.660 million to be in alignment with 2020 recorded costs.[3132] This reduction shows how Cal Advocates ducked the reality of present costs, because it missed the fact that SDG&E currently needs a minimum of $18.7 million just to cover <u>existing</u> lease obligations, even if SDG&E were to halt or cancel all vehicle acquisitions during the 2022-2024 GRC forecast period.[3133]

Another example of such lack of understanding is CEJA's criticism of SoCalGas's proposal to procure additional RNGVs to provide critical support for utility operations, insisting that there are BEVs available to meet such needs. SoCalGas crew trucks are built on a 26,000-

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3129 *Id.* at 5-7; Ex. SDG&E-222-E (Alvarez) at 4-10.

3130 Ex. SCG-218 (Franco) at 10; Ex. SCG-18-WP-R (Franco) at 220; Ex. SDG&E-222-E (Alvarez) at 20, 28.

3131 Ex. TURN-10-R (Jones) at 10.

3132 Ex. CA-11 (Waterworth) at 24; *see, also,* Ex. SDG&E-222-E (Alvarez) Appendix H, at AA-H-4 (SDG&E Response to Data Request POA-SDGE-065-LMW_SDGE-22, Question 4); Ex. SDG&E-22-WP-R-2E (Alvarez), sum of 1FS001.001 – Existing Leases & Fees and the portion of 1FS001.002 – Replacement Plan and Salvaged already under purchase order; and Ex. SDG&E-22-R-E (Alvarez) at 27.

3133 Ex. SDG&E-222-E (Alvarez) at 10.

pound vehicle chassis that can support up to three pieces of powered equipment (*e.g.*, backhoes, air compressors, welders, etc.) which are needed out in the field.

> CEJA identifies what they believe are comparable vehicles from similar or same manufacturers, but CEJA fails to understand is that the vehicles in this weight class must also drive to the worksite, generate enough energy to power multiple pieces of power take off equipment for an entire day worth of work, and at the end of the day drive back to the base.[3134]

And yet in spite of the Companies' urgent need to confront present realities and future challenges, the intervenors continue the tired refrain that the Companies are being *"overly aggressive."*[3135]

It is not *"overly aggressive,"* but rather prudent and smart, for the Companies to replace fleet vehicles that are currently being operated beyond their useful lives. SDG&E is seeking to replace 503 OTR (over-the-road) vehicles that are on average 12 years old, with the oldest at almost 24 years old, and 63 non-OTR assets that are on average 22 years old, with the oldest at almost 54 years old.[3136] And approximately 71% of SoCalGas's fleet is eight years or older.[3137] As a result of prior GRCs wherein the Companies were denied their full Fleet Services forecasts – indeed the 2019 GRC decision awarded SoCalGas 2017 actual costs for its Fleet Services – many already aging vehicles could not be replaced with new vehicles.[3138] Indeed, many of the Companies' vehicles are now way past the end of their useful lives, and continued deferral of replacements can neither be prudent, practical, nor cost effective.[3139] Although TURN accuses SDG&E of not providing a *"reasonable economic benefit"*[3140] for replacing aging vehicles, it is commonly and reasonably well known that vehicles operated beyond their useful lives not only become more expensive to maintain, requiring spare parts that are scarcer to obtain, but they also become less reliable and can break down unexpectedly, creating unnecessary risks when such vehicles are needed the most, such as during emergencies.

Furthermore, the Companies plan to replace these aging vehicles with AFVs, ZEVs, BEVs, HFCEVs and RNGVs, in order to further California's climate change goals. Indeed, CEJA

[3134] Ex. SCG-218 (Franco) at 15.

[3135] Ex. CA-11 (Waterworth) at 19, 22, 27, 29; Ex. TURN-10-R (Jones) at 1, 8.

[3136] Ex. SDG&E-222-E (Alvarez) at 17; Ex. SDG&E-22-WP-R-2E (Alvarez) at 58-63.

[3137] Ex. SCG-18-R-E (Franco) at 2, Table MF-2.

[3138] Ex. SCG-218 (Franco) at 8.

[3139] *Id.* at 8-9.

[3140] Ex. TURN-10-R (Jones) at 8-9.

criticizes SoCalGas for not making a *"sincere"* effort at transitioning to ZEVs, while ignoring how the Companies have already started down this path; such as, for example, how SoCalGas already has 50 HFCEVs and 67 hybrid-electric vehicles in its fleet.[3141] Plus *"SoCalGas is in the process of installing more than 240 electric vehicle chargers this year at nine company locations and plans to have installed by 2025 over 1,500 EV chargers at its operating bases."*[3142] SoCalGas has even taken the initiative of collaborating with Ford Motor Company in developing an F-500 Super Duty HFCEV truck for a demonstration project aimed at reducing commercial fleet emissions.[3143] Reducing the funding for the Companies' fleet vehicle ownership costs, would drastically limit, if not eliminate the Companies' ability to replace aging, petroleum-fueled vehicles with these ZEVs and AFVs.[3144] This further demonstrates why Cal Advocates' and TURN's insistence on clinging to the past cannot be the foundation for forecasting Fleet Services costs in TY 2024 and beyond.

CEJA recommends deducting from SoCalGas's ownership costs $12.78 million for the cost of acquiring RNGVs, arguing that SoCalGas is not sincerely exploring BEVs as the CPUC directed.[3145] *"The Commission should find that SoCalGas has not 'sincerely' explored 'what portions of its fleet could transition either to battery electric or hybrid electric vehicles'…"*[3146] SoCal Gas disagrees with this assessment. RNGVs are one of the mitigation measures driven by the 2021 RAMP Reports, given that the use of RNGVs is one way for SoCalGas to decarbonize its fleet and reduce GHGs.[3147] Additionally, SoCalGas ordered 77% BEV and hybrid electric vehicles for the utilities compact truck category needs, further proving that SoCalGas has sincerely explored what portions of its fleet could transition to either battery electric or hybrid electric vehicles as the Commission directed in D.19-09-051. In total, SoCalGas has ordered 21 Ford E-Transit connect vans, 85 hybrid Ram pickups and 184 Chevy Silverado EVs. As the supply chain issues subside, SoCalGas plans to continue to purchase both battery electric, hybrid and hydrogen fuel cell electric vehicles for its fleet where applicable.[3148] In the spirit of D.19-09-051, SoCalGas

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3141 Ex. SCG-218 (Franco) at 13.

3142 *Id.* at 11.

3143 *Id.* at 16.

3144 Ex. SDG&E-222-E (Alvarez) at 21-23; Ex. SCG-218 (Franco) at 8.

3145 D.19-09-051 at 398.

3146 Ex. CEJA-01 (Vespa, Gersen, Saadat, Barker) at 59.

3147 Ex. SCG-18-R-E (Franco) at 6-9.

3148 Ex. SCG-218 (Franco) at 13.

is exploring an option to pilot an EV powered service body conversion of a Ford E-Transit cutaway van to compare it to existing service body trucks that today operate on unleaded fuel or RNG.[3149] Further, as BEVs and HFCEVs that can meet SoCalGas's medium and heavy duty needs start coming to market, then SoCalGas will accelerate its transition to such vehicles in support of its climate commitment.[3150]

TURN and CEJA take the further step of specifically criticizing the Companies' plan to procure HFCEVs and study their effectiveness in pilot programs, saying that it would *"unreasonably add to the cost of vehicle acquisition,"*[3151] and that the *"acquisition of hydrogen passenger vehicles at ratepayer expense is improper."*[3152] TURN further states, without evidence, that acquiring HFCEVs is an *"unjustified use of ratepayer funds when alternative zero emission vehicles options, such as electric vehicles, are widely available,"*[3153] and CEJA concurs, also without evidence, that *"[m]ultiple independent analyses have concluded that passenger vehicles are a poor application for scarce and expensive hydrogen, and that battery electric technology is best positioned to decarbonize the vast majority of road-transport."*[3154] Such criticism only shows how poorly the intervenors understand the ZEV and AFV marketplace, and how HFCEVs can better meet specific utility needs, compared to BEVs.

To begin with, HFCEVs are ZEVs just like BEVs; they have zero tailpipe emissions, and the state of California supports HFCEVs as much as BEVs to meet its climate change goals:

> We are technology neutral and actively embrace and support all viable pathways to zero emissions through policymaking, funding, and other state decisions/actions. This includes but is not limited to new and used battery-electric, hydrogen fuel-cell electric, and directly connected electric systems, such as catenary bus lines, and electrified rail including high-speed rail, across all vehicle sizes and classes, and connections to zero-emission transit or other mobility options.[3155]

3149 *Id.* at 16.

3150 *Id.* at 6; *see also* Southern California Gas Company, *ASPIRE 2045 Sustainability and Climate Commitment to Net Zero*, (March 23, 2021), *available at:* https://www.socalgas.com/sites/default/files/2021-03/SoCalGas_Climate_Commitment.pdf.

3151 Ex. TURN-10-R (Jones) at 1, 8-9.

3152 Ex. CEJA-01 (Vespa, Gersen, Saadat & Barker) at 60.

3153 Ex. TURN-10-R (Jones) at 15.

3154 Ex. CEJA-01 (Vespa, Gersen, Saadat & Barker) at 59.

3155 California Governor's Office of Business and Economic Development, *California Zero-Emission Vehicle Market Development Strategy*, (February 2021), at 12, *available at*: https://business.ca.gov/wp-content/uploads/2021/02/ZEV_Strategy_Feb2021.pdf , as quoted in Ex. SCG-218 (Franco) at 11.

Secondly, HFCEVs take a few minutes to refuel, while BEVs can take up to several hours to recharge.[3156] This particular quality is critical to a utility *"to protect customers, employees, and the public during emergency events such as Public Safety Power Shutoff (PSPS) events, disaster support, or mutual assistance situations,"*[3157] when time is of the essence. Waiting for a BEV to recharge during an emergency – especially if the emergency is a power blackout – would not only exacerbate matters, but it would also be a prime example of an *"unjustified use of ratepayer funds." "During such events, there may not be sufficient time or power available to charge BEVs."*[3158]

Thirdly, HFCEVs are also one of SoCalGas Fleet Services' RAMP mitigation measures in that HFCEVs, together with RNGVs and BEVs, help to advance SoCalGas's climate goals.[3159]

Fourthly, the current manufacturers of medium-duty and heavy-duty vehicles, who know their customers and their specific needs, have signaled that they plan to use the HFCEV platform rather than the BEV platform. As SDG&E's Art Alvarez stated under oath during his cross examination on June 23, 2023, when CEJA's Matt Vespa questioned the certainty or uncertainty with which SDG&E will be relying on HFCEVs to meet its future fleet needs: *"I think the public statements made by industry experts including Mary Barra, the chief executive officer at GM and Jim Farley, chief executive officer of Ford, point us to a hydrogen fuel electric vehicle future particularly in the medium and heavy-duty sector."*[3160] Mr. Alvarez goes on to state:

> Our long-term strategy for zero emission vehicles has hydrogen and electric vehicles in the plan; and that relies on, as I mentioned earlier, industry experts like the CEO of GM and Ford that have announced publicly in their earnings calls their plans to not build electric vehicle medium-duty platforms and, instead, pursue hydrogen fuel cell for electric vehicle platforms for the medium-duty vehicles. They stated this as early as 2022 and 2021 in investor earning calls.[3161]

Lastly, SoCalGas and SDG&E both take exception to Cal Advocates' and TURN's banal appraisal of the Companies' forecasting methodology being *"unsupported"*[3162] and *"unreliable*

3156 Ex. SCG-218 (Franco) at 11.

3157 *Id.* at 12.

3158 *Id.*

3159 Ex. SCG-18-R-E (Franco) at 7-9.

3160 Tr. V18:3199:13-18 (Alvarez).

3161 Tr. V18:3200:5-14 (Alvarez).

3162 Ex. TURN-10-R (Jones) at 1.

regardless of the support for its forecast and any rationale."[3163] The intervenors both point to the TY 2019 GRC Decision wherein the CPUC wrote:

> SDG&E's TY2019 forecast for Ownership Costs in relation to its historical costs is analogous to that of SoCalGas' in that there is a substantial difference between the TY2019 forecast and historical costs with no adequate explanation regarding the significant disparity. We make the same analogous findings and conclusions as we did in the SoCalGas portion as discussed in section 24.1.4 of the decision.[3164]

When CPUC Decision D.19-09-051 was issued, however, both SoCalGas and SDG&E took this criticism by the CPUC to heart. They applied its lessons learned to the 2024 GRC by providing reams of data and supportive evidence, including *"information regarding each vehicle intended to be replaced or added to the Fleet; detailed lease terms and conditions; month-by-month expenses for each asset; and annualized summaries for each asset."*[3165] SoCalGas also provided information that *"identifies the specific financial obligations and commitments for SoCalGas's fleet of vehicles and demonstrates how these obligations and commitments extend into future years."*[3166]

By pre-emptively dismissing the Companies' data and evidence in support of their respective TY 2024 forecasts, Cal Advocates and TURN avoid confronting such data and evidence directly on its own merits. Indeed, this dismissive approach only serves to underscore, if not highlight, the weight and substance of the Companies' evidence, such as SDG&E's *"approximately 2,872 rows of individual asset lease terms, conditions, lease effective dates, lease end dates, pricing, interest rates, vehicle details, monthly costs per asset and annualized summaries for each asset in support of SDG&E's Lease & License forecast of $23.824 million."*[3167] As SDG&E's Art Alvarez observed in his rebuttal:

> Neither Cal Advocates nor TURN have disputed or put forth any argument as to why a single vehicle, or line expense, or SDG&E's methodology for vehicle replacements in the acquisition plan is inappropriate or why any expense should be disallowed or removed from the forecast.[3168]

3163 Ex. CA-11 (Waterworth) at 17, 24.

3164 D. 19-09-051 at 413-414, as quoted in Ex. SDG&E-222-E (Alvarez) at 4-5.

3165 Ex. SDG&E-222-E (Alvarez) at 5.

3166 Ex. SCG-218 (Franco) at 5.

3167 Ex. SDG&-222-E (Alvarez) at 7.

3168 *Id.*

This shows why the CPUC should dismiss *with prejudice*, the intervenors' arguments that the Companies should rely only on 2020 recorded costs and that the Companies' respective forecasts be ignored in spite of all the evidentiary support proffered by the Companies.

24.1.2 Maintenance Operations

SoCalGas's TY 2024 O&M forecast for Maintenance Operations is a total of $27.912[3169] million, while SDG&E's forecast is a total of $25.123 million.[3170] The Maintenance Operations teams perform vehicle safety inspections, conduct routine maintenance, replace worn or defective parts, and repair damaged vehicles.[3171] Maintenance Operations costs encompass the costs of operating vehicle maintenance and repair garages throughout the Companies' respective service territories, as well as the procurement of bulk gasoline and diesel fuel for the fleets.[3172] And although the cost of automotive fuels has undergone huge price swings these past couple of years as a result of the pandemic and the subsequent inflation, both Companies have chosen to use a four-year historical average – 2018-2021 – as the best way to estimate fuel prices for TY 2024 and beyond.[3173] The tables below break down these figures into maintenance garage operations and automotive fuels:

TABLE 24.3[3174]
SDG&E
Forecast for Maintenance Operations

FLEET SERVICES (In 2021 $)			
B. Maintenance Operations	**2021 Adjusted- Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
Maintenance Garage Operations	$12,141	$15,199	$3,058
Automotive Fuels	$6,652	$9,924	$3,272
Total	**$18,793**	**$25,123**	**$6,330**

3169 Ex. SCG-18-R-E (Franco) at 1, Table MF-1.
3170 Ex. SDG&E-22-R-E (Alvarez) at 6, Table AA-6.
3171 Ex. SCG-18-R-E (Franco) at 25.
3172 Ex. SDG&E-22-R-E (Alvarez) at 6.
3173 *Id.* at 30; Ex. SCG-18-R-E (Franco) at 26.
3174 Ex. SDG&E-22-R-E (Alvarez) at 29, Table AA-15.

TABLE 24.4[3175]
Southern California Gas Company
Maintenance Operations O&M Summary of Costs

Maintenance Operations	2021 Adjusted-Recorded (000s)	TY 2024 Estimated (000s)	Change (000s)
1. Maintenance Operations	$16,330	$15,810	$-520
2. Automotive Fuels	$11,311	$12,102	$791
Total	**$27,641**	**$27,912**	**$271**

Cal Advocates proposes to reduce SDG&E's maintenance garage operations cost from $15.199 million to $12.748 million and SDG&E's automotive fuel cost from $9.924 million to $6.652 million, to align with SDG&E's BY 2021 fuel costs.[3176] Cal Advocates also proposes to lower SoCalGas's maintenance operations cost from $15.810 million to $15.540 million, and its automotive fuel costs from $12.102 million to $11.311 million.

24.1.2.1 Maintenance Operations: Maintenance & Garage Operations

Cal Advocates wants to reduce SDG&E's garage maintenance cost by $2.450 million, because that amount is associated with the incremental vehicles which Cal Advocates opposes, alleging that *there "is no proof these additional vehicles will be added outside an overly aggressive vehicle forecast."*[3177] To the contrary, SDG&E provided a plethora of data and information in support of the incremental maintenance costs, as well as directed Cal Advocates to the witnesses for the business units whose incremental projects and FTEs require these incremental vehicles. SDG&E, therefore, submits that the CPUC considers each witness's justification for the incremental projects and FTEs. *"Should the CPUC find the incremental FTEs appropriate, they should also approve the costs related to the vehicle additions to SDG&E's Fleet."*[3178]

Cal Advocates' proposed reduction to SoCalGas's maintenance operations costs is only about a 2% reduction, because it was originally based on incorrect costs which SoCalGas has

3175 Ex. SCG-18-R-E (Franco) at 25, Table MF-13.
3176 Ex. SDG&E-222-E (Alvarez) at 3.
3177 Ex. CA-11 (Waterworth) at 29.
3178 Ex. SDG&E-222-E (Alvarez) at 12.

subsequently corrected.[3179] These corrections pertain to laptop replacements and training costs.[3180] SoCalGas, however, does take issue with Cal Advocates' assertion that SoCalGas failed to provide proof that incremental vehicles will be added, resulting in increased maintenance costs. In fact, Cal Advocates did not contest the testimonies of witnesses of the business units as to their respective incremental FTEs and projects which require the incremental vehicles that Fleet Services would procure and maintain.[3181] *"At minimum, 440 of the incremental vehicles associated with operating departments' incremental FTEs, programs or projects were not contested by Cal Advocates* . . ."[3182] This same scenario happened during the last GRC.

> Cal Advocates did not contest the incremental FTEs, programs, or projects, although they contested the corresponding incremental vehicles and the costs for these vehicles were disallowed in the Decision. When the incremental employees were onboarded, the respective business units had no other option but to rent a consumer grade vehicle at a premium through rental companies. Unfortunately, these vehicles are not equipped with the necessary equipment to conduct utility business and it made for an inefficient work environment. Indeed, the money spent on rental fees totaling over $6.2 million over the past three years could have been applied to the acquisition of company vehicles that would have been outfitted to properly conduct utility work.[3183]

Therefore, in addition to approving the Companies' full TY 2024 forecast of fleet ownership costs, the Companies also urge the CPUC to approve its full TY 2024 forecast of fleet garage and maintenance costs.

24.1.2.2 Maintenance Operations: Automotive Fuels

Cal Advocates proposes to reduce SDG&E's TY 2024 automotive fuels forecast, because according to Cal Advocates, "SDG&E's incremental increase is based on the price of fuel when fuel was at an excessively high level… reliance on a fuel price at a specific point in time is not a reasonable basis to increase a fuel forecast."[3184] While SDG&E does not contest Cal Advocates' assertion that SDG&E's fuel forecast is based on an unusually high price point, SDG&E disagrees that it should not do so. To the contrary, SDG&E submits that it is taking a reasonable approach to estimating future fuel costs based on fuel costs at the time of this GRC application. "SDG&E took

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[3179] Ex. SCG-218 (Franco) at 17.

[3180] *Id.* at 18.

[3181] *Id.* at 18-19.

[3182] *Id.*

[3183] *Id.* at 19.

[3184] Ex. CA-11 (Waterworth) at 28.

a conservative approach and used the best information available, utilizing invoiced fuel prices available at the time to estimate the funding level required to continue to procure the same average quantity of bulk fuel at these elevated prices."[3185] Indeed, no one can predict, much less guarantee, that fuel prices starting in 2024 and beyond will not go higher or lower than what they were in March 2022. Indeed, Cal Advocates themselves show in their testimony that the prices can and, in fact, did go higher than $5.665 a gallon in March 2022: $5.692 in April 2022; $5.871 in May 2022; $6.294 in June 2022; $5.897 in July 2022, and $5.905 in October 2022.[3186]

With respect to SoCalGas, Cal Advocates is seeking a reduction in SoCalGas's TY 2024 fuel forecast based, again, on the tiresome argument that the incremental increase in fuel cost is due to the incremental vehicles which they oppose.[3187] As discussed in detail above, by not contesting the different business units' incremental FTEs, projects and programs, Cal Advocates cannot contest in good faith the need to procure, maintain, and refuel the incremental vehicles necessitated by these incremental FTEs and programs.

Therefore, the Companies request that the CPUC grant SoCalGas's automotive fuels forecast for TY 2024 of $12.102 million and SDG&E's automotive fuels forecast for TY 2024 of $9.924 million.

24.1.2.3 Fleet Management: Telematics

Telematics is a vehicle technology platform that allows the Companies to evaluate driver behaviors in order to improve driver training and reinforce safe driving habits. *"This technology helps improve employee safety by providing information on vehicle location, providing opportunity for driver feedback, discouraging risky driving behaviors, and can serve as a tool to identify and alert drivers of surrounding danger like wildfire."*[3188] The cost of Telematics services fees is included in the Companies' respective TY 2024 fleet management forecasts.

Cal Advocates proposes to reduce SoCalGas's TY 2024 fleet management forecast by $0.881 million, because SoCalGas changed Telematics vendors.[3189] While it is true that SoCalGas changed vendors and costs have changed, SoCalGas plans to expand its Telematics system by

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3185 Ex.SDG&E-222-E (Alvarez) at 16.

3186 Ex. CA-11 (Waterworth) at 28, Table 11-17 (California All Grades All Formulations Retail Gasoline Prices 2019-2022).

3187 *Id.* at 22.

3188 Ex. SDG&E-22-R-E (Alvarez) at 9.

3189 Ex. CA-11 (Waterworth) at 22-23.

installing video capabilities, which is costly but will help improve driver and vehicle safety.[3190] Therefore, SoCalGas requests the CPUC not to reduce its TY 2024 fleet management forecast by $0.881 million.

SDG&E's TY 2024 fleet management forecast includes $0.848 million for Telematics service fees which is also considered a RAMP mitigation measure.[3191] None of the intervenors contested this amount. Therefore, SDG&E requests the CPUC to approve the amount requested.

25. Real Estate, Land Services, and Facilities Operations

Both SoCalGas's Real Estate & Facility Operations (RE&F) and SDG&E's Real Estate, Land Services & Facility Operations (REL&F) are responsible for planning, acquiring, building, and maintaining real estate and facility assets in support of the delivery of the Companies' respective utility services.

SoCalGas's RE&F testimony and workpapers,[3192] supported by witness Brenton Guy, and SDG&E's REL&F testimony and workpapers,[3193] supported by witness Dale Tattersall, describe and justify their respective Operations and Maintenance (O&M) and capital expenditure forecasts that form the basis for the Test Year 2024 (TY 2024) revenue requirement requests in these areas.

25.1 SoCalGas

REAL ESTATE & FACILITY OPERATIONS (in 2021$)			
O&M	**2021 Adjusted-Recorded ($000)**	**Estimated TY 2024 ($000)**	**Change ($000)**
Non-Shared	27,401	27,371	(30)
Shared	22,262	23,925	1,663
Total O&M	49,663	51,296	1,633

REAL ESTATE & FACILITY OPERATIONS (in 2021$)			
Capital	**Estimated 2022 (000s)**	**Estimated 2023 (000s)**	**Estimated 2024 (000s)**
Total CAPITAL	79,672	116,351	110,718

The Facility Operations and Real Estate groups are responsible for planning, acquiring, designing, constructing, operating, and maintaining over two million square feet of leased and fee-

3190 Ex. SCG-218 (Franco) at 21.

3191 Ex. SDG&E-22-R-E (Alvarez) at 8-10.

3192 Exs. SCG-19-R-2E (Guy), SCG-19-WP-R (Guy), SCG-19-CWP (Guy), SCG-219-E (Guy).

3193 Exs. SDG&E-23 (Tattersall), SDG&E-23-WP (Tattersall), SDG&E-23-CWP-R (Tattersall), SDG&E-23 (Tattersall).

owned property, comprised of 108 staffed locations, including general offices, bases, multi-use sites, branch offices, and telecommunication sites. Facility Operations and Real Estate are also tasked with providing the organization with safe, compliant, reliable, and suitable working environments for its employees. Below is a summary of the key activities performed by Facility Operations and Real Estate to provide context for this GRC request.

- Management of services and processes that support the core business of SoCalGas.
- Provide work environments that are safe, compliant, reliable, and suitable for the Company's employees and their activities throughout the SoCalGas territory.
- Provide safe, ADA (Americans with Disabilities Act)-compliant access for customers and employees at SoCalGas's branch offices and construct new buildings and modifications to facilities in compliance with the ADA's requirements for accessible design.
- Comply with federal, state, and local statutes and regulations pertaining to, but not limited to, air quality, hazardous materials management, fire life safety, and natural resources.
- Maintain proper training of facility maintenance personnel to comply with all applicable rules and regulations.
- Conduct regular maintenance activities at SoCalGas facilities and grounds for energy efficiency, environmental, and safety purposes.
- Meet the standards set by various air quality management districts that regulate emergency standby generators, chillers, boilers, and heating ventilation and air conditioning (HVAC) equipment.
- Maintain and manage hazardous material business plans regulated by local Certified Unified Program Agencies (CUPA).
- Other compliance/regulatory items.

25.1.1 Operations & Maintenance (O&M)

SoCalGas requests that the Commission adopt its forecasts of $51.296 million for RL&F O&M, as shown on the following table:

Table 25.1
SCG RE&F O&M ($000)

	Base Year 2021	Test Year 2024	Change
NON-SHARED O&M	**27,401**	**27,371**	**(30)**
SHARED O&M	**22,262**	**23,925**	**1,663**
TOTAL	**49,663**	**51,296**	**1,633**

SUMMARY OF RAMP O&M COSTS ($000)

RAMP ID	Description	BY 2021 Embedded Base Costs	TY 2024 Estimated Total	TY 2024 Estimated Incremental
SCG-CFF-5-2	**Contract Security**	**411**	**417**	**6**
SCG-Risk-5-C10 Contract Security	**Workplace Violence Prevention**	**799**	**810**	**11**
SCG-Risk-5-C10 Physical Security	**Workplace Violence Prevention Program**	**823**	**652**	**(171)**
	TOTAL	**2,033**	**1,879**	**(154)**

Cal Advocates did not oppose SoCalGas's forecast for RE&F Shared and Non-Shared O&M, and there were no other intervenor comments regarding these requests. The Commission should adopt SoCalGas's forecast as reasonable.

25.1.2 CAPITAL

SoCalGas also requests adoption of its 2022-2024 RE&F Capital forecasts, including $79.672 million for 2022, $116.351 million for 2023, and $110.718 million for TY 2024. The following table shows SoCalGas's Capital requests by year:[3194]

Table 25.2
SCG RE&F Capital ($000)

	2022	2023	2024	Total Capital
TOTAL CAPITAL	79,672	116,351	110,718	306,741

[3194] Ex. SCG-19-R-2E (Guy) at 1.

SUMMARY OF RAMP CAPITAL COSTS ($000)

RAMP ID	Description	2022 Estimated RAMP Total	2023 Estimated RAMP Total	2024 Estimated RAMP Total
SCG-Risk-5-C10	**Workplace Violence Prevention Programs**	**5,696**	**5,696**	**5,696**
SCG-Risk-5-C10	**Workplace Violence Prevention Programs**	**300**	**300**	**300**
SCG-CFF-2-New	**Renewable Energy Solutions**	**4,204**	**4,204**	**4,204**
SCG-CFF-2-New	**Hydrogen Refueling Stations**	**621**	**20,739**	**8,415**
	TOTAL	**10,821**	**30,939**	**18,615**

The capital expenditures forecast for Real Estate and Facility Operations includes costs required to maintain infrastructure and operational integrity in a safe and efficient manner, renovate SoCalGas buildings to upgrade outdated work areas, protect facilities and employees located at facilities, install renewable energy solutions to support sustainability efforts and net zero energy goals, and upgrade renewable natural gas (RNG) refueling stations and install hydrogen fueling stations and electric vehicle (EV) charging ports for Company use.

Capital expenditures costs are separated into the following categories: (1) Infrastructure & Improvements, (2) Safety & Compliance, (3) Sustainability and Conservation, (4) Fleet Projects, and (5) Fleet Alternative Refueling Infrastructure.

25.1.2.1 Response to Other Party Recommendations

The following table summarizes the intervenors' variances to SoCalGas's RE&F Capital revenue request provided in testimony:

Table 25.3
SCG RE&F Capital – Summary of Differences ($000)

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	79,672	116,351	110,718	306,741	-
CAL ADVOCATES	71,943	65,787	62,022	199,752	(106,989)
TURN	78,122	92,405	101,902	272,429	(34,312)
TURN-SCGC[3195]	79,051	95,612	102,303	276,966	(29,775)

[3195] TURN-SCGC did not outwardly recommend a denial or cost reduction for Hydrogen Refueling stations, but it is inferred.

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	2023	2024	Total	Difference
EDF	75,099	116,351	110,718	302,168	(4,573)
IS	79,672	116,351	110,718	306,741	-
CEJA	63,879	95,067	102,263	261,209	(45,532)

The intervenors' variances to SoCalGas's Capital forecasts are concentrated primarily on the following areas.[3196]

25.1.2.2 Fleet Refueling Infrastructure

SoCalGas's RE&F Capital request in the area of fleet refueling infrastructure includes the following breakdown:

Table 25.4
Fleet Refueling Infrastructure Costs ($000)

	2022	2023	2024	Total Capital
RNG	3,298	4,105	1,055	7,558
HYDROGEN	621	20,739	8,415	29,775
EV	5,227	5,129	4,484	14,840
TOTAL	9,146	29,973	13,954	53,073

Intervenors CEJA, TURN, TURN-SCGC, and Cal Advocates oppose SoCalGas's request for funding for the hydrogen refueling station at the Company's Pico Rivera facility (or other suitable location), primarily because, they argue, public hydrogen refueling is already available and savings to ratepayers have not been defined.[3197] SoCalGas disagrees and asserts that reliance on public hydrogen refueling stations is insufficient to support the Company's hydrogen fleet vehicles. During cross-examination, the prevalence of public station outages was clearly demonstrated and explained by Mr. Guy:

> Q: … First of all, did positioning the hydrogen pilot vehicles near these multiple fueling stations resolve the fueling challenges that SoCalGas experienced, if you know?
>
> A: Absolutely not.· And I can… to explain our experience, so far. Even with positioning of hydrogen vehicles in a area where there are at least two fueling stations within 15 miles, we still experience showing up to the fueling stations, and the -- the fuel is… either out or the station is down.· We use the [] Hydrogen Fuel

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[3196] For other variances, *see* Ex. SCG-219-E (Guy).

[3197] Although Air Products did not provide testimony in this proceeding, SoCalGas anticipates Air Products to make similar arguments.

> Cell Partnership website to understand the current status of the station, and even that website -- which I checked it this morning, and 15 of the hydrogen fueling stations are down today in California, and that's approximately 25 percent of all the fueling stations.· So … we're experiencing reliability issues, even after positioning those… pilot vehicles near at least two refueling stations.[3198]

This experience confirms SoCalGas's concerns about reliability of available hydrogen fuel.[3199] This lack of reliability, in turn, can pose a risk to customer response times and emergency support.[3200] In addition, public stations rely on the transport of hydrogen to the station, creating capacity constraints.[3201] By producing on-site hydrogen fuel at the Pico Rivera facility, SoCalGas will increase the reliability of available hydrogen to power its hydrogen fleet vehicles. Moreover, the Pico Rivera facility is centrally located within the Company's service territory and in proximity to the Company's hydrogen fleet vehicles, creating efficiencies across the fleet.[3202] Finally, and importantly, California's Department of Energy recognizes that hydrogen fuel cell vehicles are critical to the state's goal of achieving 1.5 million zero-emission vehicles on California roads by 2025.[3203] SoCalGas contends that the ratepayers benefit from the reliability and efficiency of the hydrogen refueling station at the Pico Rivera facility is clear and the cost of this station is both justified and appropriate.

CEJA opposes both the Renewable Natural Gas (RNG) stations at Santa Maria and Visalia and the hydrogen refueling station at Pico Rivera. CEJA claims that battery electric vehicles (BEVs) are superior in efficiency, fueling, maintenance, and climate perspective.[3204] While SoCalGas does not deny there are certain benefits of BEVs and does, in fact, have a plan to transition a portion of its fleet to BEVs,[3205] CEJA's argument that BEVs are "superior" is short-sighted. CEJA does not recognize, depending on the use case, the current limitations of available BEVs or the inherent advantages of RNG and hydrogen vehicles. As noted during the evidentiary hearings, it is SoCalGas's intention to achieve the Company's Aspire 2045 Climate Commitment

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3198 Transcript (Tr.) V20:3582:19-3583:14 (Guy).

3199 Ex. SCG-219-E (Guy) at 22.

3200 *Id.* at 18.

3201 *Id.* at 19.

3202 Ex. SCG-19-R-2E (Guy) at 27.

3203 Ex. SCG-219-E (Guy) at 22.

3204 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 70.

3205 Ex. SCG-219-E (Guy) at 22-23.

interim goal to operate a 100% zero emission over-the-road fleet by 2035.[3206] That commitment, however, expressly recognizes the fact that the ability to meet this goal is dependent on the functional application and availability of vehicle products—meaning it is dependent on the availability of zero emissions vehicles that can provide the necessary functionality and the availability of a fueling infrastructure to support such vehicles.[3207] Notably, there are currently no BEV options in the market for medium and heavy-duty vehicles equipped for gas construction and operation activities.[3208] Moreover, due to charging times and availability, BEVs may be inferior in responding to customer and public needs in emergency events, disaster support, or mutual assistance situations.[3209] Throughout its testimony, SoCalGas has demonstrated the need for RNG and hydrogen fueling alternatives to provide safe and reliable service to its customers and to help advance the State's decarbonization goals. Accordingly, SoCalGas's request for these alternative refueling stations should be approved by the Commission.

Finally, TURN opposes the Pico Rivera hydrogen refueling station and the RNG stations in Santa Maria and Visalia on the basis that these locations are in census tracts with high pollution burdens and meet the definition of an Environmental Social Justice (ESJ) community.[3210] To the contrary, SoCalGas contends that these facilities will, in fact, serve to decrease pollution in these communities by utilizing low-emission RNG and hydrogen vehicles, rather than gas and diesel vehicles.[3211] The RNG stations at Santa Maria and Visalia will serve to phase out existing gasoline vehicles in the Company's fleet.[3212] Moreover, CEJA's assertion that the stations include combustion equipment was confirmed to be incorrect,[3213] which supports SoCalGas's position that these stations do further reduce pollutants over gas or diesel alternatives. SoCalGas asserts these costs are justified and appropriate and should be approved by the Commission.

3206 Transcript (Tr.) V20:3595:1-17 (Guy).

3207 *Id.*

3208 Ex. SCG-219-E (Guy) at 22.

3209 *Id*. at 23.

3210 Ex. TURN-03 (Tinnin) at 12.

3211 *Id.* at 17-19.

3212 *Id.* at 17.

3213 Ex. SCG-219-E (Guy) at 15-16.

25.1.2.3 [H2] Innovation Experience (H2IE)

SoCalGas has requested $4.573 million for the [H2] Innovation Experience (H2IE), formerly known as the [H2] Hydrogen Home. Both CEJA and EDF oppose SoCalGas's revenue request for this project, stating that it does not benefit ratepayers and is otherwise not a cost-effective source of power.[3214] SoCalGas disagrees with this characterization. The H2IE is a state-of-the-art clean energy project that showcases the role hydrogen could play in attaining California's decarbonization goals. The H2IE will also help demonstrate and advance the development and adoption of a portfolio of sustainable energy solutions needed to benefit ratepayers, provide end users with relevant energy choices options based on their individual requirements, and support local grid resilience and reliability needs.[3215] For a further description of the project and response to intervenor positions, *see* Section 18.1 and the Clean Energy Innovations testimony of Armando Infanzon (Exs. SCG-12-R, SCG-212).

Questions arose during the hearings regarding the costs of the H2IE. SoCalGas provided testimony at the evidentiary hearing ,[3216] and clarified in a follow-up data request response, detailing the costs of the H2IE.[3217] The total direct project cost as of March 31, 2023 is $15.196 million.[3218] SoCalGas noted that the total cost of the project increased since the time of the original forecast due to a number of factors, including construction variables and LEED platinum sustainability compliance. While forecasts may differ (higher or lower) from recorded expenditures, SoCalGas generally does not update its GRC forecasts. As the Commission stated in D.19-09-051 at 60, "we find that it is not feasible to constantly update data for the entire application. It is also not practical to update all data in the GRC because of the vast amounts of data included in the application." Accordingly, the remaining project costs for the H2IE are not part of the pending Test Year 2024 GRC request.

Of the total cost, SoCalGas expended $2,568,658 from the TY 2019 GRC. This historical cost for H2IE project is presented as part of this TY 2024 GRC request and is included in the rate base forecast. CEJA also recommends the Commission disallow both this amount, as well as any

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[3214] Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 22-23; Ex. EDF-01 (McCann/Seong) at 49-50.

[3215] *See* Ex. SCG-212 (Infanzon) at 12.

[3216] Transcript (Tr.) V20:3543:5-25 (Guy).

[3217] Ex. CEJA-47 (CEJA) Data Request CEJA-SEU-033 re Hydrogen Home (July 12, 2023) at 2-5.

[3218] *Id*. at 5.

increase in costs above the $4.573 requested. As noted above, from a ratemaking perspective, SoCalGas has the authority to reprioritize funds within its approved GRC cycle, and no improper accounting or reallocation has occurred. Moreover, while the total project cost of the H2IE exceeds SoCalGas's requested $4.573 million, SoCalGas is not requesting the additional capital costs in this proceeding. Rather, SoCalGas expects to include the rate base associated with the total project costs in a future GRC. [3219]

The [H2] Hydrogen Home project is fully aligned to benefit ratepayers as source of renewable and reliable energy. The request for $4.573 million is warranted and justified and should be approved by the Commission.

25.1.2.4 Control Center Modernization Building

SoCalGas's forecasted capital costs for the Control Center Modernization building (CCM Building) of $7.108 million in 2022, $29.825 million in 2023, and $40.281 million in 2024. Cal Advocates recommends recovery of costs for the CCM Building through a Tier 2 advice letter. It should be noted that Cal Advocates does not disagree with the need for the CCM Building, nor did they alternatively challenge the revenue request sought by SoCalGas in this GRC.[3220] Rather, it is because they believe the CCM Building will not be placed into service until post-TY 2024 due to potential project delays. SoCalGas has provided ample evidence that the list of possible delays Cal Advocates cites have been, and are regularly, proactively addressed with the contractor, and the project remains anticipated to be in service in TY 2024.[3221] Moreover, SoCalGas asserts that a separate regulatory proceeding to address these costs results in an additional and unnecessary burden on the Commission. Accordingly, SoCalGas's request to include these costs in TY2024 is justified and appropriate. This issue is discussed further in Section 12 (Gas Transmission).

25.2 SDG&E

SDG&E's Real Estate, Land Services & Facility Operations (REL&F) activities consist of the following seven (7) major cost categories.

Rents and Operating Expenses are divided between shared and non-shared facilities. The shared facilities consist of the SDG&E Century Park campus, Rancho Bernardo Data Center (RBDC), and our offices located in Sacramento and San Francisco. The non-shared service

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3219 *See id.* at 1 and 3.

3220 Ex. SCG-219-E (Guy) at 9.

3221 *Id*. at 9-10.

portion of rents is associated with rent for telecommunication sites, branch offices (payment centers), office buildings, multi-use and customer service facilities, trailers, and right of way easements.[3222]

Tribal Relations & Land Services acquires, inspects, maintains, and protects land assets, including permanent easements, licenses, and leases that contain electric and gas infrastructure. Land Services also records all legal documents pertaining to the utility's land rights and provides land survey activity.[3223]

Facility Operations provides O&M support for facilities, such as general offices, bases, multi-use sites, telecommunication sites, and branch offices, which all support the reliable delivery of electricity and gas to SDG&E customers.[3224]

Security Operations provides security for SDG&E facilities, employees, and customers.

Corporate Real Estate provides transaction management for leased/owned real property and other real estate asset management activities.[3225]

Capital Programs develops, prioritizes, and forecasts facilities capital project budget requirements, constructs or improves current and future buildings, replaces or improves support infrastructure to maintain system integrity and meet operational needs, installs upgrades to offset maintenance costs, supports long-term facilities strategies, and supports sustainability practices.[3226]

Real Estate Planning provides short-term planning (move management), occupancy tracking, minor furniture and space reconfigurations, and long-range strategic planning for future real estate needs and requirements.[3227]

SDG&E REAL ESTATE, LAND SERVICES & FACILITIES (In 2021 $)	2021 Adjusted-Recorded (000s)	TY2024 Estimated (000s)	Change (000s)
Total Non-Shared Services	12,514	15,156	2,642
Total Shared Services (Incurred)	21,930	23,052	1,122
Total O&M	**34,444**	**38,208**	**3,764**

3222 Ex. SDGE-23 (Tattersall) at 1-2.

3223 *Id*. at 2.

3224 *Id.*

3225 *Id*.

3226 *Id.*

3227 *Id.*

FACILITIES (In 2021 $)	Estimated 2022 (000s)	Estimated 2023 (000s)	Estimated 2024 (000s)
Total CAPITAL	**65,178**	**75,530**	**73,890**

25.2.1 OPERATIONS & MAINTENANCE (O&M)

SDG&E requests the Commission to adopt its forecasts of $38.208 million for REL&F O&M, as shown on the following table:

Table 25.6
SDG&E REL&F O&M ($000)

	Base Year 2021	Test Year 2024	Change
NON-SHARED O&M	**12,514**	**15,156**	**2,642**
SHARED O&M	**21,930**	**23,052**	**1,122**
TOTAL	**34,444**	**38,208**	**3,764**

SUMMARY OF RAMP O&M COSTS ($000)

RAMP ID	Description	BY2021 Embedded Base Costs (000s)	TY2024 Estimated Total (000s)	TY2024 Estimated Incremental (000s)
SDG&E-CFF-5 - 02	Contract Security	1,342	1,798	456
Total		**1,342**	**1,798**	**456**

The table below summarizes the current positions of SDG&E and the Public Advocates Office of the California Public Utilities Commission (Cal Advocates) with respect to SDG&E REL&F O&M:

TABLE 25.7
SDG&E – SUMMARY OF DIFFERENCES

	Base Year 2021	Test Year 2024	Change
SDG&E	**34,444**	**38,208**	**3,764**
CAL ADVOCATES	**34,444**	**37,193**	**2,749**

SDG&E requests $38.208 million in O&M REL&F funding for TY 2024. Only Cal Advocates disputed SDG&E's O&M forecast. Cal Advocates recommends a reduction of $1.015 million to SDG&E's non-shared services O&M forecast relating to additional security personnel needed at five locations. SDG&E employs contract security to safeguard the utility's assets, including critical infrastructure, and to provide protection for the Company's personnel. These security guards respond to security incidents and emergencies, and their presence operates to deter security threats and criminal activity. SDG&E's testimony confirms that data show increases in theft, vandalism and other security threats over the past several years at or near these locations, warranting the need for additional security.[3228] Cal Advocates does not refute this data or the need for this request. They have not, however, provided any rationale for their reduction to SDG&E's request, other than to incorrectly and naively assume that simply because these security guard positions are not currently filled, they are not needed.[3229] Passive security systems alone are insufficient to address the increase in security incidents experienced by SDG&E. The hiring of active, on-site security guards is imperative to SDG&E's ability to safeguard utility assets and personnel against these increased threats.[3230] For these reasons, SDG&E's full request is warranted and justified.

25.2.2 CAPITAL

SDG&E also requests adoption of its 2022-2024 REL&F Capital forecasts, including $65.178 million for 2022, $75.530 million for 2023, and $73.890 million for TY 2024. The following table shows SDG&E's Capital requests by year:

Table 25.8
SDG&E REL&F Capital ($000)

	2022	2023	2024	Total Capital
TOTAL CAPITAL	65,178	75,530	73,890	214,598

The below table summarizes the current positions of SDG&E and Cal Advocates with respect to SDG&E REL&F Capital:

3228 *Id*. at 17-18.

3229 Ex. CA-11 (L. Mark Waterworth) at 31.

3230 Ex. SDGE-23 (Tattersall) at 17.

TABLE 25.9
SDG&E REL&F Capital – Summary of Differences ($000)

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance**
SDG&E	**65,178**	**75, 530**	**73,890**	**214,598**	**(-)**
CAL ADVOCATES	**64,123**	**62,598**	**44,641**	**171,362**	**(43,236)**

SDG&E requests adoption of its 2022-2024 capital REL&F forecasts, including $65.178 million for 2022, $75.530 million for 2023, and $73.890 million for TY 2024.

25.2.3 Kearny Master Plan Phase II

In its TY 2019 GRC Decision (D.19-09-051), the Commission recommended the Kearny Master Plan project be presented for review in this TY 2024 GRC cycle.[3231] Over the past several years since the decision, as this project as taken shape SDG&E has utilized various short-term storage alternatives to address the aged existing infrastructure and the increased warehousing and storage needs that will be met by the Kearny Master Plan project.[3232] Cal Advocates does not refute the conditions underlying the necessity of the project, nor did they oppose Phase I of Kearny Master Plan, which included the costs for design and permitting. Rather, Cal Advocates believes the Phase II project should be addressed in the next rate case cycle.[3233] With engineering completed and permitting imminent, this rationale ignores the fact that the Phase II project is on track to be completed by December 2024, with construction costs anticipated to be incurred in 2024.[3234] Accordingly, SDG&E's request to include the $21.8M as forecasted in direct testimony is justified and appropriate to include in this GRC cycle.

25.2.4 Mission Skills Training Center

Similarly, Cal Advocates does not refute the conditions that necessitate the building expansion of the Mission Skills Training Center, but instead supports cost recovery through the advice letter process.[3235] There is nothing unusual or untimely about SDG&E's request that should necessitate a separate process for the Commission's approval. Cal Advocates, without

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3231 *See* D.19-09-051 at 434-435 (Section 25.2.3.19).

3232 Ex. SDGE-223 (Tattersall) at 5.

3233 Ex. CA-11 (Waterworth) at 6, 45.

3234 Ex. SDG&E-223 (Tattersall) at 7.

3235 Ex. CA-11 (Waterworth) at 6, 53.

substantiation, indicated its belief that this project would not be completed and in service by the end of TY 2024.[3236] Once again Cal Advocates appears to disregard the fact that programming and design has been completed and construction permitting is imminent, with the majority of construction costs to be incurred for project completion by the end of 2024.[3237] This project will provide increased space to accommodate additional personnel and instructors needed to provide training and continuous education necessitated by increasing compliance requirements.[3238] The $21.5M in total project costs are both justified and appropriately requested in this GRC cycle.

26. Environmental Services

Table 26.1: SDG&E Test Year 2024 Summary of Total Costs[3239]

SDG&E Environmental Services (in 2021$)			
O&M	**2021 Adjusted-Recorded ($000)**	**Estimated TY 2024 ($000)**	**Change ($000)**
Non-Shared-Environmental Services	$7,289	$8,445	$1,156
Non-Shared-SONGS	$1,216	$1,540	$324
Total O&M	$8,505	$9,985	$1,480

Table 26.2: SoCalGas Test Year 2024 Summary of Total Costs3240

SoCalGas Environmental Services - Constant 2021 ($000)			
Total O&M	**2021 Adjusted-Recorded**	**Estimated Test Year 2024**	**Change**
Non-Shared Environmental Compliance	$7,230	$9,126	$1,896
Non-Shared NERBA (Two-Way Balancing Account)	$16,438	$16,684	$246
Total O&M	$23,668	$25,809	$2,142

3236 *Id*. at 53.

3237 *See* Ex. SDG&E-223 (Tattersall) at 8-10.

3238 Ex. SDG&E-223 (Tattersall) at 8.

3239 Ex. SDG&E-24 (Syz adopted by Martin) at 1 (Table BS-1) with update from Ex. SCG-401/SDG&E-401 (Taylor) Update Testimony (July 2023), Attachment C at C-31. The updated Table includes an increase of $9,181 from the forecast provided in Ex. SDG&E- 24 (Syz/Martin) at 1 (Table BS-1) to reflect SDG&E's new Collective Bargaining Agreement for known union contract changes.

3240 Ex. SCG-20-R (Garcia) at 1 (Table AJG-1).

SoCalGas's and SDG&E's Environmental Services testimony and workpapers, supported by witnesses Albert Garcia and Erica Martin, respectively, describe and justify SoCalGas' and SDG&E's Operations and Maintenance (O&M) forecasts for their Environmental Services Departments, which in turn form the basis for the Test Year 2024 (TY 2024) revenue requirement request for this area. SoCalGas's and SDG&E's Environmental Services organizations provide guidance and support on compliance with federal, state, regional, and local environmental statutes, rules, and regulations in the areas of air quality, greenhouse gas emissions, water quality, cultural resources, natural resources, hazardous materials and waste (HazMat), land planning, and environmental and programmatic permits. A full description of SoCalGas' and SDG&E's Environmental Services requests and forecasts are set forth in Exhibits SCG-20-R, SCG-20-WP-R-E, SDG&E-24 and SDG&E-24-WP, respectively. SDG&E also requests continued funding for its non-shared San Onofre Nuclear Generating Station (SONGS) marine mitigation and workers' compensation costs based upon existing methodology previously approved by the Commission.[3241]

No party opposed SoCalGas's or SDG&E's TY 2024 original forecasts for Environmental Services, or SDG&E's TY 2024 forecast for SONGS non-shared O&M costs.[3242] Cal Advocates testified: "SCG is forecasting $25.811 million for TY 2024 which is $2.143 million or 9% above 2021 recorded expenses. SDG&E is forecasting $9.976 million for TY 2024 which is $1.471 million or 17.3% above 2021 recorded expenses. Cal Advocates does not oppose either forecast."[3243] Cal Advocates has not yet taken a position on the $9,181 increase to SDG&E's TY 2024 forecast based on changes in SDG&E's Collective Bargaining Agreement, as set forth in Update Testimony, Ex. SCG-401/SDG&E-401, Attachment C at C-131.

In SDG&E's and SoCalGas's 2019 General Rate Case, when no party opposed SoCalGas's or SDG&E's forecasts, the Commission found the forecasted costs reasonable.[3244] The

3241 Ex. SDG&E-24 (Syz/Martin) at 24-27. "SONGS costs that were previously requested in SDG&E's Electric Generation Chapter in the TY 2019 General Rate Case (GRC) are now being requested in this chapter because the SONGS and Environmental Services departments are in the same organizational division whereas in the prior GRC they were organized in separate divisions; additionally, since SONGS is in decommissioning, it should no longer be placed in the Electric Generation Chapter." Ex. SDG&E-24 (Syz/Martin) at 1.

3242 *See* Summaries of Recommendations, served May 30, 2023 and absence of opposing testimony.

3243 Ex. CA-11 (Waterworth) at 55.

3244 D.19-09-051 at 439-40, 442, 443-47.

Commission similarly should find that SDG&E's and SoCalGas's Environmental Services and SONGS-related forecasts for TY 2024 are reasonable.

26.1 TURN's Challenge to Two-Way Balancing Account Treatment for NERBA

Although TURN does not contest SoCalGas' or SDG&E's forecasts, TURN argues that the Commission should change the utilities' New Environmental Regulatory Balancing Account (NERBA) from a two-way balancing account to a one-way balancing account, and require the utilities to file an application to recover any under collection of the actual costs associated with the regulatory programs included under the NERBA.[3245] TURN asserts: "The Commission needs to recognize that permitting balancing account undercollections or memorandum account balances to be recovered through the annual regulatory accounts update advice letter, without more, means those amounts would be collected in rates without having ever been reviewed for reasonableness."[3246]

SoCalGas and SDG&E disagree. The Commission established the NERBA as a two-way balancing account in the 2012 GRC and has continued that treatment during the 2016 GRC and 2019 GRC cycles.[3247] There is nothing "broken" about this method and TURN's "fix" will add administrative burden and expense to a process that is working well.

In approving the NERBA as a two-way balancing account, the Commission noted the uncertainty of expected costs arising from new or evolving regulations and their application.[3248] SDG&E and SoCalGas recognize that the "intent of the NERBA is to record costs meeting the following key criteria: (1) uncertainty as to the scope, magnitude, and mechanics of the compliance requirements associated with new, proposed, or evolving environmental rules or

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3245 Ex. TURN-15 (Finkelstein) at 24-25.

3246 Ex. TURN-15 at 25. TURN, however, does not challenge the NERBA as a two-way balancing account in its May 30, 2023 Summary of Recommendations. It is not clear whether TURN intended to waive this argument based upon SDG&E's and SCG's Rebuttal Testimony.

3247 D.13-05-010 at 95, 239, 245, 248-49 ("Based on the uncertainty of the costs of complying with the mandatory GHG reporting rule, it is reasonable to authorize SDG&E to file an AL to establish the NERBA as a two-way balancing account"), 296-97, 1092, 1093; D.16-06-054 at 295 ("Adopting the NERBA as a two-way balancing account is reasonable."); D.19-09-051 at 444 ("We also find that the two-way balancing account for NERBA should continue to be authorized in this GRC period.")

3248 D.13-05-010 at 95 ("we recognize that the costs associated with implementing such a rule are likely to be substantial"), 245 ("because of the uncertainty of how this rule will impact SDG&E's operations and costs") 248-49 ("Based on the uncertainty of the costs of complying with the mandatory GHG reporting rule"); D.16-06-054 at 295 (FOF 77) ("Adopting the NERBA as a two-way balancing account is reasonable."); D.19-09-051 at 444 ("We also find that the two-way balancing account for NERBA should continue to be authorized in this GRC period.")

regulations; and (2) potential for incurring significant incremental costs related to environmental regulations with uncertain scope and cost."[3249]

The costs arising from the regulatory programs included in NERBA continue to be uncertain. For example, AB 32 Cost of Implementation fees are based upon a "common cost of carbon," which is set each year by the California Air Resources Board (CARB), and the greenhouse gas (GHG) emissions attributed to each utility, based upon the natural gas sold to customers (SoCalGas and SDG&E), imported electricity (SDG&E) or use to generate electricity (SDG&E), which is determined each year by customers' needs.[3250] Subpart W and Leak Detection and Repair (LDAR) costs (for SoCalGas and SDG&E), and MS4 Permit costs (for SDG&E) are uncertain due to expected changes in regulations and may be significant.[3251] SoCalGas and SDG&E do not control the rate set by CARB, customer demand for natural gas (or electricity made from natural gas), or changes in regulation.

The existing two-way balancing account protects the utilities from under-collection, protects customers from over-collection, provides transparency, and allow the utilities to recover the actual costs of providing utility service. TURN's concern about reasonableness review is unfounded. Not only do the utilities review their NERBA costs for reasonableness, the Commission and stakeholders have the opportunity to do so through the utilities' annual regulatory accounts update advice letter.[3252] As the Commission stated when first adopting NERBA as a two-way balancing account, a party "is free to scrutinize and raise concerns about the Subpart W spending in SoCalGas' next GRC application, or when review of the over-recovery or under-recovery of the NERBA takes place."[3253]

The two-way memorandum account allows both over-collections and under-collections to be recorded in a single account, reducing regulatory burden. And the advice letter process allows timely resolution of either over-collections or under-collections, without need of a lengthy, expensive, and administratively burdensome application process.[3254]

3249 Ex. SDG&E-224 (Martin) at 3; Ex. SCG-220 (Garcia) at 3.

3250 Ex. SDG&E-224 (Martin) at 3-4; Ex. SCG-220 (Garcia) at 3-4.

3251 Ex. SDG&E-224 (Martin) at 4-5; Ex. SCG-220 (Garcia) at 4-5.

3252 Ex. SDG&E-224 (Martin) at 2; Ex. SCG-220 (Garcia) at 2.

3253 D.13-05-010 at 297, n.55.

3254 Ex. SDG&E-243 (Kupfersmid) at 18.

SoCalGas requests that its unopposed TY 2024 forecast of $ $25,809,000 for its Environmental Services O&M costs be approved. SDG&E requests that its TY 2024 forecast of $9,985,000 for its Environmental Services O&M costs and non-shared SONGS costs be approved.

27. Information Technology

27.1 Introduction to IT (SoCalGas/SDG&E Common Issues)

SoCalGas's detailed discussion of its Information Technology (IT) O&M and Capital proposals is contained in the following exhibits: Ex. SCG-21-R-E (Gordon/Ballard/Exon), Ex. SCG-21-WP-R-2E (Ballard), Ex. SCG-21-CWP-R (Exon), and Ex. SCG-221 (Gordon/Exon). SDG&E's detailed discussion of its IT O&M and Capital proposals is contained in the following exhibits: Ex. SDG&E-25 (Gordon/Ballard/Exon), Ex.SDG&E-25-WP (Ballard), SDG&E-25-CWP-R (Exon) and Ex. SDG&E-225-E (Gordon/Exon).

Certain costs that SoCalGas and SDG&E have forecasted are incurred for the benefit of one utility only and are called "non-shared" costs. In contrast, "shared" costs can serve SoCalGas as well as SDG&E and/or the Sempra Corporate Center (Corporate Center). The IT Division is responsible for a variety of technology-related services and activities for SoCalGas, SDG&E, and Corporate Center (collectively, the Companies).

The IT O&M costs presented have been categorized into three areas:

- Applications – Applications support the development, implementation, and maintenance of computer software utilized by customers, employees, and/or vendor partners.
- Infrastructure – IT Infrastructure supports the design, implementation, and operation of the Company's computing infrastructure, and includes both hardware (ranging from desktop computing systems and servers to storage systems) and software (including middleware, production control, operating systems, and other low-level software systems).
- IT Support – This category of costs includes labor and non-labor for cost centers that are not specifically aligned with the other IT areas described above. Examples would include officer costs, budget and planning activities, and our intern/associate program.

Technology is a key enabler of safety, reliability, and compliance in the utility industry. Consistent with the four key pillars described in the IT Policy Chapter 1, the IT Division has moved to a digital focused operating model, which will enable faster, more resilient, and innovative technology solutions for the Company and its customers. When SoCalGas and SDG&E identify a project need, the Company rigorously evaluates potential solutions for that need and implements the selected solution. Implemented solutions are aligned to assist SoCalGas and SDG&E achieve their goals with technology investments that "improv[e] operational service, efficiency, and safety, through real-time information and cutting-edge analytics, benefiting operations and customers."[3255] The Capital Project requests in SoCalGas's and SDG&E's TY 2024 GRC applications were developed with these goals in mind and integrate the three tenets represented in the Foundational Technology Systems initiatives identified to mitigate RAMP risks:[3256]

- Technology Resiliency
- IT Disaster Recovery, and
- Lifecycle Management

The three tenets are interrelated. Technology industry expert Gartner notes, "technology decisions are ever more consequential" in today's rapidly changing environments where utilities are challenged to "ensure the integrity of aging physical infrastructure."[3257] As systems age, their reliability and efficiency decrease, and the risk of system failure increases. Cybersecurity risk also increases when a vendor no longer supports its technology with regular updates, maintenance, and security patches necessary to maximize the technology's lifespan.[3258] Moving to Cloud-based systems provides SoCalGas and SDG&E the opportunity to quickly experiment, create and remove new environments, enables innovation and rapid development of solutions to meet Company and customer needs while "also provid[ing] high levels of availability, resiliency, and reduced risks due to hardware and software versions remaining current."[3259] These changes are also necessitated as the IT industry is moving towards Cloud-based solutions with software vendors, such as Microsoft 365, Click, and SAP, now offering only Software as a Service (SaaS) solutions. For example, the current SoCalGas and SDG&E contact center systems are no longer supported by Genesys, which is requiring its customers to migrate to the Cloud. This requires on-premise technology environments to have Cloud enablement and integration capabilities available. Service

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3255 *See generally*, Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1.

3256 *See* Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1 at 1-4; *id.*, Chapter 2 at 6-7. *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1 at 1-4; *id.*, Chapter 2 at 6-7.

3257 Ex. SCG-221 (Gordon/Exon), Appendix C at BG-WE-C-19, Gartner, Energy and Utilities Technology Optimization and Modernization Primer for 2023, 2023.

3258 Ex. SCG-221 (Gordon/Exon) at 12.

3259 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1 at 5-6.

management skills are also needed to ensure that usage is managed and service levels from the vendor are met. At the same time, those Cloud-based systems provide high levels of availability, resiliency, and reduced risks due to keeping hardware and software versions current and easy to replace, when warranted.[3260] In this manner, SoCalGas and SDG&E mitigate technology obsolescence, which is discussed more fully below.[3261]

Technology Obsolescence

The occurrence of technology obsolescence was raised by parties in the proceeding as both a reason to update technology, and a reason to disallow updates to technology. As explained in SoCalGas's testimony, "[e]ventual obsolescence, which impacts numerous industries, sparks creativity, innovation and change in society. That is not in itself bad or problematic. Technology is an industry of great change and innovation."[3262] SoCalGas and SDG&E prudently manage these changes and accompanying obsolescence through the vetting and rigor of its technology selection, design, testing processes on the front end to meet its business and customer needs,[3263] and by its actions upon implementation to regularly update and maintain that technology to maximize its lifespan, and when the time comes, to replace that technology.

As SoCalGas and SDG&E demonstrated in their respective IT Policy testimony, the Test Year (TY) 2024 forecast focuses on a digital operating model, which will enable faster, more resilient, and innovative technology solutions for the business and their customers.[3264] The Companies "Proactively Manage[s] Risk," by "continuing to manage the technology lifecycle, by replacing unsupported technologies, ensuring the resiliency and recovery of technology systems and patching identified vulnerabilities,"[3265] as one of the key pillars that underlies SoCalGas's and SDG&E's IT capital forecasts, and deploying innovative technologies, such as Cloud-based solutions as discussed above, enables SoCalGas and SDG&E to innovate and develop new solutions to meet business and customers' needs.

3260 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1 at 5-6.

3261 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1; Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1.

3262 Ex. SDG&E-225-E (Gordon/Exon) at 4.

3263 *See* Ex. SDG&E-225-E, Appendix D, at BG-WE-D-1 (Illustration of IT Project Lifecyle as part of SDG&E Response to DR PAO-SDGE-043-LMW, Question 1.e.).

3264 *See* Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1; at 2; Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1 at 2.

3265 *Id.*

As systems age, their reliability and efficiency decrease, and the risk of cyber vulnerabilities increases. Technology industry expert Gartner notes, "All technology becomes obsolete and unsupported over time. Unsupported systems do not receive bug fixes, enhancements, and, most importantly, security patches — significantly increasing the risk of system compromise."[3266] Ensuring that systems are regularly updated and maintained to maximize their lifespan, as well as investing in technologies that are designed to meet the business and customer demands is prudent business practice. Obsolescence is one component SoCalGas and SDG&E assess and reassess while managing risk to reliable, safe services that the Companies provide, and that assessment is reflected in their IT TY 2024 requests.[3267]

27.1.1 Forecast Methodology for IT O&M Costs

The forecast methodology developed for SoCalGas and SDG&E IT O&M costs is the base year (2021) recorded, plus adjustments.[3268] The primary reason for this approach is that history is not necessarily a good predictor of future needs. The pace of change in the technology industry continues to accelerate when compared to prior years. This is evidenced by growth in computing power at the hardware level, as well as the number and diversity of applications at the software level. Factoring in emerging computing trends, such as Cloud computing and the increasing commercialization of IT capabilities, required us to use current data and adjustments rather than relying on historical averages that do not include these types of trends in our computing environment. In addition, the level of support provided by the IT Division continues to grow due to new systems and capabilities being implemented to support business and customer needs, which would not be reflected in our historical costs.

[3266] Ex. SDG&E-225-E, Appendix C-1, Gartner, Securing End-of-Support Production Systems, March 15, 2023, at 1-2. *See also* Ex. SCG-221 (Gordon/Exon) at 4 and Appendix C at BG-WE-C-12, and n.3 (citing U.S. Dept. of Homeland Security, CISA, Bad Practices: "Use of unsupported (or end-of-life) software in service of Critical Infrastructure and National Critical Functions is dangerous and significantly elevates risk to national security, national economic security, and national public health and safety. This dangerous practice is especially egregious in technologies accessible from the Internet.").

[3267] *See* Tr. V18:3324:11-3325:4 (Gordon); *see also id*. at 3326:3-16.

[3268] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 12; *see also* Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 11-12.

27.1.2 Forecast Methodology for IT Capital Projects[3269]

The forecast methodology developed for IT capital costs is zero-based, which reflects the accelerating pace of change in the technology industry, as discussed in the IT O&M section of this brief. The capital forecasts developed for SoCalGas and SDG&E are based upon the accumulation of individual projects that start as concepts and will eventually move through a rigorous approval process, which is documented below. Each project estimate is formulated from the ground up by teams experienced in estimating projects with similar scope, schedule, resources, and will use various methods based on applicability (*e.g.*, RFPs, vendor quotes, existing contracts, internal subject matter judgment and expertise, prior implementations).

Before an IT capital project is funded and moves into development, it must go through the respective Company's capital project approval process, which has several distinct stages, as described below.[3270]

27.1.2.1 IT Division Capital Plan Development

The IT Division develops a proposed set of capital projects for the upcoming year by working with business clients to identify new technology capabilities to meet business and customer needs as well as working with the IT teams to identify technology lifecycle needs. IT and business client teams develop a project concept that is used to prioritize and approve projects to proceed to developing a Business Case. Each year technology concepts are collected, scored and prioritized for funding. Stakeholders across all business units participate in the concept development and scoring process. Supporting documentation is developed by way of concept documents and business cases to be utilized as part of the prioritization and approval process.

27.1.2.1.1 Concept Documents

Concept documents are high-level assessments developed for review during the capital planning process. The concept document contains typical project elements, such as cost estimates, business benefits and project schedules. It also provides project teams the opportunity to document alternative options considered, as well as business risks and implications of not

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3269 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 25; *see also* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 24.

3270 *Id.* at 24-25. SoCalGas also provided parties additional details on its project development process and project lifecycle in response to data requests and testimony. *See, e.g.*, Ex. SCG-221 (Gordon/Exon), at 9-11 and Appendix B (SoCalGas Response to PAO-SCG-026-LMW, Question 1e) at BG-WE-B-4-B-6. *See* also Ex. SDG&E-225-E (Gordon/Exon) at 4 & n. 15 and Appendix D (SDG&E Response to PAO-SDGE-043-LMW, Question 1e) at BG-WE-D-5-D-7.

proceeding with the project. These elements are available for consideration during project prioritization and approval.

27.1.2.1.2 Project Prioritization and Approval

The concepts provided by delivery teams are utilized for prioritization purposes. Rankings are determined based on various factors including, but not limited to, safety, regulatory, technology lifecycle needs, and cost-benefit analyses. The annual capital planning process for SoCalGas and SDG&E is administered by a Capital planning group and the process is referenced in the Rate Base testimony of Pat Moersen (Ex. SCG-31-2R) for SoCalGas and Steven Dais (Ex. SDG&E-35-R) for SDG&E. Based on the rankings, projects are approved for preliminary funding and to proceed to Business Case development.

27.1.2.1.3 Business Cases

Once funding is approved by the Capital planning group for a concept, a complete business case must be prepared and approved before work begins. Business cases are developed jointly by representative(s) from the sponsoring IT department, the sponsoring business department (when applicable), and the IT Technology Investment team. Others may be added to the team as required.

- The sponsoring IT department is primarily responsible for defining the project scope, identifying the technical approach and alternatives, and generating the basis of the estimate for the capital costs and ongoing O&M support costs.
- The business representatives are primarily responsible for confirming the business requirements, calculating the business benefits, and ensuring that the proposed solution meets the business objectives.
- The IT Technology Investment team ensures that the templates are completed correctly, that the project costs are calculated and characterized correctly, and that the proposed scope is consistent with policy.
- Cybersecurity Division review also occurs.

27.1.2.2 Cost Sharing Mechanisms

A cost sharing mechanism must be determined for any project that will be utilized across SoCalGas, SDG&E, and/or Corporate Center. As part of the business case development, a project team will include a recommendation of how costs will be shared for consideration during the capital approval process based on its assessment of project scope.

27.2 Summary of IT Costs and Activities

SoCalGas's IT request is described and justified in IT's requested funding and forecasted activities for 2022-2024.[3271] As shown below, SoCalGas requests TY 2024 O&M (both shared and non-shared) funding for SoCalGas's IT division and SoCalGas's forecasted IT Capital projects for 2022-2024. Table 27.5 and Table 27.6 below – from SoCalGas's rebuttal testimony (Ex. SCG-221 (Gordon/Exon)) – summarize the total cost forecast for these IT functions for TY 2024 as compared to Cal Advocates' and TURN's forecasts.

SDG&E's IT request is described and justified in IT's requested funding and forecasted activities for 2022-2024.[3272] As shown below, SDG&E requests TY 2024 O&M (both shared and non-shared) funding for SDG&E's IT division and SDG&E's forecasted IT Capital projects for 2022-2024. Table 27.7 and Table 27.8 below – from SDG&E's rebuttal testimony (Ex. SDG&E-225-E (Gordon/Exon)) -- summarize the total cost forecast for these IT functions for TY 2024 as compared to Cal Advocates', TURN's and UCAN's forecasts.

Costs

SoCalGas and SDG&E provide appropriate detail and analysis in support of their requests for incremental TY 2024 expenses. SoCalGas's and SDG&E's direct testimony, O&M and Capital workpapers and discovery responses provide narrative and analytical support for their requests.

SoCalGas' and SDG&E's workpapers provide details of their O&M and Capital expense forecasts as summarized in direct testimony. Forecasted costs are categorized into IT functional groupings (*i.e.*, Applications, Infrastructure and IT Support). Workpapers include additional details, such as activity descriptions, forecast methodology explanations, 2017 through 2021 adjusted-recorded costs (labor and non-labor), explanations for historical adjustments, year to year (2022 – 2024) line-item incremental activities for each workpaper, Cost Center Allocation percentages and methodology descriptions, where applicable, and explanations for incremental changes for each of the forecast years.

The content of workpapers is consistent with the level of detail that has been provided in past rate cases and deemed acceptable. In addition, SoCalGas and SDG&E provided all of the

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[3271] *See generally* Ex. SCG-21-R-E (Gordon/Ballard/Exon), Ex. SCG-21-WP-R-2E (Ballard), Ex. SCG-21-CWP-R (Exon), and Ex. SCG-221 (Gordon/Exon).

[3272] *See generally* Ex. SDG&E-25 (Gordon/Ballard/Exon), Ex. SDG&E-25-WP (Ballard), Ex. SDG&E-25-CWP-R (Exon), and Ex. SDG&E-225-E (Gordon/Exon).

information in workpapers to Cal Advocates in a more analysis-friendly Excel format, and held, when requested, meetings to discuss in more detail the information provided. In some cases, quantitative information such as number of resources, annual rates and historical O&M percentages were included. In others, the forecasts are based on the judgment and experience of professionals in the IT division. In fact, SoCalGas' and SDG&E's use of professional judgment and management experience is an acceptable forecasting methodology in a GRC, according to the guidelines governing these proceedings.[3273]

Activities

The IT Division is responsible for many of the technology-related services and activities for the Companies. The services include supporting applications, hardware, and software, some of which are used for risk assessment and management across the Companies. IT's business clients rely on IT to provide ongoing operational as well as supporting transformational initiatives for numerous business functions to deliver safe and reliable service to our customers. The business functions include, but are not limited to, asset management, work management and measurement, fuel and power, outage management, gas and electric facilities, transportation, procurement and settlement, financial management, accounting, customer field operations, meter reading, customer energy management, smart meter data management, routing, scheduling, dispatching, revenue cycle, customer assistance, customer contact functions, operational analytics, and process automation. This is accomplished through the IT Division's management of Cloud providers and operation of Company data centers that store and manage data, including those used for risk assessments and development of related mitigation plans, as well as foundational information security services to ensure security and privacy.

27.3 Summary of Safety and Risk-Related Costs

27.3.1 SoCalGas Safety and Risk Related Costs

SoCalGas's proposed IT capital projects include projects driven by activities described in SoCalGas's 2021 RAMP Report (the 2021 RAMP Reports).[3274] The SoCalGas 2021 RAMP Report presented an assessment of the key safety risks of SoCalGas and proposed plans for

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3273 D.07-07-004, Appendix A at A-31 (stating that "Where judgment is involved in setting an estimate level, [the applicant must] explain why that particular level was adopted.").

3274 *See* A.21-05-011/014 (cons.) (RAMP Proceeding). Please refer to the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2) for more details regarding the 2021 RAMP Reports.

mitigating those risks. As discussed in the testimony of the RAMP to GRC Integration witnesses R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2), the costs of risk mitigation projects and programs were translated from the 2021 RAMP Report into the individual witness areas.

The tables below – from SoCalGas's direct testimony - provide a summary of the RAMP-related costs supported by IT testimony. These include both costs to mitigate key safety-related risks and Cross Functional Factors (CFF) that are included within the RAMP Report. CFF refer to initiatives that are associated with, but not specific to, any specific RAMP risk, and Foundational Technology Systems (FTS), is one of the CFFs included in SoCalGas's RAMP Report. FTS are integral and used in every aspect of operations, customer engagement, and emergency response. Their importance to the Company, and the need for resilience, recoverability, and lifecycle management, is detailed in SoCalGas's IT testimony.[3275]

Table 27.1
SoCalGas Summary of RAMP O&M Costs[3276]

INFORMATION TECHNOLOGY Summary of RAMP O&M Costs (In 2021 $)			
	BY2021 Embedded Base Costs (000s)	**TY2024 Estimated Total (000s)**	**TY2024 Estimated Incremental (000s)**
RAMP Risk Chapter			
SCG-Risk-2 Excavation Damage (Dig-In) on the Gas System	83	83	0
Sub-total	83	83	0
RAMP Cross Functional Factor (CFF)* Chapter			
SCG-CFF-1 Asset and Records Management[3277]	8,196	10,236	2,040
SCG-CFF-4 Foundational Technology Systems	9,203	9,821	618
Sub-total	17,399	20,057	2,658
Total RAMP O&M Costs	**17,482**	**20,140**	**2,658**

*CFF-related information in accordance with the March 30, 2022 Assigned Commissioner Ruling in A.21-05-011/-014 (cons.) is provided in the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2).

3275 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 6-8 and Appendices C (Risk-related O&M costs) and D (Risk-related Capital costs).

3276 Ex. SCG-21-R-E (Gordon/Ballard/Exon) Chapter 2, at 4-5, Table TB/WE-2. *See also id.* at 5-6, Table TB/WE-4 for a description of the risks and factors covered by IT. *See* also Ex. SCG-03-WP-R (Flores) for the list of O&M workpapers that comprise these costs.

3277 Note Table TB/WE-2 erroneously reflects SCF-CFF-1 as "Foundational Technology Systems," The correct name is SCG-CFF-1 Asset and Records Management.

Table 27.2
SoCalGas Summary of RAMP Capital Costs[3278]

INFORMATION TECHNOLOGY Summary of RAMP Capital Costs (In 2021 $)				
RAMP Cross Functional Factor (CFF)* Chapter	**2022 Estimated RAMP Total (000s)**	**2023 Estimated RAMP Total (000s)**	**2024 Estimated RAMP Total (000s)**	**2022-2024 Estimated RAMP Total (000s)**
RAMP Cross Functional Factor (CFF) Chapter				
SCG-CFF-1 Asset and Records Management	16,178	12,654	10,462	39,294
SCG-CFF-4 Foundational Technology Systems	116,362	110,672	98,820	325,854
Sub-total	132,540	123,326	109,282	365,148
Total RAMP Capital Costs	**132,540**	**123,326**	**109,282**	**365,148**

*CFF-related information in accordance with the March 30, 2022 Assigned Commissioner Ruling in A.21-05-011/-014 (cons.) is provided in the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2).

The Commission should approve these RAMP-related IT costs as reasonable.

27.3.2 SDG&E Safety and Risk Related Costs

SDG&E's proposed IT capital projects include projects driven by activities described in SDG&E's 2021 RAMP Report.[3279] The SDG&E 2021 RAMP Report presented an assessment of the key safety risks of SDG&E and proposed plans for mitigating those risks. As discussed in the testimony of the RAMP to GRC Integration witnesses R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2), the costs of risk mitigation projects and programs were translated from the 2021 RAMP Reports into the individual witness areas.

The tables below – from SDG&E's direct testimony - provide a summary of the RAMP-related costs supported by IT testimony. These include costs to mitigate safety-related risks that comprise CFF that are included within the RAMP Report. CFF refer to initiatives that are associated with, but not specific to, any specific RAMP risk, and FTS, is one of the CFFs included

3278 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 4-5, Table TB/WE-3. *See* also Ex. SCG-03-CWP-2R (Flores)) for the list of Capital workpapers that comprise these costs. .

3279 *See* A.21-05-011/014 (cons.) (RAMP Proceeding). Please refer to the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2) for more details regarding the 2021 RAMP Reports.

in SDG&E's RAMP Report. FTS are integral and used in every aspect of operations, customer engagement, and emergency response. Their importance to the Company, and the need for resilience, recoverability, and lifecycle management, is detailed in SDG&E's IT testimony.[3280]

Table 27.3
SDG&E Summary of RAMP-Related O&M Costs[3281]

INFORMATION TECHNOLOGY Summary of RAMP O&M Costs (In 2021 $)			
RAMP Cross Functional Factor (CFF)* Chapter	**BY2021 Embedded Costs (000s)**	**TY2024 Estimated Total (000s)**	**TY 2024 Estimated Incremental (000s)**
SDG&E-CFF-4 Foundational Technology Systems	29,118	30,309	1,191
Total	**29,118**	**30,309**	**1,191**

* CFF-related information in accordance with the March 30, 2022 Assigned Commissioner Ruling in A.21-05-011/-014 (cons.) is provided in the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2).

Table 27.4
SDG&E Summary of RAMP-Related Capital Costs[3282]

INFORMATION TECHNOLOGY Summary of RAMP Capital Costs (In 2021 $)			
RAMP Cross Functional Factor (CFF)* Chapter	**2022 Estimated RAMP Total (000s)**	**2023 Estimated RAMP Total (000s)**	**TY 2024 Estimated RAMP Total (000s)**
SDG&E-CFF-1 Asset Management	7,703	9,963	6,078
SDG&E-CFF-4 Foundational Technology Systems	84,798	70,914	64,104
Total	**92,501**	**80,877**	**70,182**

* CFF-related information in accordance with the March 30, 2022 Assigned Commissioner Ruling in A.21-05-011/-014 (cons.) is provided in the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2).

3280 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 8-10 and Appendices C (Risk-related O&M costs) and D (Risk-related Capital costs).

3281 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 4, Table TB/WE-2. *See also id.* at 5-6, Table TB/WE-4 for a description of the risks and factors covered by IT. *See* also Ex. SDG&E-03-WP-R (Pearson) for the list of O&M workpapers that comprise these costs.

3282 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 5, Table TB/WE-3. *See* also Ex. SDG&E-03-CWP-R (Pearson) for the list of Capital workpapers that comprise these costs.

The Commission should approve these RAMP-related IT costs as reasonable.

27.4 Summary of Differences with Other Parties (SoCalGas)

27.4.1 SoCalGas Versus Other Parties - Summary of Differences

The tables below – adopted from SoCalGas's rebuttal testimony – summarize the differences between SoCalGas's IT forecasts versus other parties' recommendations.[3283]

Table 27.5
Summary of Total O&M Costs

TOTAL O&M - Constant 2021 ($000)		
	Base Year (BY) 2021	**Test Year (TY) 2024***
SOCALGAS	49,709	56,783
CAL ADVOCATES	49,709	56,783

*Numbers updated per the Errata.

Table 27.6
Summary of Total Capital Costs

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance to SoCalGas Ask**
SOCALGAS	253,159	229,046	174,827	657,032	NA
CAL ADVOCATES	247,991	186,164	152,265	586,420	(70,612)
TURN	244,883	204,626	146,907	596,416	(60,616)

As reflected in the Tables above, no party opposed SoCalGas's TY 2024 O&M forecasts for non-shared and shared services costs. With respect to SoCalGas's Capital forecasts, only two parties took issue with certain discreet projects. Cal Advocates recommends the removal of the $70.612 million Systems Applications and Products (SAP) Transformation Capital project, but does not oppose the business rationale for the remaining proposed Capital IT projects.[3284] TURN recommends the removal of the SoCalGas: (1) Customer Contact Center (CCC) Technology Modernization Capital project based on its assertion that the project was insufficiently justified, a reduction of $15.906 million during the GRC cycle;[3285] (2) Advanced Meter Head End and Meter Data Management Next-Generation project's capital forecast based on its assertion the project was

3283 Ex. SCG-21-R-E (Gordon/Exon) at TLB/WJE-i (Summary of Differences Tables).

3284 Ex. CA-11 (Waterworth) at 62:14-15.

3285 Ex. TURN-09-2R (Cheng) at 3, 13-15.

insufficiently justified, a reduction of $28.832 million in 2024;[3286] and (3) Field Portable Automated Centralized Electronic Retrieval workforce management (PACER WFM) system (PACER WFM), replacement capital project based on its assertion the project was insufficiently justified, a reduction of $7.024 million in 2022, $11.907 million in 2023, and $13.773 million in 2024.[3287] For the reasons set forth below, SoCalGas disagrees that any amount should be disallowed on these four capital projects and requests that the Commission adopt SoCalGas's reasonable IT forecast as proposed.

27.4.2 IT O&M Request

27.4.2.1 Introduction -- SoCalGas

SoCalGas requests approval of a TY 2024 forecast of $56.783 million for O&M costs associated with IT activities.[3288] The O&M forecast in Table 27.5 above, is comprised of $29.521 million for non-shared service activities, representing an increase of $5.511 million over 2021 adjusted-recorded costs for non-shared services, and $27.263 million for shared service activities, and represents an increase of $1.564 million over 2021 adjusted-recorded costs for shared services. Only Cal Advocates addressed SoCalGas's IT O&M forecasts and does not oppose SoCalGas's TY 2024 IT O&M request.[3289] The Commission should approve SoCalGas's O&M request as reasonable.

27.4.3 SoCalGas IT Capital Request

27.4.3.1 Introduction

SoCalGas provides its summary of total capital costs in Table 27.6 above. The summary of projects sponsored by the business units and by IT for 2022, 2023, and 2024 are provided in SoCalGas's direct testimony (Ex.SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 23, 26-28). SoCalGas's Application included 123 proposed projects, of which 75 are justified by the Business area sponsoring the project and 48 are sponsored by IT, that were in various stages of the IT capital project approval process at the time SoCalGas's TY 2024 GRC Application was filed. As discussed below, Cal Advocates and TURN take issue with certain of those projects.

3286 *Id.* at 15-16.

3287 *Id.* at 3, 8-10.

3288 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 1.

3289 Ex. CA-11 (Waterworth) at 56:4-5 ("Cal Advocates does not oppose SCG's forecast.").

27.4.3.2 SoCalGas Response to Cal Advocates' Capital Recommendations

27.4.3.2.1 SAP Transformation Project Cost

The only capital project that Cal Advocates takes issue with is SoCalGas's Systems Applications Products (SAP) Transformation Project. The Administrative & General division sponsored and has provided the business justification for this Project.[3290] Cal Advocates asserts that project cost estimates were "inadequately supported," "inadequate business justification [was] provided" and Cal Advocates' "expectation [is that] the project will not be completed in its entirety until the post test year,"[3291] and recommends the following reductions to the Capital forecast: a reduction of $5.168 million for 2022; a reduction of $42.882 million for 2023; and a reduction of $22.562 million for 2024. In total, Cal Advocates proposes a reduction of approximately $71 million, which is the entirety of the proposed forecasted project. SoCalGas IT justified the costs and timing of this Project and disagrees with Cal Advocates' assertions and recommended disallowance for the SAP Transformation Project.

As explained in detail in Section 34.1 (SoCalGas A&G), SAP provides software and technology solutions for businesses worldwide and is a critical Enterprise Resource Planning (ERP) system for the Companies since 1999. It is a complex and customized system, with over 400 system interfaces to transfer a high volume of sensitive data and transactions from non-SAP systems to SAP.[3292] The current version of SAP helps to manage Company finance, work management, supply chain, asset management services, safety, and procurement business processes in an integrated system. It is also used to help generate SoCalGas's financial statements and regulatory reports,[3293] maintain the entire gas and electric distribution construction work management lifecycle, and captures field work completion, including scheduling and emergency-related work orders, and inventory management.[3294] A new version of SAP has been released and the vendor has informed SoCalGas that it will no longer support the Companies' version after

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3290 *See* Ex. SCG-29-R-E (Mijares) at 60:13-25; Ex. SCG-229-E (Mijares) at 23-26. *See also* Section 34, at 34.1.5.

3291 Ex. CA-11 (Waterworth) at 62:12 and 62:15-17.

3292 *See* Ex. SCG-229-E (Mijares) at 24:23-29.

3293 *Id.* at 23-26.

3294 *Id.; see also* Ex. SCG-221 (Gordon/Exon) at 5-12.

2027, rendering that version obsolete and open to unacceptable cybersecurity and reporting risks.[3295]

The SAP Transformation Project is a first, necessary, phase in the replacement of the ERP platform. It will take time and planning to configure the new base system given the complex system of interfaces that are inter-related with the current SAP. As SoCalGas has explained, "[t]he SAP Transformation project allows SoCalGas, SDG&E and Sempra to more seamlessly transition our configurations and master data from the current version, saving us time and considerable effort in the long run and minimizing costs to the ratepayers when compared to implementing a different ERP system (*e.g*., Oracle or Salesforce)."[3296]

In addition to challenging the business justification for the Project (that is addressed in Section 34.1), Cal Advocates asserts that SoCalGas provided inadequate support for its cost estimates, by failing to provide calculations for its determination of amounts, and further claims that the Project timeline is unreasonable or in doubt.[3297] To the contrary, the SAP Transformation Project was well-supported. Rather than the dearth of information that Cal Advocates attempts to portray, SoCalGas provided in testimony, workpapers, data request responses and verbally a breakdown of the forecasted costs for the Project, for each development phase and for the labor and nonlabor components.[3298] This included an explanation that -- typical for a project of this size and complexity -- initial estimates are based on the input of subject matter experts who have executed thousands of IT projects, and, where available, on the results of the competitive Requests for Proposals (the RFP) process that has or will occur for each phase of the project development.[3299]

Cal Advocates is similarly off-base on its project timing concerns. Pointing to a laundry list of hypothetical things that could delay a generic project, Cal Advocates makes the unsupported assertion that the timeline for the SAP Transformation project is unachievable. As described above and in testimony, SoCalGas undertakes a thorough and thoughtful process when considering

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3295 Ex. SCG-229-E (Mijares) at 23:14-17. *See also* discussion on risks created by use of unsupported or end of life technology in Technology Obsolescence section, *supra*, citing Gartner and Department of Homeland Security (DHS).

3296 *See* Section 34, *supra*, at 34.1.5.

3297 Ex. CA-11 (Waterworth) at 62-63, 65-66.

3298 *See, e.g.*, Ex. SCG-221 (Gordon/Exon) at 6:28-8:1, and Table WE-1.

3299 *Id.* at 7:7-11.

a technology project and the careful development of project milestones, and engages a project team of relevant subject matter experts to establish and guide the project.[3300] Both the project schedule depicted in Cal Advocates' testimony and in the Gantt chart SoCalGas included in its testimony reflect the SAP Transformation Project completion within the TY.[3301] Given the complexity of an SAP replacement project, which will span into the next GRC period, the SAP Transformation Project must commence during this TY 2024 GRC cycle. This project is not a discretionary project, and the Commission should reject Cal Advocates' recommendation and adopt the Project.

27.4.3.3 SoCalGas Response to TURN's Capital Recommendations

TURN challenges three of the SoCalGas IT Capital projects, making essentially the same arguments in each. As discussed below, TURN's objections are not supported.

27.4.3.3.1 RAMP - CCC Technology Modernization (WP# 00754V) Project Cost

TURN recommends the Commission deny in total SoCalGas's CCC Technology Modernization project on the basis that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits included in SoCalGas' direct testimony or workpapers."[3302] TURN's requested rejection of this Project would result in the following reductions to SoCalGas's IT Capital forecast: a reduction of $1.253 million in 2022, a reduction of $12.512 million in 2023; and, a reduction of $2.141 million in 2024 for this IT Capital project.[3303] SoCalGas disagrees with TURN's recommendation for the CCC Technology Modernization Project.

As described in the testimony of Bernardita Sides,[3304] which provides the business justification and for this project, "[t]he purpose of the CCC Technology Modernization project is to replace the on-premise contact center technology platforms with a cloud solution to reduce technology complexity and improve maintainability and reliability."[3305] The current Customer Contact Center (CCC) serves as the hub for SoCalGas's customers interaction and engagement with the Company.

[3300] *Id.* at 9:10-20.

[3301] *Id.* at 11 and Figure 1-WE; Ex. CA-11 (Waterworth) at 65.

[3302] Ex. TURN-09-2R (Cheng) at 13:17-18 (citation omitted).

[3303] Ex. TURN-09-2R (Cheng) at 15.

[3304] *See* Ex. SCG-15-R-2E (Sides) at 48-49; Ex. SCG-215-E (Sides) at 22-24; *see also* Section 21.3.

[3305] Ex. SCG-215-E (Sides) at 22 (citation omitted).

The current on premises contact center technology platform is comprised of multiple technologies and systems from different vendors with complex integration and support requirements[3306] and movement to a cloud solution is necessary as the platform nears end of life and end of support from its vendors.[3307] In particular, the current technologies, such as Genesys IVR (Interactive Voice Response), Avaya (voice), and NICE (Workforce Management), that SoCalGas uses to support its CCC are over a decade old and have limited capabilities to address customer needs, and continued vendor support is uncertain. Genesys has launched a cloud IVR product and is no longer enhancing its on-site solutions beyond bug fixes and/or security updates. Avaya, the vendor for the contact center voice system, has filed for Chapter 11 bankruptcy, which poses significant risk to the continued viability of the product and its operations, as well as voice system reliability concerns.[3308] The risks attendant to technology obsolescence, and unsupported systems, are well documented.[3309] The CCC Technology Modernization Project, will transfer and/or replace many of the CCC legacy systems to a Cloud platform and allow for more frequent and faster updates, modifications, and enhancements to the CCC applications, providing both security and protections for customer-facing applications and features that enhance the customer experience, and will decrease the risk of obsolescence. This RAMP-related Project also supports compliance-related activity for CPUC requirements and the California Customer Privacy Act (CCPA), including confirming customer data transfers to authorized third parties complying with all privacy, cybersecurity and CCPA requirements, such as maintaining records of all customer data transferred for audit and CCPA response purposes.[3310]

TURN suggests that the Commission deny in total SoCalGas's request to replace the current CCC systems with the CCC Modernization Project. TURN does not contend the Project is not needed or prudent, but instead focuses on whether SoCalGas provided sufficient detail at the

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3306 Ex. SCG-215-E (Sides), Appendix B at BMS-B-41.

3307 *See* Ex. SCG-221 (Gordon/Exon) at 12-13.

3308 *See* Ex. SCG-221 (Gordon/Exon) at 13, (citing Reuters, Avaya files for Chapter 11 bankruptcy, February 14, 2023, https://www.reuters.com/technology/avaya-files-chapter-11-bankruptcy-2023-02-14/.)

3309 *See* discussion on risks created by use of unsupported or end of life technology in Technology Obsolescence section, *supra*, citing Gartner and DHS.

3310 Ex. SCG-215-E (Sides) at 23:5-12. *See also* A.21-05-011/014 (cons.) (RAMP Proceeding), SCG/SDDG&E-CFF-04 (Foundational Technology Systems) at Section IV., SCG/SDGE-CFF-4-6 - 4-7, and Section V., SCG/SDGE-CFF-4-10 – 4-12.

time it filed its initial application "[in] direct testimony and workpapers."[3311] That is not the standard of review. Through testimony and data request responses, SoCalGas has met its burden by providing details regarding the CCC Modernization Project, including the business case, cost-benefit analysis, the project timeline, and other information.[3312] Absent the CCC Modernization Project, SoCalGas will default to using an obsolete system with limited functionality and services for customers, resulting in higher costs to patch and maintain the system and loss of productivity.[3313] SoCalGas's CCC Modernization Project should be adopted by the Commission.

27.4.3.3.2 RAMP - Advanced Meter Head End and Meter Data Management System Next Generation/AclaraONE (WP# 00754T) Project Costs

SoCalGas has requested $12.006 million in 2024 to complete the Advanced Meter Head End and Meter Data Management System Next Generation/AclaraONE Project (AclaraONE Project). This Project will update SoCalGas's Advanced Meter Systems to the next generation of the Aclara software, which is Cloud-based, allowing end-to-end encryption of customer gas consumption data, support for upgraded Meter Transmission Units, and methane and cathodic detection capabilities, in addition to modernizing back office customer billing. AclaraONE also mitigates safety risks by monitoring unusual consumption which can be due to gas leaks , as identified in the 2021 RAMP Report: SCG CFF-4 Foundational Technology Systems – 4.[3314] The AclaraOne software upgrade to the Cloud is necessitated by the vendor's move to Cloud-based products. The new AclaraONE is now Cloud-based and the vendor will no longer support the onsite version beyond bug fixes, and thus creating reliability and security risks as well as expensive maintenance and support costs for the end of support product.[3315]

TURN recommends that the Commission deny in total the AclaraONE Project asserting that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits included in SoCalGas' direct testimony or workpapers."[3316] Although SoCalGas reflects a

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3311 Ex. TURN-09-2R (Cheng) at 13:17-18.

3312 Ex. SCG-15-R-2E (Sides) 48-49; Ex. SCG-215-E (Sides) at 22-24, Appendix B at BMS-B-38 and BMS-B-79; *see also* Ex. SCG-221 (Gordon/Exon) at 13:27–14:9.

3313 *See* Ex. SCG-221 (Gordon/Exon) at 15:2-8.

3314 Ex. SCG-221 (Gordon/Exon) at 15; Ex. SCG-SCG-15-R-2E (Sides) at 49-50; Ex. SCG-215-E (Sides) at 24; *see also* Section 21.3 (SoCalGas Customer Services Office Operations), *supra*, at 21.3.

3315 Ex. SCG-221 (Gordon/Exon) at 15:25-28.

3316 Ex. TURN-09-2R (Cheng) at 15-17 and n.37.

$12 million capital forecast for 2024 alone, TURN incorrectly asserts that SoCalGas seeks "nearly $50 million" for its project.[3317] TURN does not contend the Project is not needed or prudent, but instead focuses again on whether SoCalGas provided sufficient detail at the time it filed its initial application.[3318] TURN misreads and misapprehends SoCalGas's request.

First, as in SoCalGas's past GRCs, IT Capital projects are presented at various stages of their planned development process. SoCalGas described in testimony, data requests and above (*see* Section 27.1.2. *supra*) the rigorous process that each proposed IT project must undergo before the project is approved by the Company and proceeds to implementation.[3319] This process is integral to the manner in which SoCalGas identifies both business and customer needs and identifies solutions in partnership with the IT Division. Projects like AclaraOne, replace outdated technology that is at or near the end of life or support, are advanced to increase functionality to meet business and customer needs and/or are aimed at increasing compatibility with newer systems as technology continues to advance.[3320] TURN remarks "[j]ust because a next generation technology is available and cloud-based does not mean that costs associated with the project are automatically deemed to be reasonable and cost-effective."[3321] These are TURN's words, not SoCalGas's. The comment, though, ignores the commercial reality that a vendor may independently determine that early generation products have reached end of support and should be replaced. As SoCalGas explained, the AclaraOne project is

> [C]urrently in the concept phase and the project team is assessing and developing the business case. While the business and financial estimates are preliminary in nature, the data supports the proposed project benefits, including avoidance of the business risks and system shortfalls described above that the current aging system faces, and should avoid further costs that would be associated with paying for legacy system upgrades to keep an out dated system functioning until another solution is approved, and provide a system that is more responsive to business needs and efficiencies by moving the systems to the Cloud.[3322]

3317 *Id.* at 15.

3318 *Id.*

3319 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 24-25. SoCalGas also provided parties additional details on its project development process and project lifecycle in response to data requests and testimony. *See, e.g.*, Ex. SCG-221 (Gordon/Exon) at 9-11 and Appendix B (SoCalGas Response to PAO-SCG-026-LMW, Question 1e) at BG-WE-B-4-B-6.

3320 *See generally* Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1.

3321 Ex. TURN-09-2R (Cheng) at 15:17-19.

3322 Ex. SCG-221 (Gordon/Exon) at 16:12-19 (citation omitted); Ex. SCG-215-E (Sides) at 24-25 and Appendix B starting at BMS-B-37, and BMS-B-104-108 for TURN-SEU-064 response to Question 2b.

Obsolescence requires the legacy Advanced Meter Network Management software (HeadEnd) and Meter Data Management System (MDMS) systems to be replaced. Without an operational Advanced Meter system, customers will not be billed on time or have accurate bills due to meter reading delays, this results in higher costs to support SoCalGas's operations and leads to customer confusion and frustration.[3323] While the Project will continue to undergo a rigorous process to confirm that the Project can capture the benefits of replacing an aging system, that does not prevent the Commission from determining the project is reasonable and should be adopted.

Second, TURN is incorrect and appears to misunderstand post-test year (PTY) ratemaking when it asserts that SoCalGas is seeking attrition year costs for this project. As described in Section 45 (Post Test Year Ratemaking), SoCalGas is seeking a "PTY ratemaking mechanism to adjust its authorized revenue requirement in the post-test years by applying separate attrition adjustments for operating and maintenance (O&M) expenses (including a separate attrition adjustment for medical expenses), capital-related costs and exogenous cost changes."[3324] A PTY revenue requirement is requested for SoCalGas overall and not an individual project like the AclaraOne project.[3325]

SoCalGas's AclaraOne Project should be adopted by the Commission.

27.4.3.3.3 RAMP -- PACER WFM Replacement Project/VistaOne (WP# 00754AK)

SoCalGas has requested $7.024 million in 2022, $11.907 million in 2023 and $13.773 million in 2024 for the Portable Automated Centralized Electronic Retrieval Workforce Management system (PACER WFM). As reflected in the testimony of Daniel Rendler (Ex. SCG-14-R), who provides the business justification for this project, the WFM mainframe is the central system for the Customer Service Field operations and "drives what field work can be done, by whom and when,' supporting Capacity Planning, Resource Management, Appointment Booking, Order Routing and Dispatch.[3326] This important system was put into operation in 1991 – over 30 years ago – and the PACER WFM Project will upgrade and modernize the system using a Cloud-

3323 Ex. SCG-221 (Gordon/Exon) at 17:4-11.

3324 Ex. SCG-40-2R-E (Nguyen) at 1 (citation omitted).

3325 Ex. SCG-221 (Gordon/Exon) at 17:12-18:8 (citing Ex. SCG-40-2R (Second Revised Prepared Direct Testimony of Khai Nguyen (Post-Test Year Ratemaking)) at KN-1.).

3326 Ex. SCG-14-R (Rendler) at 47. S*ee also* Ex. SCG-214 (Rendler) at 20; Section 21.3 (SoCalGas Customer Services Field and Advanced Meter Operations), *supra*, at 21.3.

based solution.[3327] PACER WFM also mitigates safety risks, as identified in the 2021 RAMP Report: SCG CFF-4 Foundational Technology Systems – 4.[3328] This system has reached end of support, and technology has greatly advanced in the last 30 years. The PACER WFM system upgrade to Cloud is expected to provide more flexibility and increased scalability that currently does not exist with the legacy system and will enable required business and regulatory changes and analytic capabilities that the original system does not possess.[3329]

TURN asks that the Commission disallow the PACER WFM Project in its entirety. TURN claims that "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits."[3330] TURN further states "SoCalGas requests over $60 million for its PACER WFM Replacement Project between 2022 and 2027 ($7.024 million in 2022, $11.907 million in 2023, $13.773 million in 2024, and attrition years)."[3331] Again, TURN does not contend the Project is not needed or prudent, and focuses instead on whether SoCalGas provided sufficient detail at the time it filed its initial application, and reasserts its erroneous claim that SoCalGas improperly seeks attrition year costs for this project.[3332] SoCalGas provided information in testimony, workpapers, and data request responses that included its business case for the Project, including a cost-benefit analysis, Board Authorization and Work Order Authorization, which also detail the cost estimates and funding approvals.[3333]

TURN's statements about an attrition year request for the Project are incorrect and shows a misunderstanding of PTY ratemaking. SoCalGas is not seeking attrition year costs for the PACER WFM Replacement project. As described in Section 45 (Post Test Year Ratemaking), SoCalGas is seeking a '"PTY ratemaking mechanism to adjust its authorized revenue requirement in the post-test years by applying separate attrition adjustments for operating and maintenance (O&M) expenses (including a separate attrition adjustment for medical expenses), capital-related costs and

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3327 *Id.*

3328 Ex. SCG-221 (Gordon/Exon) at 18-19; Ex. SCG-14-R (Rendler) at 48; *see also* Section 21.3 (SoCalGas Customer Services Field and Advanced Meter Operations), *supra*, at 21.3.

3329 Ex. SCG-214 (Rendler) at 20:1-17; Ex. SCG-221 (Gordon/Exon) at 18:21-24 ("the legacy mainframe and its existing architecture is complex, inflexible and costly to modify and support.").

3330 Ex. TURN-09-2R (Cheng) at 9:2-3.

3331 *Id.* at 8:10-12.

3332 *See id.*

3333 Ex. SCG-221 (Gordon/Exon) at 18-21; Ex. SCG-21-CWP-R (Exon) at 43-52; Ex. SCG-14-R (Rendler) at 47-48; Ex. SCG-214 (Rendler) at 20-21 and Appendix B for SoCalGas response to TURN-SEU-063.

exogenous cost changes.'" A PTY revenue requirement is requested for SoCalGas overall and not on an individual project basis like the PACER WFM Replacement project.[3334]

SoCalGas's PACER WFM Replacement Project should be adopted by the Commission.

27.5 Summary of Differences with Other Parties (SDG&E)

27.5.1 SDG&E Versus Other Parties - Summary of Differences

The tables below – adopted from SDG&E's rebuttal testimony – summarize the differences between SDG&E's IT forecasts versus other parties' recommendations.[3335]

Table 27.7
Summary of Total IT O&M Costs

TOTAL O&M - Constant 2021 ($000)				
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**	**Variance to SDG&E Ask**
SDG&E	97,995	110,418	12,423	-
CAL ADVOCATES	97,995	97,226	(769)	(13,192)
TURN	97,995	110,418	12,423	-
UCAN	97,995	108,242	10,247	(2,176)

Table 27.8
Summary of Total IT Capital Costs

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance to SDG&E Ask**
SDG&E	220,012	208,793	214,186	642,991	-
CAL ADVOCATES	217,866	190,886	175,397	584,149	(58,842)
TURN	183,087	131,115	102,874	417,076	(225,915)
UCAN[3336]	Unclear	Unclear	Unclear	Unclear	

In the following sections, SDG&E summarizes its IT O&M and capital proposals and responds to other parties' recommendations with respect to these issues.

3334 Ex. SCG-221 (Gordon/Exon) at 20:15 - 21:11 (citing Ex. SCG-40-2R at KN-1.).

3335 Ex. SDG&E-225-E (Gordon/Exon) at 1 (Summary of Differences Tables).

3336 UCAN did not specify an overall Capital forecast expenditure recommendation. UCAN makes a variety of recommendations on certain projects that are addressed, *infra*.

27.5.2 IT O&M Request

27.5.2.1 Introduction

As reflected in the Tables above, SDG&E is forecasting $110.418 million for TY 2024 which is $12.423 million or 12.7% above 2021 recorded expenses for Information Technology. Only two parties, Cal Advocates and UCAN, opposed any portion of SDG&E's 2024 O&M forecast. Cal Advocates opposes SDG&E's 2024 forecast related to: (i) the CIS Replacement ongoing expenditures forecasted in non-shared application costs, and (ii) Smart Meter 2.0 costs forecasted in shared application costs. Cal Advocates does not oppose the remainder of SDG&E's 2024 forecast. UCAN opposed only Smart Meter 2.0 costs forecasted in shared application costs. UCAN does not oppose the remainder of SDG&E's 2024 O&M forecast. For the reasons set forth below, SDG&E disagrees that any amount should be disallowed and requests that the Commission adopt SDG&E's reasonable IT O&M forecast as proposed.

27.5.2.2 Non-Shared O&M Recommendations

27.5.2.2.1 Response to Cal Advocates

Table 27.9
Non-Shared Services O&M

TOTAL O&M - Constant 2021 ($000)				
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**	**Variance to SDG&E Ask**
SDG&E	19,808	27,113	7,305	-
CAL ADVOCATES	19,808	16,097	(3,711)	(11,016)
TURN	19,808	27,113	7,305	-
UCAN	19,808	27,113	7,305	-

Cal Advocates opposes SDG&E's 2024 forecast related to the CIS Replacement ongoing expenditures forecasted in non-shared application costs.[3337] No other party opposed SDG&E's 2024 non-shared forecast. SDG&E disagrees with Cal Advocates as discussed below.

27.5.2.2.1.1 CIS Replacement Ongoing Expenditures

Cal Advocates recommends an adjustment of $11.016 million to SDG&E's 2024 forecast request for CIS Replacement ongoing expenditures. Cal Advocates bases its recommendation on

[3337] TURN and UCAN did not take issue with SDG&E's TY 2024 Non-Shared O&M forecast. *See* Ex. SDG&E-225-E (Gordon/Exon) at 7.

its assertion that "SDG&E did not provide any actuals for 2022 and continues to base its estimate on a partial year of 2021 costs."[3338] Cal Advocates also recommends that the CISBA remain open to track the CIS Replacement ongoing costs.[3339]

Cal Advocates is incorrect in its assessment. Regarding 2021 partial costs, Cal Advocates fails to recognize that the CIS Replacement Base Year costs represent a partial year, because the costs for this activity began in the last quarter of 2021. As depicted in Ex. SDG&E-225-E (Gordon/Exon) at BG-WJE-8, Figure BG-WE – 1, prior to the last quarter of 2021, the CIS Replacement project was in the implementation phase and its costs were captured in the CISBA until the new CIS became operational. Thus, the Base Year (2021) included only three months of actual cost for ongoing O&M once the CIS Replacement was implemented. The forecasted increase for the Test Year (2024) represents the incremental amount needed to normalize the Base Year to reflect a full calendar year (twelve months).[3340]

Cal Advocates also incorrectly assumes that the CISBA is available for ongoing CIS Replacement costs.[3341] To the contrary, ongoing O&M and capital costs for the new CIS are not recorded to the CISBA now that the CIS is operational. Only project implementation costs were authorized to be recorded to the CISBA, and since the implementation activities were complete in 2021, the account is closed to new charges.[3342] Ongoing O&M and capital costs for the new CIS are included in the 2021 Base Year (partial year) and incorporated into the TY 2024 forecast.

SDG&E provided justification and support for the CIS Replacement ongoing costs in direct testimony and workpapers.[3343] The CIS Replacement ongoing costs include labor, contractor resources, and software annual renewals to provide maintenance and support of the new CIS. Cal Advocates disallowance should be rejected, and the Commission should adopt SDG&E's Non-Shared O&M forecast costs as reasonable.

[3338] Ex. CA-11 (Waterworth) at 59:14-17.

[3339] *Id.* at 59:15-19.

[3340] *See* Ex. SDG&E-225-E (Gordon/Exon) at 8-9.

[3341] Ex. CA-11 (Waterworth) at 59:17-19.

[3342] Ex. SDG&E-243 (Kupfersmid) (Regulatory Accounts), Section III, Sub-Section A-1.

[3343] *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2, Section IV, Sub-Section B; Ex. SDG&E-25-WP (Ballard) at 3-13, WP 1IT002.000.

27.5.2.3 Shared O&M Recommendations

27.5.2.3.1 SDG&E Response to Intervenors

Table 27.10
Shared Services O&M

TOTAL O&M - Constant 2021 ($000)				
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**	**Variance to SDG&E Ask**
SDG&E	78,187	83,305	5,118	-
CAL ADVOCATES	78,187	81,129	2,942	(2,176)
TURN	78,187	83,305	5,118	-
UCAN	78,187	81,129	2,942	(2,176)

27.5.2.3.1.1 Smart Meter 2.0 Telecom Data Plan Costs

a. Cal Advocates

SDG&E is requesting $2.176 million in TY 2024 for Smart Meter (SM) 2.0-related Telecom Data Plan costs.[3344] These costs are comprised of vendor fees, network backhaul and telecommunication tools and services necessary for the SM 2.0 project to allow the new gas modules and electric meters to communicate with the head-end system, *i.e.*, the nerve center for smart metering.[3345] To protect customers from inflation and rising costs, SDG&E proposed to prepay the annual telecom data plan fees in each of the 10 years related to the new gas modules and electric meters, and the TY 2024 amount requested reflects an average of the 2024-2027 estimated O&M costs to normalize for the expected cost increase in the post-test years.[3346]

Although "Cal Advocates does not take issue with SDG&E's justification for the current meter replacement initiative [SM2.0],"[3347] Cal Advocates seeks to disallow the Test Year O&M forecast for the SM 2.0 Telecom Data Plan expenditures relating to the SM 2.0 Capital program and recommends an adjustment of the full $2.176 million in SDG&E's 2024 forecast request for the Telecom Data Plan. No substantive reason is provided for this recommendation, and it

[3344] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 19 and Ex. SDG&E-25-WP (Ballard) at 49-50, 58.

[3345] Ex. SDG&E-225-E (Gordon/Exon) at 12 (analogizing SM 2.0 telecom data plan request to having a smartphone that cannot be utilized because no data plan was purchased to use with the phone.)

[3346] *Id.*

[3347] Ex. CA-10 (Campbell) at 34:21-22.

contradicts Cal Advocates' stance on the SM 2.0 meter replacement project.[3348] Cal Advocates merely notes: "Cal Advocates (per Ex. CA-10) recommends adjustment of the Smart Meter 2.0 project. Accordingly, Cal Advocates removes these normalized forecasted costs."[3349]

SDG&E disagrees with Cal Advocates' adjustment. The recommended exclusion of the Telecom Data Plan costs is unjustified and would defeat the purpose and benefits of smart metering if the new smart meters were unable to communicate with SDG&E's head-end system. The Smart Meter head end is a central system that collects and manages data from multiple smart meters, enabling efficient monitoring and control of energy consumption. SDG&E conducted a RFP process and developed its TY forecast utilizing the actual pricing data received through that RFP.[3350] In addition the costs forecast were already normalized over the term of the data plan.[3351] For these reasons, SDG&E requests Cal Advocates' disallowance of $2.176 million to SDG&E's TY 2024 forecast be rejected. The Commission should find SDG&E's Shared Services O&M forecast costs to be reasonable and adopt SDG&E's forecast.

b. UCAN

UCAN also takes issue with SDG&E's Test Year O&M forecast for the SM 2.0 Telecom Data Plan expenditures and recommends removal of the entire 2024 forecasted amount ($2.176 million).[3352] As noted in its testimony, UCAN asserts "O&M costs for 2024 of $4.42 million and capital costs of $58.46 million should be disallowed."[3353] The $2.176 million IT O&M forecast is included in the $4.42 million total SM 2.0 O&M forecast reduction recommendation by UCAN. While UCAN does not appear to provide a justification for its recommendation specific to the Telecom Data Plan, as expressed above, without a telecom data plan, the new gas modules and

3348 *Id.; see also id*. at 34:25-28 (no objection to SDG&E moving forward with program to replace smart meters as required but recommends moderating funding).

3349 Ex. CA-11 (Waterworth) at 60:7-8.

3350 *See* Ex. SDG&E-17-R (Thai) at 30-45.

3351 *See* Ex. SDG&E-25-WP (Ballard) at 58 (Supplemental Workpaper 2100- 0207.00).

3352 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 19 and Ex. SDG&E-25-WP (Ballard) at 49-50, 58.

3353 Ex. UCAN -01-E (Woychik) at 13:5-8, 294. In discussing its recommended disallowance of O&M and 2024 capital costs for "smart metering," UCAN identifies general concerns about "SDG&E's management and use of smart meters"; "likely accelerated obsolescence of the smart meter 2.0 proposal given SDG&E's predilections and the drivers in the market", and "[b]ecause SDG&E is proposing a large new investment in smart meters that will provide only limited value." *Id*. at 294:16-21. UCAN's conclusory statements of opinion are not supported by the factual record in this proceeding and should be disregarded.

electric meters will not be able to communicate with the head end system. For the reasons stated above for Cal Advocates' SM 2.0 O&M recommendation, UCAN's recommended disallowance should similarly be rejected. The Commission should adopt SDG&E's Shared Services O&M forecast costs as reasonable.

27.5.3 SDG&E IT Capital Request

27.5.3.1 Introduction

SDG&E provides its summary of total capital costs in Table 27.11, below. The summary of projects sponsored by the business units and by IT for 2022, 2023, and 2024 are provided in SDG&E's direct testimony (Ex.SDG&E-25 at 22, 24-27). SDG&E's Application included 114 proposed projects, of which 56 are justified by the business area sponsoring the project and 58 are sponsored by IT, that were in various stages of the IT capital project approval process at the time SDG&E's TY 2024 GRC Application was filed. As reflected in Table 27.8 above and discussed below, only three parties took issue with certain discreet Capital IT projects, and UCAN made general objections to SDG&E's Capital IT program. Consistent with the approach discussed in D.19-09-051, SDG&E addresses the capital projects proposed by the IT Division in this Section.[3354] IT-related capital projects sponsored by other business areas are addressed in the Section relating to the sponsoring business area. The remaining projects and costs in forecasts for SDG&E's IT 2024 Capital forecasts were unopposed and should be adopted. For the reasons set forth below, SDG&E disagrees that any amount should be disallowed and requests that the Commission adopt SDG&E's reasonable IT Capital forecast as proposed.

27.5.3.2 SDG&E's Response to Intervenor's IT Capital Recommendations

Table 27.11
Summary of Total IT Capital Costs

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance to SDG&E Ask**
SDG&E	220,012	208,793	214,186	642,991	-
CAL ADVOCATES	217,866	190,886	175,397	584,149	(58,842)
TURN	183,087	131,115	102,874	417,076	(225,915)
UCAN[3355]	Unclear	Unclear	Unclear	Unclear	

3354 *See* D.19-09-051 at 471.

3355 UCAN did not specify an overall Capital forecast expenditure recommendation. UCAN makes a variety of recommendations on certain projects that are addressed in this Section.

As identified above, the IT 2024 Capital forecast is comprised of both 56 business-area sponsored capital projects and 58 IT-sponsored capital projects. Cal Advocates and TURN take issue with several IT Capital projects: The business justification for these projects and response to Parties' recommendations are addressed by the business-area Section reflected in Table 27.12 below.

Table 27.12
IT Capital Projects Justified by Customer Service Witnesses

WP#	Project Name	Opening Brief Section	Total Forecast	Cal Advocates	TURN	UCAN[1]
218810	Smart Meter 2.0	21.2	95,553	(47,777)	(95,553)	(58,459)
00900D 00900E	Smart Meter Product/Upgrade	21.2	15,012	(4,730)		(3,663)
00920AI 00920T	Field Service Delivery (FSD) (RAMP)	21.2	46,535	(6,335)	(46,535)	(19,296)
00920AS	Field Mobility Development[3356]	9.4	1,835			
00903E 00903F 00903G	CIS Regulatory & Enhancements 2022-2024	21.3	62,753		(62,753)	(23,768)
00903B	Contact Center of the Future (CCotF)	21.3	21,074		(21,074)	(9,789)

27.5.3.2.1 UCAN Disputed IT Projects--Obsolescence

In addition to the projects reflected in Table 27.12 above, certain other IT Capital projects were challenged by UCAN, based upon its objection that SDG&E has proposed "IT assets that will be outmoded, obsolete, and stranded within this GRC period."[3357] Table 27.13 reflects the additional IT Capital projects that UCAN takes issue with, both business area-sponsored and IT-sponsored, in its testimony.

3356 The SDG&E Field Mobility Project forecasts costs in 2022. Although SDG&E is not forecasting costs in the Test Year 2024, UCAN has objected to the Test Year forecast. *See* Ex. SDG&E-225-E (Gordon/Exon) at 28 n.68.

3357 UCAN makes this assertion in various ways and in various places throughout its testimony. *See, generally*, Ex. UCAN-01-E (Woychik); *see id*. at 280:14-15 (listing 11 specific projects).

Table 27.13
UCAN Disputed IT Capital Projects

WP #	Project Name	Testimony Name	Opening Brief Section	Total 2022-2024 ($000)
920AF	California Independent System Operator (CAISO) Mandates 2024	Energy Procurement	17.2	1,456
920A	Microgrid Portal	Electric Distribution Capital	20.1	982
920AJ & 920X	Distribution Interconnection Info. System (DIIS) - Rule 21 and NEM Enhancements	Electric Distribution O&M	20.2	4,304
920B & 920C	Smart Grid Operations (Product Team)	Electric Distribution O&M	20.2	7,607
908T	Electric Grid Ops Small Cap 2024	Electric Distribution O&M	20.2	440
920BA	Distributed Energy Resource Management System (DERMS)	Electric Distribution O&M	20.2	9,012
920R	Vegetation Management - Work Management (Product Team)	Wildfire Mitigation and Vegetation Management	20.3	7,432
920AU, 920L, 920Y	Local Area Distribution Controller (LADC)	Clean Energy Innovations	18	4,005
903H	Clean Transportation Product Team 2023-2024 (Product Team)	Clean Transportation	23	2,798
920F	Construction, Planning and Design (CPD) Enhancements (Product Team)	Safety, Risk & Asset Management Systems	9.4	3,614
920H	Field Mobile Hardware Replacement	Safety, Risk & Asset Management Systems	9.4	7,033
920M	GIS Modernization (Product Team)	Safety, Risk & Asset Management Systems	9.4	4,231
920E	Investment Prioritization	Safety, Risk & Asset Management Systems	9.4	16,631
907A	IT Quality & Continuous Testing Platforms	Information Technology	27.2	3,741
907M	Cloud Data Lake	Information Technology	27.2	5,000
908X	Cloud Foundations	Information Technology	27.2	16,092
920P	Digital Asset and Damages Detection Platform	Information Technology	27.2	11,865
908W	Infrastructure as a Service Implementation (IaaS)	Information Technology	27.2	2,000
908B	Digital Workspace (RAMP)	Information Technology	27.2	10,694

WP #	Project Name	Testimony Name	Opening Brief Section	Total 2022-2024 ($000)
908C	Virtual Desktop Infrastructure (VDI) Expansion - Phase 2 (RAMP)	Information Technology	27.2	3,100

In general terms, UCAN objects to various IT Capital projects that "look to be either obsolete, or at best 'interim' (useful for two-years or less)" and asserts in various ways that SDG&E provided only cursory justification for these projects.[3358] SDG&E disagrees with UCAN's assessment. SDG&E's 2022-2024 IT Capital request is well-supported by project-by-project information. SDG&E has provided just under 830 pages of detailed capital workpapers, representing the 114 projects.[3359] SDG&E's capital workpapers specifically identify the purpose, description, justification, and types of investments needed for the forecast period, which UCAN fails to recognize and yet makes broad assertions without any specific evidence or science provided to support UCAN's statements.[3360] SDG&E also forecasted in-service dates for each project listed in the SDG&E IT 2022-2024 Capital forecasts. SDG&E's direct testimony includes narratives in support of the SDG&E IT-sponsored Capital projects.[3361]

UCAN provides no factual basis to support the assertions it makes throughout its testimony that the technology SDG&E has selected "will be obsolete, require replacement, and thus not be used and useful during the GRC period."[3362] Unfounded conclusions are insufficient to support UCAN's recommendations, and reveal UCAN's misapprehension of the technology industry and the need for SDG&E to invest in technologies to mitigate technology obsolescence and to prepare for future regulatory and customer needs. As SDG&E demonstrated in its IT Policy testimony, SDG&E's focus on a digital operating model, is designed to enable faster, more resilient, and innovative technology solutions for SDG&E and its customers. SDG&E proactively mitigates the risk of eventual technology obsolescence by actively managing the technology lifecycle, from its rigorous processes to evaluate and test potential technology solutions at the front end to replacing unsupported technologies at the end of that lifecycle. This allows SDG&E's systems to remain

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3358 *See id*. at 280:10-11; *id.* at 304:

3359 Ex. SDG&E-25-CWP-R (Exon).

3360 Ex. UCAN-02 (Zeller) at 14-18.

3361 *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 28-75.

3362 *See, e.g.*, Ex. UCAN-01-E (Woychik) at 279:15- 280:6.

reliable and resilient.[3363] Through its diligence to select and invest in the right technologies, with a clear understanding of business objectives and evolving customer and regulatory needs and its investment in regular updates to decrease vulnerability to its systems, SDG&E is prudently acting in the interests of its customers (and not at the expense of them as UCAN has suggested).[3364] UCAN's recommendation to disallow the projects listed in Table 27.13 should be denied.

In addition to its technology obsolescence contention, UCAN challenges two of the IT-sponsored projects on other grounds: the RAMP-Digital Workspace Project and the RAMP – Virtual Desktop Infrastructure Expansion, Phase 2 Project.

27.5.3.2.2 UCAN Disputed IT Projects-RAMP Digital Workspace (WP#00908B)

SDG&E requests $10.694 million, $0, and $0 for 2022, 2023, and 2024 as its Capital forecast expenditure for the Digital Workspace Project. This Project replaces older, slower, out of warranty computing hardware, with faster, more portable, more secure devices, that can be managed remotely through a modern desktop management platform.[3365] UCAN recommends that "SDG&E's capital cost request for SDG&E WP#00908B – Digital Workspace (RAMP) of $10.69 million in 2024 and beyond should be denied."[3366] To support this recommendation, UCAN claims that SDG&E's intention to "increase[] mobility and flexibility for office workers by replacing desktops with laptops. . .to configure increase mobility and transform how they work," instead of decreasing technology obsolescence "maybe increasing it."[3367] UCAN's recommendation is unreasonable for two reasons.

First, SDG&E only forecasted costs in 2022 for the Digital Workspace Project. There is no forecast for 2024 or beyond for this project.[3368] Second, as SDG&E explained in testimony, the computers to be replaced pose known security risks to SDG&E because they have reached end of life (5-7 years) and contain old hackable chipsets and lack enhanced security features, such as fingerprint readers and hidden cameras. The risk that these computers may have unauthorized installations of hardware and software that may be undetected by the Company's current

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[3363] *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1; Ex. SDG&E-225-E (Gordon/Exon) at 4-7. *See also* Section 27.1, *supra*.

[3364] *See* Ex. SDG&E-225-E (Gordon/Exon) at 6-7; Ex. UCAN-01-E (Woychik) at 4.

[3365] Ex. SDG&E-225-E (Gordon/Exon) at 41:14-16.

[3366] Ex. UCAN-01-E (Woychik) at 303:13-14.

[3367] *Id*. at 302:14-303:8 (citation omitted).

[3368] Ex. SDG&E-225-E (Gordon/Exon) at 41:10-11.

management platform also exists and therefore have a heightened risk of cyberattack on Company systems.[3369] The new equipment for this project includes "capabilities such as application-level security controls, multi-factor authentication, remote break-fix capabilities, remote software updates and the ability to provide a personalized user experience across client devices" and will enable SDG&E's workforce to flexibly access the Company's systems to "support Company operations."[3370] The Digital Workplace Project eliminates the risks posed by technology obsolescence and should be adopted by the Commission as reasonable.

27.5.3.2.3 UCAN Disputed IT Projects-RAMP - Virtual Desktop Infrastructure Expansion, Phase 2 (WP#00908C)

SDG&E requests $0, $1.550 million, and $1.550 million for 2022, 2023, and 2024, respectively as its Capital forecast expenditure for the Virtual Desktop Infrastructure (VDI) Expansion Phase 2 Project. UCAN recommends that the 2024 forecast for this Project be denied in its entirety based on its misunderstanding of this Project and how it differs from the Digital Workspace Project.[3371] As SDG&E demonstrated in its testimony and workpapers, although both projects are designed to "remove technical obsolescence, improve security, performance, and reliability," the two projects are distinct.[3372] The VDI Expansion Project focuses on replacing the Company's virtual desktop solution, which provides access for SDG&E's temporary contractor resources and has reached end-of-life.[3373] Specifically, the VDI Expansion Project is designed to address access for contractors who perform work for SDG&E and have a need to directly communicate with Company systems and enhance security through modern architecture that allows automatic update capabilities, increased scalability and compatibility with Company systems, while the Digital Workspace Project is focused on replacing older, slower, out-of-warranty desktop hardware.[3374] This is another RAMP project to reduce security risks to Company systems. UCAN's objection to the VDI Project 2024 forecast would only permit SDG&E a partial

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[3369] *Id*. at 41:19-42:2. Contrary to UCAN's assertions, SDG&E explained how this Project falls with RAMP mitigation activities. *Id.* at 42:12-22.

[3370] *Id*. at 42:3-6.

[3371] Ex. UCAN-01-E (Woychik) at 305:3-17.:

[3372] Ex. SDG&E-225-E (Gordon/Exon) at 43:14-17.

[3373] *Id*. at 43:17-44:5.

[3374] *See id*.

solution that leaves network vulnerability and cybersecurity concerns unaddressed.[3375] Such continuing risk is unnecessary, and the Commission should reject UCAN's recommendation.

No other party objected to the projects in Table 27. 13 above, or the other IT-sponsored Capital projects, and the Commission should adopt them as presented.

28. Cybersecurity

28.1 Introduction

28.1.1 Common Issues (SoCalGas/SDG&E)

28.1.2 Summary of Cybersecurity Costs and Activities

SoCalGas and SDG&E's Cybersecurity testimonies and workpapers, supported by witness Omar Zevallos,[3376] describe and justify SoCalGas's and SDG&E's forecasted activities from 2022-2024.[3377] The Cybersecurity Department is responsible for cybersecurity risk management of the information and operational technologies for SoCalGas, SDG&E, and Sempra Corporate Center. Applicants forecast a level of O&M costs and capital projects necessary for cybersecurity risk management activities to protect the Companies, customers, and the public, and for compliance with applicable laws and regulations governing cybersecurity protections.

- SoCalGas is requesting the Commission adopt SoCalGas's TY 2024 O&M forecast of $3.970 million[3378] for Shared Services O&M; and $28.842 million, $36.788 million, and $42.915 million for Capital costs for the forecast years 2022, 2023, and 2024, respectively.

- SDG&E is requesting the Commission adopt SDG&E's TY 2024 O&M forecast of $0.019 million for Non-Shared Services O&M and $16.358 million for Shared Services O&M; and $8.424 million, $9.660 million, and $9.660 million for Capital costs for the forecast years 2022, 2023, and 2024, respectively.

Cybersecurity risk management is performed using recognized security and risk management frameworks that include the NIST Cyber Security Framework (CSF), CIS Critical Security Controls (CIS Controls), NIST 800-53, CISA Cybersecurity Performance Goals (CPG)

[3375] *Id.* at 44:10-15.

[3376] Mr. Zevallos adopted the initial testimony of Lance Mueller for both SoCalGas and SDG&E.

[3377] Ex. SCG-22-R (Mueller), Ex. SCG-22-WP (Mueller), Ex. SCG-22-CWP (Mueller), Ex. SCG-222 (Zevallos) and Ex. SDG&E-26-R (Mueller), Ex. SDG&E-26-WP (Mueller), Ex. SDG&E-26-CWP-R (Mueller), Ex. SDG&E-226 (Zevallos).

[3378] Ex. SCG-22-R (Mueller), Table LM-1. The Revised SoCalGas forecast was $3.970 million; however, SoCalGas reflected an amount of $3.936 million in error in its Rebuttal testimony. *See* Ex. SCG-222 (Mueller) at 1.

and the MITRE ATT&CK framework along with the laws and regulations established by Federal and State agencies (*e.g.*, CPUC, CISA, DHS, FERC, TSA, and DOE).[3379] The evolving regulatory standards issued by these agencies impact the Cybersecurity GRC requests by driving changes in security systems requirements, design, and enhanced security controls and processes.[3380]

Cybersecurity Department activities are focused on maintaining and proactively improving the Companies' security posture in the face of increasing threat capabilities and are conducted in five comprehensive activity areas: Perimeter Defenses, Internal Defenses, Sensitive Data Protection, Operational Technology (OT) Cybersecurity and Obsolete Information Technology (IT) Infrastructure and Application Replacement.[3381] Cybersecurity risks are not static and require ever-changing mitigation measures to reduce or eliminate cybersecurity threats and continued evolution and introduction of modern technologies to enhance or replace aging systems that may add risk to Company systems. Department activities are designed to reduce both the likelihood and potential impact of cybersecurity incidents to all business areas within SoCalGas, SDG&E, and Corporate Center, while balancing costs and applying prioritized risk management. Additionally, the Cybersecurity Department's activities provide cybersecurity technical support and training to business groups and employees so that they can perform their functions safely, reliably, and securely.

28.1.3 Forecast Methodology

Cybersecurity is a shared service for SoCalGas, SDG&E, and Corporate Center, and the costs are allocated between the Companies based on the mechanisms described in SoCalGas's and SDG&E's Shared Services testimony.[3382] The Companies utilize a base year forecasting methodology for O&M, beginning with base year recorded costs, plus adjustments.[3383] A base year forecast methodology is more appropriate here because history is not always a good predictor of future cybersecurity needs, given the pace of change in the cybersecurity arena with threats, and tactics and technologies to mitigate such threats, rapidly evolving in sophistication and complexity.

3379 *See* Ex. SDG&E-26-R (Mueller) at 8. Acronyms include Cybersecurity and Infrastructure Security Agency (CISA), Department of Homeland Security (DHS), Federal Energy Regulatory Commission (FERC), Transportation Security Administration (TSA), Department of Energy (DOE).

3380 Ex. SCG-22-R (Mueller) at 2; Ex. SDG&E-26-R (Mueller) at 2.

3381 *See* Ex. SCG-22-R (Mueller) at 8-9, 19-26; Ex. SDG&E-26-R (Mueller) at 7-9, 21-27.

3382 *See e.g.*, Ex. SCG-30-R/Ex. SDG&E-34-R (Le/Malin). and Section 35, *infra*.

3383 Please refer to the supporting workpapers for the adjustments made to the recorded data. Ex. SCG-22-WP-R (Mueller); Ex. SDG&E-26-WP (Mueller).

The primary cybersecurity cost drivers in this GRC are the addition of on-site staff for project development and implementation, replacing aging or obsolete cybersecurity control technology, enhancing or adding technical capabilities to address evolving threat capabilities and innovative technologies implemented by business areas, and increased costs to maintain and support cybersecurity technologies.

28.1.4 Summary of Differences with Cal Advocates

Cal Advocates was the only party to address SoCalGas's and SDG&E's GRC cybersecurity requests. The following tables – taken from SoCalGas's and SDG&E's rebuttal testimony[3384] - summarize the difference between SoCalGas's and SDG&E's proposals and Cal Advocates' recommendations.

Table 28.1- SoCalGas Total O&M[3385]

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year2024**	**Change**
SOCALGAS	3,850	3,970	86
CAL ADVOCATES	3,850	3,970[3386]	86

Table 28.2- SDG&E Total O&M[3387]

NON-SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	19	19	0
CAL ADVOCATES	19	19	0

SHARED O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E	13,773	16,358	2,585
CAL ADVOCATES	13,773	13,826	53

3384 Ex. SCG-222 (Zevallos) and Ex. SDG&E-226 (Zevallos).

3385 Ex. SCG-222 (Zevallos) at Table p. 6.

3386 In its revised Direct Testimony, SoCalGas reflected a Shared TY 2024 O&M forecast of $3.970 million. Although Cal Advocates acknowledges that "data from Ex. SCG-22 (amounts did not change per revision)" it used SoCalGas's original forecast number rather than the revised amount. *See* Ex. CA-11 (Waterworth) at 71, Table 11-40 Source note. SoCalGas has therefore updated the Cal Advocates number in its Table here to reflect the intended value, which is not an opposed TY 2024 forecast. *See id*. at 71:5-6.

3387 Ex. SDG&E-226 (Zevallos) at Table p. 4.

Table 28.3- SoCalGas Total Capital[3388]

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	28,842	36,788	42,915	108,545	
CAL ADVOCATES	20,554	23,570	23,570	67,694	40,851

Table 28.4- SDG&E Total Capital[3389]

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	8,424	9,660	9,660	27,744	
CAL ADVOCATES	8,424	9,660	9,660	27,744	0

SoCalGas and SDG&E summarize their response to Cal Advocates' cybersecurity O&M and capital recommendations in the sections below, after first describing how SoCalGas's and SDG&E's cybersecurity GRC proposals represent the Companies' best efforts to address key cybersecurity safety risks identified during the RAMP process.

28.2 RAMP

28.2.1 Cybersecurity Risk

The Companies' testimony described the cybersecurity risks, our approach for managing these risks, and the Cybersecurity Department's activities and costs associated with cybersecurity risk management. SoCalGas's and SDG&E's O&M forecasts and proposed cybersecurity capital projects include projects driven by activities described in SoCalGas's and SDG&E's respective 2021 RAMP Reports (the 2021 RAMP Reports).[3390] The 2021 RAMP Reports presented an assessment of the key safety risks of SoCalGas and SDG&E and proposed plans for mitigating those risks. As discussed in the testimony of the RAMP to GRC Integration witnesses R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2), the costs of risk mitigation projects and programs were translated from the 2021 RAMP Reports into the individual witness areas.

The tables below – from SDG&E's direct testimony - provide a summary of the RAMP-related costs supported by Cybersecurity testimony. As described in SoCalGas's and SDG&E's

[3388] Ex. SCG-222 (Zevallos) at Table p. 6.

[3389] Ex. SDG&E-226 (Zevallos) at Table p. 7.

[3390] *See* Application (A.) 21-05-011/014 (cons.) (RAMP Proceeding). Please refer to the RAMP to GRC Integration testimony of R. Scott Pearson and Gregory S. Flores (Ex. SCG-03/SDG&E-03, Chapter 2) for more details regarding the 2021 RAMP Reports.

direct testimony (Ex. SCG-22-R at 5-10 and 13-26 and Ex. SDG&E-26-R at 2-3 and 18-27), cybersecurity risk is a top safety risk and contained in the RAMP Report. Cybersecurity risk involves a major cybersecurity incident that causes disruptions to electric or gas operations (*e.g.*, SCADA system) or results in damage or disruption to company operations, reputation, or disclosure of sensitive data and loss of customer data. SoCalGas and SDG&E described this RAMP risk in the GRC Table below:

Table 28.5[3391]
RAMP Risks Associated with this Testimony

RAMP Risk	Description
SCG-6/SDG&E-Risk-6-Cybersecurity	The risk of a cybersecurity incident to gas and electric control systems, all company data and information systems, operational technology (OT)[3392] systems, and related processes.

Electric and gas operations, safety systems, information processing, and other utility functions are increasingly reliant on technology, automation, and integration with other systems. The complex interoperation of these systems and the rapid changes that occur in the industry in response to climate, cost, and other drivers create a risk situation where inadvertent actions or maliciously motivated events can potentially disrupt core operations or disclose sensitive data, among other serious consequences. In addition, the functioning of society relies on safe and reliable energy delivery. The magnitude and likelihood of cybersecurity risk is a documented concern at the national and international level.

Cybersecurity threats are dynamic and new adversarial techniques may evade current cybersecurity controls, rendering them obsolete and ineffective. Technology innovations, such as the widespread adoption of artificial intelligence, machine learning and continued digitalization of operational technologies, continually increase the exposure of infrastructure and business services to cybersecurity risk, stressing the importance of implementing rapid, proactive, and expedient countermeasures against potential threat actors.[3393] For these reasons, and as described below, virtually all of the Companies' TY 2024 forecast supports RAMP activities.

[3391] Ex. SCG-22-R (Mueller) at 7, Table LM-4; SDG&E-26-R (Mueller) at 6, Table LM-4.

[3392] Operational technology is hardware and software that detects or causes a change, through the direct monitoring and/or control of industrial equipment, assets, processes and events.

[3393] *See* Ex. SCG-222 (Zevallos) at 2.

28.2.2 Cybersecurity Program

The Cybersecurity Department is responsible for the identification and management of cybersecurity risks for SoCalGas, SDG&E, and Corporate Center. In developing SoCalGas's and SDG&E's cybersecurity GRC request, priority was given to this key safety risk to determine which currently established risk control measures were important to continue and what incremental efforts were needed to further mitigate these risks. SoCalGas and SDG&E developed their GRC forecasts by evaluating the scope, schedule, resource requirement, changes to the threat landscape, and synergies of RAMP-related projects and programs to determine costs already covered in the base year and those that are incremental increases expected in the test year. The Cybersecurity Program continually reassesses current mitigating control activities against best practices and constantly evolving threat actor capabilities and increased use of innovative technologies within the business.

The Cybersecurity Program provides cybersecurity risk management controls and activities that address not only safety risks, but other risk areas, including operations, compliance, and financial as well. The Program's mitigations are designed to address as many business services and systems as possible within the five activity areas: Perimeter Defenses, Internal Defenses, Sensitive Data Protection, OT Cybersecurity and Obsolete IT Infrastructure and Application Replacement. Each of these activities is RAMP-related and represented in the below Table and SoCalGas's and SDG&E's O&M and Capital forecasts have been mapped to each of these activities.

Table 28.6[3394]
Summary of RAMP Risk Activities

RAMP ID	Activity	Description
SCG/SDG&E-Risk-6-C01	Perimeter Defenses	The Perimeter Defenses program includes activities that protect the external access points of the Company's internal IT systems. Perimeter Defenses are designed to prevent cybersecurity attacks, detect unauthorized access, and protect the integrity of IT systems.
SCG/SDG&E-Risk-6-C02	Internal Defenses	The Internal Defenses program activities are designed to detect and prevent unauthorized users, those misusing authorized credentials and malicious software (*i.e.*, malware) from propagating inside of

[3394] Ex. SCG-22-R (Mueller) at 9, Table LM-5; Ex. SDG&E-26-R (Mueller) at 8-9, Table LM-5.

RAMP ID	Activity	Description
		the perimeter, moving within the IT system or into the Operational Technology (OT) system.
SCG/SDG&E-Risk-6-C03	Sensitive Data Protection	The Sensitive Data Protection projects enhance technology to reduce the risk of unauthorized access to customer and Company information.
SCG/SDG&E-Risk-6-C04	Operational Technology Cybersecurity	The OT Cybersecurity program focuses on securing the electric and gas control systems for the Companies.
SCG/SDG&E-Risk-6-C05	Obsolete IT Infrastructure and Application Replacement	The Obsolete IT Infrastructure and Application Replacement program activities refresh technology at regular intervals to minimize security risks posed by obsolete technologies.

Cybersecurity is a cross-cutting risk because an incident could potentially impact several areas throughout the Companies in many different ways. The Companies' mitigation approach leverages a framework of cybersecurity controls across the enterprise, with an emphasis on key systems and data in order to address evolving threats and vulnerabilities.[3395] This approach considers potential weak points, which may provide an attacker a foothold within the enterprise or, through an error, create a situation to disrupt energy delivery, expose sensitive information, or cause other potential adverse events.

28.3 Cybersecurity O&M Costs

28.3.1 Summary of SoCalGas's and SDG&E's Cybersecurity O&M Requests

28.3.1.1 SoCalGas O&M Request

Table 28.7 below, from SoCalGas's direct testimony (Ex. SCG-22-R (Mueller) at 13, 17), summarizes SoCalGas's TY 2024 cybersecurity O&M request and associated RAMP activity.

Table 28.7
Shared O&M/RAMP Activity Summary of Costs

CYBERSECURITY (In 2021 $)				
(In 2021 $) Incurred Costs (100% Level)				
Categories of Management	**RAMP ID**	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Cybersecurity	SCG-Risk-6 – C01-C05	3,850	3,970	120
Total Shared Services (Incurred)		**3,850**	**3,970**	**120**

3395 Ex. SCG-222 (Zevallos) at 7:3-11.

Cal Advocates does not propose any adjustments to SoCalGas's TY 2024 cybersecurity O&M request.[3396] The Commission should approve SoCalGas's cybersecurity O&M request as reasonable.

28.3.1.2 SDG&E O&M Request

SDG&E requests approval of a TY 2024 forecast of $16.377 million for O&M costs associated with cybersecurity activities.[3397] The O&M forecast is comprised of $0.019 million for non-shared service activities and $16.358 million for shared service activities and represents an increase of $2.585 million over 2021 adjusted-recorded costs for shared services.

Table 28.8 below, from SDG&E's direct testimony (Ex. SDG&E-26-R (Mueller) at 12, 13), summarizes SDG&E's 2024 Non-Shared cybersecurity O&M request and associated RAMP Activity.

Table 28.8
Non-Shared O&M Summary of Costs

CYBERSECURITY (In 2021 $)				
Categories of Management	**RAMP ID**	**2021 Adjusted-Recorded (000s)**	**TY2024 Estimated (000s)**	**Change (000s)**
A. Cybersecurity	SDG&E-Risk-6 –C01-C05	19	19	0
Total Non-Shared Services		**19**	**19**	**0**

Cal Advocates submitted testimony relating to this item and did not dispute SDG&E's TY 2024 expense forecast for Non-shared O&M expenses.[3398] SDG&E requests the Commission adopt SDG&E's Non-shared cybersecurity TY 2024 forecast as reasonable.

Table 28.9 below, from SDG&E's direct testimony (Ex. SDG&E-26-R at 14, 18), summarizes SDG&E's 2024 Shared cybersecurity O&M request and associated RAMP Activity.

3396 Ex. CA-11 (Waterworth) at 71:5-6 ("Cal Advocates does not oppose SCG's TY 2024 forecast.").

3397 Ex. SDG&E-26-R (Mueller) at 1.

3398 *See* Ex. CA-11 (Waterworth) at 71, Table 11-41 (relating to non-shared 2024 O&M forecast).

Table 28.9
Shared O&M Summary of Costs

CYBERSECURITY (In 2021 $)				
(In 2021 $) Incurred Costs (100% Level)				
Categories of Management	**RAMP ID**	**2021 Adjusted-Recorded (000s)**	**TY 2024 Estimated (000s)**	**Change (000s)**
A. Cybersecurity	SDG&E-Risk-6 – C01-C05	13,773	16,358	2,585
Total Shared Services (Incurred)		**13,773**	**16,358**	**2,585**

SDG&E describes its Shared cybersecurity O&M request in detail in Section V of Ex. SDG&E-26-R (Mueller) at 14-19 and Ex. SDG&E-226 (Zevallos) at 3-4. As explained in those exhibits, the cost drivers behind this request include the continuing need "to address increasing exposure to cybersecurity risk to the energy sector business and its customers" with "[r]ecent research and analytics indicat[ing] a cybersecurity risk growth rate of up to 27% year over year."[3399] Additionally, increasing Federal and State regulations requiring the implementation of specific cybersecurity practices has also expanded the Company's cybersecurity program needs.[3400] With ever-evolving risk and numerous legal and regulatory mandates pertaining to cybersecurity, increased O&M costs are necessary to cover labor and non-labor necessary to maintain prior investments, as well as for additional headcount to implement, support, operate and manage improvements made through capital projects.[3401] SDG&E's testimony explained in detail the "Operational Groups" and the activities they support to justify the labor and non-labor Shared O&M forecast and the incremental 6.8 FTE and non-labor requests.[3402]

3399 Ex. SDG&E-26-R at 19 (citation omitted).

3400 *See, e.g.*, the 2021 Transportation Security Administration (TSA) Security Directive Pipeline-2021-02, Federal Register.gov, Ratification of Security Directive (September 24, 2021) available at https://www.federalregister.gov/documents/2021/09/24/2021-20738/ratification-of-security-directive; California Consumer Privacy Act (CCPA), Sarbanes-Oxley (SOX), CPUC Affiliate Transactions Compliance and other CPUC Privacy Decisions, CA Breach Notification (Cal. Civ. Code §§ 1798.81.5, 1798.82), and Identity Theft Prevention (Federal Trade Commission "Red Flag Rules"), among others.

3401 SDG&E-26-R (Mueller) at 19 and Ex. SDG&E-226 (Zevallos) at 3.

3402 *See* SDG&E-26-R (Mueller) at 16-18, Ex. SDG&E-226 (Zevallos) at 3-4, 6-7 (increased capital investments in cybersecurity creates need to invest in additional skilled cybersecurity professionals and increased technology product maintenance and professional services' needs).

28.3.2 Cal Advocates Proposed Shared O&M Adjustments Regarding SDG&E's Request

In its testimony, Cal Advocates recommends that the Commission reduce SDG&E's TY 2024 shared O&M forecast by $1.632 million for labor and $900,000 for non-labor.[3403] Cal Advocates claims that because SDG&E did not show any 2022 expenditures prior to serving its adjusted recorded data for 2022, "this create[d] a level of uncertainty whether SDG&E needs the incremental funding or not" and "lack of proof."[3404] As explained in SDG&E's rebuttal testimony (Ex. SDG&E-226 (Zevallos)), Cal Advocates' recommendation is off-base and unsupported.

For 2022 Shared Services O&M, SDG&E forecasted an incremental 6.8 FTEs, and $797,000 in forecasted non-labor expense.[3405] Even though ALJ Lakhanpal set a March 13, 2023 date for SDG&E's recorded adjusted 2022 data to be served, Cal Advocates sought to obtain information on SDG&E's 2022 expenditures for hired labor and non-labor prior to the date such data was due. As SDG&E explained in rebuttal and data request responses, SDG&E was actively recruiting for Cybersecurity personnel throughout 2022.[3406] The marketplace for skilled cybersecurity professionals remains extremely competitive, with high attrition rates across industries such as energy and utilities, as these resources are offered higher salaries by privately-owned companies and other sectors due to the increase in cybersecurity threats and the harm such attacks can cause when successful. In response, SDG&E has proactively taken measures to temporarily fill these roles with contractors (a non-labor expense). While these measures are not sustainable long-term, the Company is actively recruiting and hiring staff with cybersecurity capabilities and will continue its active recruitment of additional employees to meet those cybersecurity needs, using contracted labor in the interim.[3407]

Additionally, the incremental increase for non-labor, directly relates to technology product maintenance activities and the prior use of contract labor. SDG&E has service contracts with its technology vendors to maintain the operational stability of their technologies. The forecasted non-labor costs support required professional services to maintain the vendor's products, and to secure

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3403 Ex. CA-11 (Waterworth) at 73.

3404 *Id.* at 73 (regarding 2022 labor forecast), 75 (regarding 2022 non-labor forecast).

3405 *See* Ex. SDG&E-26-WP (Mueller) at 16.

3406 Ex. SDG&E-226 (Zevallos) at 5 and n.11 (citing Cal Advocates reference to SDG&E's response to PAO-SDGE-059-LMW, Q1).

3407 *Id.* at 6.

the most current version of the products, to protect the Company's systems and capabilities. Keeping its systems up to date helps mitigate the risk that SDG&E's cybersecurity tools become obsolete or end up increasing the Company's risks due to the product's own vulnerabilities (*e.g.*, software that has not been patched/updated to current version may be exploited by threat actors).[3408]

Whether SDG&E was able to fill its open positions by the end of 2022, should not be determinative of its TY 2024 incremental increase of $1.632 million for O&M labor and $900,000 in non-labor. SDG&E developed its TY 2024 GRC forecast according to the Commission's Rate Case Plan, which does not contemplate the use of 2022 recorded data, and the TY 2024 forecasts were not developed using that information. SDG&E is not permitted to revise its forecasts using that data, either up or down, once its GRC Application is filed. The 2022 recorded actual costs provide only another data point for intervenors to consider and is not indicative of the Company's forecasted needs in the Test Year.[3409]

SDG&E also disagrees with Cal Advocates' assessment that, because SDG&E spent less than it had forecasted in 2022, the Commission should reduce SDG&E's forecast for 2024 by $2.532 million. As explained in Ex. SDG&E-26-R (Mueller),[3410] the forecast methodology utilized by SDG&E is derived from base year (BY) 2021 recorded costs, plus adjustments. Cal Advocate's recommendation to use a single year (2022) as the basis for its forecast does not make sense in the context of the cybersecurity operational environment, which does not remain static between years. The funding requirements relate directly to the number of systems and activities requiring support. When the operational environment has an increase in the number of supported systems and processes and capital activities, a corresponding increase in the number of personnel is required to support these systems and processes.

The capital activities that underlie SDG&E's Capital forecast will address the ongoing threats that the utility's systems face in all five RAMP risk mitigation activity areas: Perimeter Defenses, Internal Defenses, Sensitive Data Protection, OT Cybersecurity and Obsolete IT Infrastructure and Application Replacement, but will be unachievable if there is not enough labor

[3408] *Id.* at 7.

[3409] *Id.* at 5. *See, e.g.*, D.19-09-051 at 278.

[3410] Ex. SDG&E-26-R (Mueller) at 13:8-10.

to implement them. Put another way, Cal Advocates did not contest SDG&E's Capital request,[3411] yet its proposed reductions to O&M would eliminate the funding for the incremental internal and contracted labor needed to execute the additional cyber activities and mitigations identified in the RAMP report, challenging SDG&E's ability to properly monitor and manage against cyber threats.[3412] For example, cybersecurity assessments and third-party risk assessments are completed to ensure third parties maintain security certifications, evidence of recent tests, and supporting activities including collecting information on the third-party's internal security practices. The program that conducts such assessments would be impacted by reductions in the O&M forecast. The underlying need to incur SDG&E's TY 2024 forecasted costs has not diminished. Therefore, SDG&E recommends that the Commission approve SDG&E's cybersecurity Shared TY 2024 O&M forecast as requested.

28.4 Cybersecurity Capital Costs

28.4.1 Summary of SoCalGas's and SDG&E's Cybersecurity Capital Requests

Planning for cybersecurity risk mitigation is particularly challenging because of the wide range of potential risk drivers, including rapid changes in technology, innovations in business capabilities, evolving threats in terms of sophistication, automation, and aggressiveness, and increasing system interdependencies. Cybersecurity risk cannot be completely mitigated or avoided; however, the Companies can manage it by following well understood principles, recommending best practices, and striving to keep pace with changing threats.

Historical mitigation activities will continue to be performed. However, due to the evolving nature of the threats associated with this risk, if only the current mitigation activity was to be maintained, the risk would likely grow. Accordingly, the Companies request new capital projects to improve or replace existing security capabilities to address the ever-changing threats and/or supported technologies. While it is possible to plan for technology refresh costs based on the useful lifetime of a solution, it is more difficult to predict reactive technology costs in response to changes in threat capabilities that prematurely make a technology obsolete or require the use of a new technical control.[3413] For these reasons, SoCalGas and SDG&E use a zero-based forecast

[3411] Ex. CA-11 (Waterworth) at 82 ("Cal Advocates does not oppose SDG&E's forecasts.").

[3412] *See* Ex. SDG&E-226 (Zevallos) at 6.

[3413] Ex. SCG-22-R (Mueller) at 18; Ex. SDG&E-26-R at 20 (Mueller).

methodology for capital projects. A zero-based forecast is a more accurate indicator of future costs as there is no regular historical average for reference given the ever-changing nature of cybersecurity threats, regulation, and risks.[3414]

The Cybersecurity Program continually reassesses planned capital projects to maintain project priorities to balance current project and resource activities based on current cybersecurity risks. A side effect of the risk management adjustments is that project plans are continually reprioritized and restructured. For example, projects defined beyond a 12- to 18-month planning horizon are less likely to be implemented and may be replaced by a higher priority project.[3415] Also, projects may happen in different years due to changes in priority and resource availability as a result of the need for continuous reassessment of threats, known risks, and prioritization for cybersecurity activities.

28.4.1.1 SoCalGas Capital Request

Table 28.10 below, from SoCalGas's direct testimony (Ex.SCG-22-R (Mueller) at 19), summarizes SoCalGas's cybersecurity capital forecasts for 2022, 2023, and 2024, broken down by mitigation type. Each of these comprise RAMP activities, and they are described by SoCalGas in detail in Section VI of Ex. SCG-22-R (Mueller) at 20-26.

Table 28.10
SoCalGas Capital Expenditures Summary of Costs
(Thousands of Dollars)

CYBERSECURITY (In 2021 $)			
A. Cybersecurity	**Estimated 2022(000s)**	**Estimated 2023(000s)**	**Estimated 2024(000s)**
1. Perimeter Defenses	4,898	7,523	12,592
2. Internal Defenses	15,578	7,363	11,530
3. Sensitive Data Protection	7,560	9,264	6,026
4. Operational Technology (OT) Cybersecurity	806	5,204	5,257
5. Obsolete Information Technology (IT) Infrastructure and Application Replacement	0	7,434	7,510
Total	**28,842**	**36,788**	**42,915**

[3414] *See* Ex. SCG-22-R (Mueller) at 19:4-19.

[3415] *Id.* at 38.

Table 28.11
SoCalGas Capital Expenditures Summary of Differences

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SOCALGAS	28,842	36,788	42,915	108,545	
CAL ADVOCATES	20,554	23,570	23,570	67,694	40,851

28.4.1.2 Cal Advocates' Proposed Capital Adjustments Regarding SoCalGas

As summarized in Table 28.11, Cal Advocates disputes SoCalGas' proposed cybersecurity capital request. Cal Advocates argues that SoCalGas had "inadequate cost support" for its forecast and did not justify the significant increase in capital forecast when compared with its historical GRC forecasts.[3416] Cal Advocates recommends a 5-year average that compares SoCalGas historic costs to SDG&E's historic costs be applied to reduce SoCalGas's forecast to $20.554 million, $23.570 million and $23.570 million for 2022, 2023, and 2024, respectively.[3417] As an alternative, Cal Advocates "recommends a two-way balancing account funded at $20 million per year (based on its recommendation)."[3418]

For the reasons identified below, Cal Advocates' recommendation would severely underfund cybersecurity protections, placing company systems, infrastructure and customers at risk, and lacks justification.

28.4.1.3 Cal Advocates' Forecasting Methodology is Flawed Because it Fails to Account for Proper Asset Allocation

SoCalGas disagrees with the methodology employed by Cal Advocates, which would determine forecast years using a five-year average that adjusts SoCalGas forecasts based upon a comparison of SoCalGas historical expenditures to those of SDG&E. Specifically, Cal Advocates' recommendation took "a 5-year average of historical costs comparing SCG's historic expenditures to that of SDG&E to determine the extent to which SCG spends more than SDG&E,"[3419] and derived a 144% variance year-over-year between SDG&E and SoCalGas that Cal Advocates then applied to create its recommended capital forecast for SoCalGas.[3420]

3416 Ex. CA-11 (Waterworth) at 77:23-24.

3417 *Id.* at 80:10-81:3.

3418 *Id.* at 81:20-22.

3419 Ex. CA-11 (Waterworth) at 80.

3420 *Id.* at 80 – 81 and Table 11-47.

As detailed in SoCalGas's rebuttal, this logic is entirely flawed and rests on an incorrect premise.[3421] Cybersecurity is a shared services for SoCalGas, SDG&E, and Sempra, and the costs set forth in testimony are allocated between Companies based on the mechanisms described in the Shared Services Billing, Shared Assets Billing, Segmentation, and Capital Reassignments testimony of Angel Le and Paul Malin (Ex. SCG-30-R/SDG&E-34-R), thus the comparison of shared asset capital project costs based upon where the dollars are initially incurred is not a complete picture.[3422] The Companies' allocation of capital expenditures are planned and governed within a capital planning and business case methodology that drives how investments are allocated amongst and within operating companies as was clearly described in both the Cybersecurity prepared direct testimony[3423] and the Shared Services prepared direct testimony.[3424] SoCalGas further explained in response to Cal Advocates' data request, that a cost-sharing mechanism is factored for any project that will be utilized across SoCalGas, SDG&E, and/or Sempra Corporate Center based on a utilization factor. In other words, "which operating company is the primary consumer of the asset(s) ultimately drives the allocation method for the asset."[3425] The capital costs for a shared asset are recorded on the financial records of the utility that receives the most service or use from the asset and costs are allocated to the other Sempra affiliate(s) based on a utilization factor developed specifically for each forecasted project, as described in SoCalGas's Shared Services prepared direct testimony and workpapers.[3426] As described in Ex.SCG-304/SDG&E-304, Question 1, including the table provided therein, where the costs are forecasted may be different than where the costs are recorded after shared asset allocations.

3421 *See* Ex. SCG-222 (Zevallos).

3422 Ex. SCG-304/SDG&E-304, DR. Response to PAO-SCG-204 LMW, Question 1.

3423 Ex. SCG-22-R (Mueller) at 3. SoCalGas also responded to Cal Advocates in discovery responses that SoCalGas bore the larger portion of shared capital costs due to its "broader service area and larger user base, therefore the capital project cost allocations on shared assets are greater as compared to SDG&E." *See* Ex. SCG-222, Appendix B, SoCalGas Response to PAO-SCG-054-LMW, Question 3 at 7, n.3.

3424 Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 21.

3425 Ex.SCG-304/SDG&E-304, DR. Response to PAO-SCG-204 LMW, Question 1.

3426 Revised Prepared Direct Testimony of Angel N. Le and Paul D. Malin (Shared Services Billing, Shared Assets Billing, Segmentation, & Capital Reassignments) (August 2022) (Ex. SCG-30-R/SDG&E-34-R (Le/Malin)) at 16 – 21; Revised Workpapers to Prepared Direct Testimony of Angel N. Le and Paul D. Malin on Behalf of Southern California Gas Company and San Diego Gas & Electric Company (August 2022) (Ex. SCG-30-WP/SDG&E-34-WP-R (Le/Malin)).

28.4.1.4 Cal Advocates' Methodology is Flawed Because it Fails to Give Proper Deference to the Cybersecurity Safety Risks SoCalGas is Attempting to Mitigate

Even absent a comparison to SDG&E's historical expenditures, Cal Advocates' recommendation of a five-year historical average forecast, or, in the alternative, a two-way balancing account capped at $20 million per year,[3427] is faulty. Cal Advocates recommends an overall $40.851 million reduction from SoCalGas's $108.545 million TY 2024 forecast based on its assertion that SoCalGas has not adequately supported the requested increase in expense over SoCalGas's historical expenses.[3428] This characterization is inaccurate and unsupported.

SoCalGas created its capital forecast after thorough review and consideration of current business conditions, cybersecurity industry conditions, and the current threat landscape in the energy and utilities industry.[3429] SoCalGas used a zero-based forecast methodology for Cybersecurity capital costs.[3430] Due to the rapidly changing cybersecurity threat environment, this method is most appropriate as these estimates are based upon specific projects, assets, and tasks needed for cybersecurity risk management and mitigation. As SoCalGas explained in testimony, the more Operational Technology is adopted and the technology infrastructure that provides key capabilities and services ages, the need to invest in Operational Technology Cybersecurity and Obsolete IT Infrastructure Application Replacement areas increases. SoCalGas's infrastructure and applications are now reaching their standard upgrade or replacement shelf-life. Software and hardware asset depreciation guidelines are often within a five-year period and/or when the Original Equipment Manufacturer no longer supports or provides security updates. Within that same timeframe, software vendors may also make updates, known as patches, to their technology to address vulnerabilities and known threats. As such, the steady increase of investments in cybersecurity protections at SoCalGas reflects this environment and requires that the Company remain nimble and employ the current, vendor-supported version of applications, tools, and capabilities at or faster than the pace of threat actors.[3431]

[3427] *See* Ex. CA-11 (Waterworth) at 81.

[3428] *See generally* Ex. CA-11 (Waterworth) at 77-81.

[3429] Ex. SCG-22-R (Mueller) at 18.

[3430] *Id.* at 19.

[3431] *See* Ex. SCG-222 (Zevallos) at 4.

Evolving vulnerabilities in existing systems may also require SoCalGas's capital investment in enhancements, upgrades, or replacements before SoCalGas has fully depreciated those products, but those investments are necessary. Strengthening the defenses of our perimeter, protecting sensitive customer data and enforcing robust internal defenses, are paramount to SoCalGas's cybersecurity operations and the integrity of the Company's systems and protections. Addressing vulnerabilities in systems and applications as expeditiously as possible allows SoCalGas to close or minimize any potential points of entry to threat actors.

Although SoCalGas provided data and the information requested to Cal Advocates – highlighting examples of larger projects within the SoCalGas forecast – Cal Advocates states that it "considers the support lacking because SCG's proof is limited to numbers on a page."[3432] Not so. In addition to its prepared direct testimony, SoCalGas not only provided responses to Cal Advocates' data requests that discussed the larger projects, but it also conducted a "walk-through" discussion of details about the projects and associated costs.[3433]

Moreover, SoCalGas demonstrated through direct testimony, its workpapers and in discovery the reasons for and costs to support the need for increased spending in the Cybersecurity area.[3434] With constant reports in the news about cybersecurity breaches and events impacting government, businesses and critical energy infrastructure, SoCalGas takes the ever evolving and sophisticated cybersecurity events seriously, as it must under both state and federal laws, including DHS and TSA Security Directive (TSA SD). requirements. SoCalGas's TY 2024 GRC request reflects that it has planned for and anticipates increased and very real cyberthreats over the next four years. In its prepared direct testimony SoCalGas provided examples of recent cyber-attacks at the Ukrainian Power Grid, Colonial Pipeline and First Energy that have proven very damaging to utilities and the customers they serve.[3435] SoCalGas also provided examples of how the cybersecurity threat landscape is evolving at a rapid pace through emergent advanced technologies such as ChatGPT that mimics human conversation to lure and trick victims into installing

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3432 Ex. CA-11 (Waterworth) at 80.

3433 *See, e.g.,* Ex. SCG-222 (Mueller), Appendix B, SoCalGas Response to PAO-SCG-054-LMW, Question 3.

3434 *See, e.g., id.*, Appendix B, SoCalGas Response to PAO-SCG-054, Question 3; *see also* Ex. SCG-22-R (Mueller) at Appendix D; Ex. SCG-22-CWP-R (Mueller) at 26.

3435 Ex. SCG-22-R (Mueller) at 2.

malicious software on their devices.[3436] An abundance of evidence was provided in this proceeding that demonstrates how and why SoCalGas's cybersecurity posture must continuously evolve to protect its assets, infrastructure and customers. Its TY 2024 forecast reflects that need.

Importantly, the result of Cal Advocates' recommendation would be to create the very vulnerabilities and risk that SoCalGas's cybersecurity forecast is designed to address. While Cal Advocates does not challenge SoCalGas's assessment of the growing risk that cyber threats pose or challenge the merits of any of the types of projects proposed, Cal Advocates' recommended forecast, or capped balancing account alternative approach, would inhibit investments required to address the evolving and growing cybersecurity threats, add risk to the business and endanger the utility's technology infrastructure. Cal Advocates' use of a 5-year historical analysis to determine capital expenses is not a logical approach to funding cybersecurity capital projects, especially as it relates to necessary expenditures to directly address cybersecurity risks that have been identified via RAMP and on-going risk assessments. Specifically, historical expenditures are not sufficient to address increasing cybersecurity threats, which are constantly emerging in a dynamic environment.[3437] Pandemic era conditions added further complexity to this landscape and challenged SoCalGas's (and the energy and utilities industry) ability to make all optimal investments to mitigate cybersecurity risks. This required a sensitive balance between prioritizing the right cybersecurity investments, based on known cyber risk with the capacity that the Company had available to deliver the solutions safely and securely. An example of this includes completing technology enhancements that protect the utilities from external threats (*e.g.,* Perimeter Defenses), while ensuring we have the necessary people with skills, knowledge and experience to oversee these projects, and the solution knowledge and domain expertise to implement them. Other pandemic era impacts, including supply chain and labor constraints that affected the availability and timing of software, hardware and service suppliers, further compounded the need for strict prioritization of available investments. These challenges impacted SoCalGas's ability to optimize the manner in which it mitigates and manages evolving cyber risks in its cybersecurity program. Notwithstanding the ongoing recovery from prior year constraints, SoCalGas continues to assess evolving conditions within each cyber risk area, reprioritize investments, and commitment to deliver solutions that protect the Company and our customers as reflected in its TY forecasts.

[3436] Ex. SCG-222 (Zevallos) at 8:3-9:1.

[3437] *Id.* at 9-10.

Cal Advocates' recommendations to significantly reduce SoCalGas's Cybersecurity planned capital expenditures make no sense in an environment of increasing cyber threats and risks. Simply put, Cal Advocates' recommendation to use a five-year forecast methodology, or capped balancing account alternative, does not provide sufficient funds to mitigate and address the risks identified within the RAMP report.[3438] The Commission should approve SoCalGas's cybersecurity capital request without change.

28.4.1.5 SDG&E Capital Request

Table 28.12 below, from SDG&E's direct testimony (Ex. SDG&E-26-R (Mueller) at 20), summarizes SDG&E's cybersecurity capital forecasts for 2022, 2023, and 2024, broken down by mitigation type. Each of these comprise RAMP activities, and they are described by SDG&E in detail in Section VI of Ex. SDG&E-26-R (Mueller) at 21-27.

Table 28.12
SDG&E Capital Expenditures Summary of Costs
(Thousands of Dollars)

CYBERSECURITY (In 2021 $)			
A. Cybersecurity	**Estimated 2022(000s)**	**Estimated 2023(000s)**	**Estimated 2024(000s)**
1. Perimeter Defenses	0	2,300	2,300
2. Internal Defenses	1,138	1,150	1,150
3. Sensitive Data Protection	995	1,610	1,610
4. Operational Technology (OT) Cybersecurity	6,291	3,450	3,450
5. Obsolete Information Technology (IT) Infrastructure and Application Replacement	0	1,150	1,150
Total	**8,424**	**9,660**	**9,660**

Table 28.13
SDG&E Capital Expenditures Summary of Differences

TOTAL CAPITAL - Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Difference**
SDG&E	8,424	9,660	9,660	27,744	
CAL ADVOCATES	8,424	9,660	9,660	27,744	0

[3438] *Id.* (discussing why 5-year average and balancing account recommendations are not appropriate for prudent mitigation of increasing cybersecurity risk and sophistication of perpetrators).

28.4.1.6 Cal Advocates' Capital Recommendation Regarding SDG&E

Cal Advocates does not propose any adjustments to SDG&E's requested capital expenditures for TY 2024.[3439] However, Cal Advocates recommends, when discussing SoCalGas's capital request, a two-way balancing account for SDG&E "with a funding level of $10 million based on its recent spending levels,"[3440] but Cal Advocates provides no basis for this recommendation. Elsewhere Cal Advocates admits that SDG&E's capital spending is at historic levels, and in fact exceeds its capital forecast in this proceeding.[3441] The Commission should reject Cal Advocates unsupported balancing account recommendation as unjustified and approve SDG&E's cybersecurity capital request as reasonable.

In summary, the Commission should adopt SoCalGas's and SDG&E's cybersecurity O&M and capital forecasts as reasonable.

29. Corporate Center – General Administration

29.1 Summary of Costs, Activities, and CPUC-Approved Policies

Exhibits SCG-23-R-E/SDG&E-27-R-E, SCG-223/SDG&E-227, and SCG-23-WP-R-E/SDG&E-27-WP-R-E describe the TY 2024 forecasts for allocations of Shared General Administration costs from Sempra's Corporate Center to SDG&E and SoCalGas.[3442]

The CPUC in D.98-03-073 approved the application to merge Enova Corporation and Pacific Enterprises, the former parent companies of SDG&E and SoCalGas, respectively, and form Sempra. Sempra then formed a centralized Corporate Center that combined many shared services of both Companies and also served Sempra's other operating companies (referred to as Infrastructure/Retained).[3443]

The Corporate Center provides corporate governance, policy direction, and critical control functions, as well as services that are still performed most effectively as a centralized operation. They are services that would otherwise require additional staffing and O&M at SDG&E and SoCalGas, if not performed and allocated by the Corporate Center.

[3439] Ex. CA-11 (Waterworth) at 82 and Table 11-48.

[3440] *Id.* at 81:24-26.

[3441] *Id*. at 81:14 ("SDG&E's forecasted spending is at historic levels") and 82, Table 11-49.

[3442] *See* Exs. SCG-23-R-E/SDG&E-27-R-E (Cooper), SCG-223/SDG&E-227 (Cooper), and SCG-23-WP-R-E/SDG&E-27-WP-R-E (Cooper).

[3443] "Infrastructure/Retained" costs are costs incurred at Sempra's Corporate Center that are allocated to the holding company for most of Sempra's operating companies – *i.e.,* costs that are not allocated to SoCalGas and SDG&E and are not subject to CPUC regulation.

Table 29.1 below, from Ex. SCG-23-R-E/SDG&E-27-R-E, represents a summary of these costs.

TABLE 29.1
TY 2024 Summary of Total Costs

	Corporate Center			Utility Allocations		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A. Finance	64,973	6,729	71,702	37,097	3,936	41,033
B. Human Resources and Administration	16,927	2,641	19,569	13,196	820	14,016
C. Legal, Compliance, and Governance	48,166	(1,312)	46,855	31,317	1,180	32,497
D. External Affairs	24,522	(1,010)	23,513	5,286	322	5,608
E. Executive	7,441	(1,021)	6,419	-	-	-
F. Facilities and Assets	30,937	(2,875)	28,061	19,747	(2,019)	17,728
G. Pension and Benefits	89,349	(202)	89,147	19,333	(10,152)	19,181
Total	$282,315	$2,950	$285,266	$135,976	($5,913)	$130,063
						Escalated 2024
Allocations						
SDG&E	63,485	(1,171)	62,314			66,987
SoCalGas	72,491	(4,742)	67,749			73,102
Total Utility	135,976	(5,913)	130,063			$140,089
Infrastructure / Retained	146,339	8,863	155,202			
Total	$282,315	$2,950	$285,266			

The Corporate Center – General Administration prepared testimony presented costs on an incurred basis: the recorded costs for 2021; forecasted costs for 2024; and the allocation of those costs to SDG&E, SoCalGas, and Infrastructure/Retained. For TY 2024, 46% of all forecasted, un-escalated Corporate Center shared service costs are allocated to SDG&E and SoCalGas. Corporate Center shared service costs not allocated to SDG&E and SoCalGas are not included in this request.[3444]

Exhibit SCG-23-R-E/SDG&E-27-R-E describes Corporate Center policies, consistent with Commission precedent, that determine how costs are allocated or retained, as well as forecasting and escalation methodologies for GRC purposes.[3445] The goal in Corporate Center allocation

3444 For example, SCG-23-R-E/SDG&E-27-R-E (Cooper) at 62 explains that "[n]one of the costs associated with the Executive department are allocated" to SoCalGas and SDG&E and "are all retained at Corporate Center," as also shown in Table DC-3E.

3445 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 5-12.

practices is to reasonably and equitably bill its costs to business units, associating the costs as closely as possible to the level of service being provided to each business unit. To achieve this, the Corporate Center uses a hierarchy to allocate its costs to SDG&E, SoCalGas, and Infrastructure/Retained:

1. Direct Assignment
2. Causal/Beneficial
3. Multi-Factor

Exhibit SCG-23-R-E/SDG&E-27-R-E explains that all cost centers will use direct assignment when possible and any remaining costs are allocated using an appropriate Causal/Beneficial or Multi-Factor method as applicable.[3446] The Multi-Factor method is a four-factor allocation method that is used for functions that serve all business units but for which there is not a causal relationship, such as Investor Relations, or Financial Reporting, weighing four factors from all business units:

a. Revenues;
b. Operating Expenses;
c. Gross Plant Assets and Investments; and
d. Full-Time Employees or Equivalents.[3447]

This cost allocation methodology is consistent with previous CPUC decisions, such as the Merger Decision D.98-03-073, the 2004 Cost of Service Decision D.04-12-015, and prior GRC Decisions for TY 2008 (D.08-07-046), TY 2012 (D.13-05-010), TY 2016 (D.16-06-054), and TY 2019 (D.19-09-051). These four factors are compiled at the beginning of each year, using the prior year data as the basis for the following year's actual allocations.

As shown above and from Exhibit SCG-23-R-E/SDG&E-27-R-E, Table 29.1's requested expense forecasts are required so that both SDG&E and SoCalGas can continue to comply and be in good standing with existing and potentially new governmental, legal, and regulatory requirements. Compliance is a basic requirement of corporate governance. The expenses requested are also necessary for basic corporate support functions and services, such as payroll and benefits administration, tax services, and internal audit, among others. These are provided to the operating areas of the Companies in an efficient, effective, and timely manner. SDG&E and

[3446] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 7-9.

[3447] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 9.

SoCalGas infrastructure programs are also growing and evolving in response to customer preferences and the changing energy, regulatory, and policy environment, including significant investments in safety and reliability, system modernization, electrification and decarbonization, and sustainability. This growth creates pressure on services at Corporate Center that support capital investment, primarily within the Legal and Finance functions, both of which assist in activities to obtain the financing necessary for construction. While the cost of capital is not at issue in this proceeding, financing-related expenses such as short-term credit, banking, and rating agency fees are included.[3448]

29.2 Summary of Risk Assessment Mitigation Phase-Related Costs

Certain costs supported by Exhibits SCG-23-R-E/SDG&E-27-R-E and SCG-23-WP-R-E/SDG&E-27-WP-R-E are driven by activities described in SoCalGas and SDG&E's May 15, 2021 RAMP Report. The RAMP Report presented an assessment of the key safety risks of SoCalGas and SDG&E and proposed plans for mitigating those risks.

Table 29.2, from Ex. SCG-23-R-E/SDG&E-27-R-E, provides a summary of the Corporate Center – General Administration RAMP-related costs, by RAMP risk:

TABLE 29.2
Summary of RAMP O&M Costs

	BY 2021 Embedded Costs	TY 2024 Estimated Total	TY 2024 Estimated Incremental
RAMP Report Cross-Functional Factor (CFF) Chapter			
SCG-CFF-5 – Physical Security	$ 940	$ 944	$ 4
SDG&E-CFF-5 – Physical Security	$ 568	$ 570	$ 2
Sub-Total	**$ 1,508**	**$ 1,514**	**$ 6**
Total RAMP O&M Costs	**$ 1,508**	**$ 1,514**	**$ 6**

No party contested the above RAMP-related costs, which are described in greater detail in Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at DRC-3 – DRC-5.[3449]

29.3 Summary of Differences with Other Parties

Cal Advocates, TURN, and CEJA submitted testimony addressing discrete Corporate Center – General Administration issues. In large part, the majority of parties' testimony took no

[3448] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 1-3.

[3449] *See* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 3-4.

issue with the large majority of the costs sponsored by Exhibits SCG-23-R-E/SDG&E-27-R-E and SCG-23-WP-R-E/SDG&E-27-WP-R-E. Table 29.3 below, taken from SDG&E and SoCalGas's rebuttal testimony (Exhibit SCG-223/SDG&E-227), summarizes other parties' direct testimony cost differences from SDG&E and SoCalGas's request.

TABLE 29.3
Comparison of Total O&M Costs

TOTAL O&M - Constant 2021 ($000)		
	Base Year 2021	**Test Year 2024***
SOCALGAS/SDG&E	**136,632**	**130,063**
CAL ADVOCATES	**136,184**	**130,532**
TURN	**136,632**	**121,727**
CEJA	**136,030**	**130,286**

**Numbers have been updated to reflect the July 2023 Update Testimony.*

29.4 Overview of Corporate Center and Response To Other Parties' Recommendations

As explained in Exhibits SCG-23-R-E/SDG&E-27-R-E, SCG-223/SDG&E-227, and SCG-23-WP-R-E/SDG&E-27-WP-R-E, the Corporate Center is made up of the following divisions: Finance; Human Resources and Administration; Legal, Compliance and Governance; External Affairs; Facilities and Assets; and Pensions & Benefits.

Within each division section, a table presents the related division's total costs, broken down first by departments within the division, and then to the lowest organizational level, referred to as "cost centers." For each cost center, 2016 adjusted-recorded costs are presented, with the TY 2019 forecast and incremental change from base year (BY) 2016. Of these total amounts, the portion applicable only to SDG&E and SoCalGas (combined) is shown in the columns to the right. The lower half of each table, for each department, shows the amounts allocated to each of SDG&E and SoCalGas, with all remaining costs, not requested, summarized as Infrastructure/Retained.

SoCalGas and SDG&E provide an overview of each of these divisions below and address issues raised by other parties in the context of each Corporate Center cost category by division. In summary, issues raised in direct testimony of other parties should be rejected as follows:

- Cal Advocates agreed with SoCalGas's and SDG&E's forecast for all areas and recommended that the Commission adopt SoCalGas's and SDG&E's forecast after the correction of certain errors, which have been reflected in Table DRC-1 above. Cal Advocates' sole recommended reduction for the removal of costs related to certain privileged and confidential audits that do not impact SoCalGas's and SDG&E's forecasts, as shown in Table-DRC-1, should be rejected, as discussed further below.[3450]

- TURN's recommendation to remove Corporate Center ICP costs allocated to SDG&E and SoCalGas should be rejected, as shown in the rebuttal testimony of Debbie S. Robinson (Exhibit SCG-225-E/SDG&E-229)[3451] and as discussed *infra* Section 31.
- CEJA's recommendation that SoCalGas reduce its outside legal expense forecast for certain costs that CEJA believes should not be assigned to ratepayers and that SoCalGas be required to "refund" ratepayers for actual costs incurred should also be rejected.[3452]

SoCalGas and SDG&E's rebuttal testimony, SCG-223/SDG&E-227, explains why each of these proposals should be rejected, as also shown below in the context of the evidence presented in Exhibits SCG-23-R-E/SDG&E-27-R-E and SCG-23-WP-R-E/SDG&E-27-WP-R-E. In light of this evidence, and as discussed further below, SoCalGas and SDG&E's TY 2024 forecasts for allocations of Shared General Administration costs from Sempra Corporate Center to SDG&E and SoCalGas should be approved.

29.4.1 Finance

The Finance division is responsible for maintaining the financial integrity of the Sempra companies, including raising and managing capital. The Finance division is discussed in detail in testimony[3453] and includes the major functions highlighted in the table below.

TABLE 29.4
Finance Summary of Costs

(2021 $$000s) Services Provided	**Corporate Center**			**Utility Allocations**		
	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A-1 CFO	1,465	(171)	1,294	921	(921)	-
A-2 Accounting Services	20,362	(676)	19,686	14,171	254	14,424
A-3 Tax Services	11,221	(434)	10,786	6,906	101	7,007
A-4 Treasury	19,513	6,633	26,146	7,924	3,111	11,036

3450 *See* Ex. SCG-223/SDG&E-227 (Cooper) at 4-6, regarding Ex. CA-12-E (Chumack) and Ex. CA-19 (Chia/Lee).

3451 *See* Ex. SCG-223/SDG&E-227 (Cooper) at 6 and Ex. SCG-225/SDG&E-229 (Robinson) at 18-19, regarding TURN-10 (Jones) at 2.

3452 *See* Ex. SCG-223/SDG&E-227 (Cooper) at 6-10.

3453 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper), Section IV.A at 13-28.

(2021 $$000s) Services Provided	Corporate Center Base Year 2021	 2021-2024 Incr/(Decr)	 Forecast 2024	Utility Allocations Base Year 2021	 2021-2024 Incr/(Decr)	 Forecast 2024
A-5 Investor Relations	2,377	150	2,527	1,646	438	2,084
A-6 Audit Services	6,688	918	7,606	4,361	1,102	5,463
A-8 Corporate Development & Strategy	1,265	854	2,120	-	-	-
A-9 Financial Leadership Program	1,397	140	1,537	784	236	1,020
Total	$64,973	$6,729	$71,702	$37,097	$3,936	$41,033
						Escalated 2024
Allocations						
SDG&E	19,275	1,535	20,810			22,582
SoCalGas	17,822	2,401	20,223			21,974
Total Utility	37,097	3,936	41,033			$44,556
Infrastructure / Retained	27,876	2,793	30,669			
Total	$64,973	$6,729	$71,702			

The Finance division costs allocated to SoCalGas and SDG&E are projected to increase by $3.9 million from BY 2021 to TY 2024. The primary drivers are:

$- millions	
2.9	Higher rating agency, trustee, and cash management fees
1.0	Higher travel and training
0.8	Higher contract labor and consulting
0.5	Higher labor costs
(1.3)	Voluntarily excluding CFO and Controller costs
$3.9	

With the exception of the audit issue discussed immediately below, no party contested the Finance costs proposed to be allocated to SoCalGas and SDG&E. The Commission should approve these costs as reasonable.

Cal Advocates' Proposed Audit Services Adjustment

In its testimony, Cal Advocates recommends the removal of certain historical audit costs within the Finance division that are allocated to SDG&E and SoCalGas. For SDG&E, Cal Advocates recommends the removal of $233,000 in 2017, $101,000 in 2018, $218,000 in 2019,

$546,000 in 2020, and $334,000 in 2021; and for SoCalGas, Cal Advocates recommends the removal of $381,000 in 2017, $593,000 in 2018, $344,000 in 2019, $117,000 in 2020, and $114,000 in 2021.[3454]

As explained in SCG-223/SDG&E-227, Cal Advocates makes no claim that the expenses incurred were incorrect or imprudent. Rather, Cal Advocates claims that because they were not granted access to 36 audit reports, those corresponding expenses should be removed. These audit reports, however, are marked confidential and privileged, since they are protected from disclosure by the attorney-client privilege and/or attorney work product doctrine. Although these reports are protected from disclosure, they are legitimate business expenses and should be considered in this GRC as part of the history of these accounts. The CPUC has long recognized the validity of these privileges and there should be no automatic penalty to a regulated entity simply for exercising its legal rights.[3455] Otherwise, this could result in SDG&E and SoCalGas waiving their attorney-client privilege for these documents.

The Commission rejected a similar Cal Advocates position and arguments in D.19-09-051, explicitly finding the costs for 36 privileged audits to be "legitimate expenses for necessary audits and should not be excluded:"

> We have reviewed the different groups that comprise the Finance division and examined the forecast amounts for each group, the allocation methodology used to allocate costs, and the resulting amount to be allocated to Applicants. We find that the testimony submitted reasonably supports the request and adequately sets forth the functions and necessity of the Finance division as well as the seven subgroups that comprise it. We evaluated each of the allocation methods that were utilized and find them to be appropriate. The methods used follow the hierarchy of allocation methods discussed at the beginning of this section. Many of the services and functions are centralized and benefit all business units for which the multi-factor allocation method was properly utilized.
>
> Parties for the most part did not challenge the total costs that were forecast for the Corporate Center as well as the allocation method used, and the resulting amount to be allocated to Applicants except for ORA's objection to the amounts allotted for the Internal Audit and Risk Management group. However, we reviewed ORA's recommendation and find that the basis for its proposal is the exclusion of the cost for 20 audits conducted to which ORA was not granted access. However, Applicants explained that access to the documents pertaining to these audits was

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3454 *See* Ex. SCG-223/SDG&E-227 (Cooper) at 4-6, addressing Ex. CA-12 (Chumack) and Ex. CA-19 (Chia/Lee) at 1-2.

3455 *See, e.g.,* D.19-09-051 at 718; *see also Southern California Gas Company v. Public Utilities Commission*, 50 Cal. 3d 31 (1990), *passim.*

> withheld from ORA because the documents were considered to be confidential in nature because of the attorney-client privilege. We find Applicants' explanation to be reasonable and agree that these audits were legitimate expenses for necessary audits and should be included in costs for the Internal Audit and Risk Management group. We therefore accept Applicants proposed Corporate Center and allocated costs.[3456]

In addition, it should be noted that these historical costs at issue are not used for GRC forecasting purposes. Instead, the allocation of these forecasted costs within the Audit Services department is based on the annual Audit Plan.[3457] Therefore, as shown above in Table DC-3A, Cal Advocates' recommendation has no impact on SoCalGas and SDG&E's cost forecast in this area.

Accordingly, Cal Advocates' recommendation should be rejected.

29.4.2 Human Resources and Administration

The Human Resources and Administration division at Corporate Center develops corporate-wide policies, procedures and programs that apply to the entire Sempra companies' workforce. It also provides services not found in Sempra's subsidiary organizations, related to the support and maintenance of Sempra's employees, which Sempra considers its most important asset. This division also oversees Sempra's information technology activities, including corporate systems, physical security, and cybersecurity. This division is discussed in detail in Ex. SCG-23-R-E/SDG&E-27-R-E[3458] and includes the major functions highlighted in Table 29.5 below.

TABLE 29.5
Human Resources and Administration Summary of Costs

	Corporate Center			Utility Allocations		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
B-1 Chief Administrative Officer & Chief Human Resources Officer	2,150	(588)	1,563	1,437	(1,437)	-
B-2 Diversity & Community Partnerships Officer	479	(29)	450	462	(27)	435
B-3 Risk Management Officer	156	165	321	26	187	214

3456 Ex. SCG-223/SDG&E-227 (Cooper) at 5-6, quoting D.19-09-051 at 503; *see also id.* at 718.

3457 Ex. SCG-223/SDG&E-227 (Cooper) at 6.

3458 SCG-23-R-E/SDG&E-27-R-E, Section IV.B at 29-45.

(2021 $$000s) Services Provided	Corporate Center Base Year 2021	Corporate Center 2021-2024 Incr/(Decr)	Corporate Center Forecast 2024	Utility Allocations Base Year 2021	Utility Allocations 2021-2024 Incr/(Decr)	Utility Allocations Forecast 2024
B-4 Compensation & Payroll	2,861	173	3,034	2,466	208	2,674
B-5 Benefits	1,029	272	1,301	977	281	1,258
B-6 Corporate HR & Staffing Development	1,942	220	2,162	1,557	226	1,783
B-7 Ethics & Investigations	472	413	885	387	342	730
B-8 Diversity & Inclusion	843	359	1,202	691	301	991
B-9 Risk Management	2,180	(97)	2,083	1,489	(95)	1,394
B-10 Corporate Security	4,815	1,752	6,567	3,704	833	4,537
Total	$16,927	$2,641	$19,56 9	$13,19 6	$820	$14,01 6
						Escalat ed 2024
Allocations						
SDG&E	5,463	388	5,850			6,515
SoCalGas	7,734	432	8,166			9,098
Total Utility	13,196	820	14,016			$15,61 3
Infrastructure / Retained	3,731	1,821	5,552			
Total	$16,927	$2,641	$19,56 9			

The costs for Human Resources and Administration assigned to SoCalGas and SDG&E are forecasted to increase by $0.8 million from BY 2021 to TY 2024. The increase is primarily due to the following:

$- millions	
0.9	Training, travel, and catering/events
0.8	Higher consulting fees and contract labor costs
0.4	Higher labor costs
02	Computer hardware/software and security costs
(1.4)	Voluntarily excluding CAO and CHRO costs
$ 0.8	

No party contested the Human Resources and Administration's costs proposed to be allocated to SDG&E and SoCalGas. The Commission should approve these costs as reasonable.

29.4.3 Legal, Compliance, and Governance

This division includes the office of the Chief Legal Officer, the Corporate Center Law Department (CCLD), Corporate Compliance, Corporate and Securities Law, Regulatory Law, Corporate Governance, Board of Directors, and Outside Legal. The division provides legal, compliance, and governance services to all Sempra companies and coordinates the retention and oversight of outside law firms, including the negotiation of outside legal fee arrangements. This division is discussed in detail in SCG-23-R-E/SDG&E-27-R-E (Cooper)[3459] and includes the major functions highlighted in the table below.

TABLE 29.6
Legal, Compliance, and Governance Summary of Costs

	Corporate Center			**Utility Allocations**		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
C-1 Chief Legal Officer	4	861	865	3	689	692
C-2 Litigation & Compliance	6,603	444	7,047	5,418	296	5,714
C-3 Corporate Law & Governance	4,733	(47)	4,686	3,620	121	3,740
C-4 Board of Directors	3,581	(29)	3,552	2,802	127	2,929
C-5 Outside Legal	33,245	(2,540)	30,705	19,475	(53)	19,421
Total	$48,166	($1,312)	$46,855	$31,317	1,180	32,497
						Escalated 2024
Allocations						
SDG&E	12,575	2,148	14,723			15,352
SoCalGas	18,742	(968)	17,774			18,627
Total Utility	31,317	1,179	32,497			33,979
Infrastructure / Retained	16,849	(2,491)	14,358			
Total	$48,166	($1,312)	$46,855			

[3459] SCG-23-R-E/SDG&E-27-R-E, Section IV.C at 45-55.

As noted in the table above, Legal, Compliance, and Governance costs assigned to SoCalGas and SDG&E overall are forecasted to increase by $1.2 million from BY 2021 to TY 2024. This increase is primarily due to the hiring of a new Chief Legal Officer and overall higher outside legal fees and services. As explained at evidentiary hearings, these cost increases represent a variance between BY 2021 and TY 2024.[3460]

Exhibit SCG-223/SDG&E-227 explains how the Companies found an error in the underlying data supporting its TY 2024 outside legal forecast during discovery, which led the Companies to conduct further review of those costs for individual matters under attorney/client privilege for SoCalGas, SDG&E, and Sempra (to the extent those costs were allocated to the Companies) for each of the years 2017-2021 and 2022. At the evidentiary hearing, Corporate Center witness Mr. Cooper, as well as the witness panel of SoCalGas's General Counsel, Mr. David Barrett, and Sara Mijares confirmed the comprehensive process undertaken to review the historical costs for errors and correct the errors, by removing them from the aggregated data used to support Mr. Cooper's forecast. As Mr. Barrett explained:

> [W]e undertook a comprehensive review of all the outside legal matters that were included in the underlying data for the forecast, had each individual – each of the attorneys who were responsible for those individual matters review them again, and verify whether or not there were any other costs that had been included by mistake in the underlying data for the forecast.· And I believe that there were additional – there were some additional mistakes identified, and that those mistakes also have been corrected.[3461]

Ms. Mijares also confirmed:

> [The Companies looked] at a hundred percent of the matters where we incurred outside legal costs, and we made a determination of the ones that should be excluded from the rate case and did so.· As a result of that comprehensive assessment, if some cost remained, it's because they do not meet the criteria to record costs below the line.[3462]

3460 Tr. V4:770:8-771:21 (Folkmann) and Tr. V14:2480:4-8 (Cooper) ("If you look at DRC-iv, what I'm explaining is a variance.· This is a variance from base year '21 to Test Year '24.· So what you're seeing here is the variance in costs associated with the chief legal officer on an allocated basis to both SoCalGas and SDG&E.").

3461 Tr. V16:2800:3-12 (Barrett).

3462 Tr. V16:2830:4-10 (Mijares); *see also, e.g.,* Tr. V14:2467:16-23 (Cooper) (explaining the "detailed review of all matters from the historical period, 2017 to 2021" that the Companies undertook:· "[A]n exhaustive effort to go through each matter for all those years in question for both SDG&E, SoCalGas and Sempra Corporate Center, as applicable, that was allocated to the utilities, and then determined what would be nonrecoverable in those matters….").

Upon completion of this extensive review, SoCalGas and SDG&E recreated their TY 2024 outside legal forecast for both Companies, resulting in a decrease of $4.308 million ($1.437 million for SDG&E and $2.871 million for SoCalGas).[3463]

With the exception of the issue discussed immediately below, and with the above correction, no party contested the Legal, Compliance and Governance costs proposed to be allocated to SDG&E and SoCalGas. The Commission should approve these costs as reasonable.

29.4.3.1 CEJA's Proposed Outside Legal Adjustment Should Be Rejected.

In addition to the Companies' reduction in their forecast due to a correction of errors in the outside legal forecast discussed above, CEJA's testimony requests an additional reduction to the outside legal expense forecast, based on certain historical costs it believes should not be included in rates. Specifically, CEJA recommends that SoCalGas reduce their historical outside legal expenses by $790,394 related to a SoCalGas complaint against the California Energy Commission (CEC).[3464] CEJA also requests an additional reduction based on its claim that "another outside counsel expenses [sic] for assistance on a non-public matter appears related to a topic that is not a recoverable expense," which was identified at the evidentiary hearing as an inquiry from the California Attorney General's office.[3465] CEJA also questioned the witness panel of Mr. Barrett and Ms. Mijares regarding costs related to "outside counsel expenses associated with an out-of-proceeding discovery pursuit by the Public Advocates Office."[3466]

In prepared direct testimony, CEJA stated its additional belief that SoCalGas should be required "to refund ratepayers for actual costs incurred," rather than the corrective accounting and forecasting adjustments the Companies have already undertaken to resolve any errors that were found affecting the original forecast, as described in Section 29.4.3, *supra.*

[3463] Ex. SCG-223/SDG&E-227 (Cooper) at 7-8. *Id.* at 10 describes the process of how the errors were corrected. *See also, e.g.,* Tr. V14:2467:21-2468:4 (Cooper).

[3464] *See* Ex. SCG-223/SDG&E-227 (Cooper) at 8 (citing Ex. CEJA-01 (Vespa, Gersen, Saadat, and Barker) at 98-100). The Companies strongly disagree with CEJA's proposal, as discussed herein. However, if CEJA's proposal is adopted, Exhibit SCG-223/SDG&E-227 shows that this reduction would result in a decrease of $246,000 in forecasted outside legal costs for TY 2024, as shown in Table 29.1 above.

[3465] While taking care to preserve the attorney/client privilege over protected information in responding to CEJA's cross-examination questions, SoCalGas witness Mr. Barrett testified that the referenced outside counsel expenses were incurred in response to an inquiry from the California Attorney General's office. Tr. V16:2820:23–2824:23 (Barrett) (referencing CEJA Ex. 25 at 64-65).

[3466] Tr. V16:2831:13-15 (Vespa).

As explained below, in the GRC context, outside legal costs are legitimate and ordinary business expenses that are generally recoverable in rates.[3467] SoCalGas recognizes its responsibility to accurately account for above- and below-the-line costs, and has provided evidence that the underlying data supporting its outside legal forecast has been reviewed, scrutinized, and, where errors have been found, corrected. The evidentiary record as a whole shows that SoCalGas, *first,* met its primary burden of proof in supporting its outside legal forecast with evidence consistent with past GRCs (upon which the Commission has reached a determination on reasonable future funding levels),[3468] and *second,* provided additional evidence to demonstrate the reasonableness of its *revised* forecasts, following the correction of errors, such that additional reductions are unwarranted.[3469] As explained below, SoCalGas's revised outside legal forecast is reasonable and should be approved..

29.4.3.1.1 GRC Funding for Reasonable Costs and Expenses Is Consistent with the Law and Commission Policy.

In the GRC context, Commission sets "just and reasonable"[3470] rates based on the well-established principle that a "utility is entitled to all of its reasonable costs and expenses, as well as

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3467 *See, e.g.,* D.19-09-051 at 512 (approving Corporate Center costs including outside legal expenses as reasonable, based on a review of a similar direct evidentiary presentation as the one presented in this case: "Based on our review, we find the forecasts under this division to be reasonable and supported by the evidence. Applicants provided adequate information regarding the functions, activities, and programs under this division and the forecast costs for the Corporate Center. We found the various allocation methodologies to be appropriate and note that Applicants correctly excluded certain costs that pertain to positions and activities that only affect and benefit the Corporate Center."); *see also* D.13-05-010 at 817 (rejecting a [then-] Division of Ratepayer Advocates' (DRA) argument to eliminate such costs, recognizing, "[a]s the name of this cost center implies, these costs are to hire outside legal help to handle matters that are outside the expertise of Sempra's Legal Department."); *see also* D.18-12-021 at 96 ("We agree with Cal-Am that it is reasonable for Cal-Am to hire outside counsel to meet regulatory demands, especially during periods when proceedings overlap. As with regulatory consultants, it is prudent for Cal-Am to hire outside counsel rather than hiring additional in-house counsel to meet periodic high demands. It is also prudent for Cal-Am to hire outside counsel that have the experience and expertise its in-house counsel may not have to address complex matters.").

3468 *See e.g.,* D.19-09-051 at 504-05 (citing the direct testimony of Mia DeMontigny (*see, e.g.*, MLD-35), which followed a substantially similar format and methodology as the prepared direct testimony in this proceeding and was subsequently approved).

3469 *See, e.g.,* D.11-03-049 at 9 (citation omitted) ("We recognize that the proponent of a request has the primary burden to make a prima facie case to support its position. However, any party opposing such a request then has a burden of going forward to present evidence to raise a reasonable doubt and show a different result was warranted.").

3470 *See* Pub. Util. Code Section 451.

an opportunity to earn a rate of return on the utilities' rate base."[3471] This principle is founded in longstanding U.S. Supreme Court law, which requires state regulators to establish a rate that will permit the utility to recover both its reasonable operating costs and expenses, as well as a reasonable rate of return on the value of the property that is devoted to public use.[3472] Commonly referred to as the "regulatory compact," the Commission has confirmed that this principle "continues to guide every rate case … and involves a balancing of customer and stockholder interests."[3473] As part of the regulatory compact, the Commission has stated a utility is obligated "to serve and charge regulated cost-based rates," and is "provided the opportunity to recover its actual legitimate or prudent cost – determined by a public examination of the utility's outlays," plus a fair return on investment.[3474]

It is in the context of the regulatory compact that the Commission examines all utility operating costs in a GRC. As SoCalGas's General Counsel and witness Mr. Barrett correctly testified, under cross-examination regarding outside counsel costs related to the aforementioned "out-of-proceeding discovery pursuit by the Public Advocates Office," the appropriate consideration in a GRC is whether such costs were prudently and reasonably incurred:

> My understanding is that the standard for recovery of rates in this state in this proceeding is that they are just and reasonable. And I am familiar with a handbook, a PUC handbook, on general rate cases that describes this. And generally what it describes is that just and reasonable rates should be sufficient to cover the prudent costs – of the provision of utility service and […] to provide an attractive rate of return to investors to the utility. ·In making the determination about what's just and reasonable rates, it is the Commission's responsibility, and it's a sober responsibility, to balance the interest of utility ratepayers with the interest of the utility, including expressly its investors, and to strike that balance and to provide

3471 D.03-02-035; *see* also D.14-08-011 at 31 ("[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]") (quoting *Southern California Gas Company v. Public Utilities Commission*, (1979) 23 Cal. 3d 470, 476 ").

3472 *See Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n*, 262 U.S. 679, 692 (1923) (requiring regulators to issue a rate that compensates a utility for its reasonable costs and expenses and "permit [the utility] to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties.").

3473 D.20-01-002 at 12, *quoting Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944), at 603 ("[t]he rate-making process ... *i.e.*, the fixing of just and reasonable rates, involves a balancing of the investor and the consumer interest.").

3474 D.20-01-002 at 10.

> adequate and reasonable funding to cover the operating costs and the capital costs of the utilities.
>
> […S]o the question for whether or not something, in my mind, [is] to be included in the forecast is whether or not it was prudently or reasonably incurred by the utility as part of providing utility service.· And so outside counsel costs – are part of the operating costs of the utility and, at times and under certain circumstances, can be part of the capital cost of the utility.
>
> And so the question for me – and you're asking for my determination – the question for me for whether these should be included in a forecast that leads to just and reasonable rates is were they prudently and reasonably incurred by the utility. ·In my opinion, these costs were prudently and reasonable incurred by the utility.· And to use Mr. Vespa's framing, if you look to outcome as an indicator of reasonableness, you would see that the Utilities Commission itself agreed with the reasonableness of the positions we were taking vis-a-vis the Public Advocates Office on attorney-client privilege and confidentiality.· And the California Court of Appeal agreed […] so to me, these were reasonable and prudently incurred and, therefore, appropriately included in the forecast that will result in just and reasonable rates.[3475]

As noted above, well-settled utility law supports the standard reflected in Mr. Barrett's response and in the PUC Handbook he referenced in the above quote.[3476] Regarding a consideration of benefits in the public and ratepayer interest associated with the determining a future level of GRC revenue required to operate a well-managed utility – such benefits are included within the regulatory compact.[3477] Mr. Barrett's testimony is consistent with the regulatory compact and the law as the Commission follows it, by setting "just and reasonable"[3478] rates based on the well-established principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an opportunity to earn a rate of return on the utilities' rate base."[3479] And Mr. Barrett and other SoCalGas witnesses have provided additional evidence showing benefits in the public and ratepayer interest with respect to individual matters, as discussed further below.

3475 Tr. V16:2838:25-2840:19 (Barrett).

3476 The "PUC Handbook" refers to Ex. SCG-245-E (Mijares), Appendix H, CPUC Utility General Rate Case – A Manual for Regulatory Analysts, dated November 13, 2017.

3477 *See, e.g.,* D.20-01-002 at 10 (the regulatory compact "establishes rights, obligations, and benefits for both sides of the bargain."); *see also, id.* at 12 ("[T]he *benefits* to each side of the regulatory compact come with corresponding *obligations* for each side.").

3478 *See* Pub. Util. Code Section 451.

3479 D.03-02-035; *see also* D.14-08-011, at 31 ("[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]") (quoting *Southern California Gas Company v. Public Utilities Commission*, (1979) 23 Cal. 3d 470, 476 ").

In contrast, CEJA's testimony and record statements suggest a different GRC standard, which may require, for example, a demonstration that legal matters on which historical costs have been expended must be successful and/or may not involve governmental entities in order to be considered reasonable.[3480] The success of past litigation and/or settlement efforts is not the standard for determining an appropriate level of future revenue requirement in a GRC. And, for any entity – and particularly a regulated utility – the costs of petitioning the government or responding to government requests for information may be normal and ordinary business expenses. As Mr. Barrett testified, "[I]t is reasonable for us, and it is the utilities' interest and ratepayer interest for the utility to respond appropriately to government requests for information."[3481] And, as Mr. Barrett frankly confirmed, SoCalGas does not "enjoy or desire or seek to be in litigation with government agencies"[3482] and has "no interest in litigating for the sake of litigating."[3483] Moreover, CEJA's suggestion that a utility may not recover legal costs necessary to petition the government or respond to government inquiries, if adopted by the Commission, would have a chilling effect on a utility's ability to prudently conduct its business and potentially raise First Amendment and other concerns.[3484]

29.4.3.1.2 SoCalGas Has Demonstrated that the Outside Legal Costs CEJA Challenges Were Reasonably Incurred Business Expenses with Ratepayer Benefits.

As explained in Exhibit SCG-223/SDG&E-227, SoCalGas and SDG&E's GRC presentation regarding outside counsel expenses is consistent with the Companies' evidence in past GRCs, upon which the Commission reached a determination on a forecasted level of funding for

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3480 *See generally,* Ex. CEJA-01 (Vespa, Gersen, Saadat, and Barker) at 99-100.

3481 Tr. V16:2833:13-15 (Barrett).

3482 Tr. V16:2819:4-6 (Barrett).

3483 Tr. V16:2819:22-23 (Barrett).

3484 The Supreme Court has long rejected the notion that an entity's status as a regulated utility "lessens its right to be free from state regulation that burdens its speech." (*Pac. Gas & Elec. Co. v. Pub. Utils. Comm'n of Cal.* (1986) 475 U.S. 1, 17 n.14, plurality opinion; *see* also *Consol. Edison Co. of N.Y., Inc. v. Pub. Serv. Comm'n of N.Y.* (1980) 447 U.S. 530, 534 n.1 [plaintiff's position as regulated monopoly "does not decrease the informative value of its opinions on critical public matters"].) *Accord Pac. Gas & Elec. Co. v. Pub. Utils. Comm'n* (2000) 85 Cal. App.4th 86, 93 [It is "well established that corporations such as PG&E [and SoCalGas] have the right to freedom of speech," as the "inherent worth of the speech in terms of its capacity for informing the public does not depend upon the identity of its source," citation omitted].

future outside legal costs.[3485] SoCalGas and SDG&E's direct testimony provides a high-level explanation of why it is necessary for SoCalGas and SDG&E to use outside counsel, specifically, '"regarding matters that require a level of resources or an area of expertise not available within [the Corporate Center Law Department (CCLD)] or the operating company law departments.'"[3486] The direct testimony also explains that the need for legal services varies from year to year, and that TY 2024 forecasts for outside legal services use an adjusted trend of the prior five years '"because unknown future legal matters cannot be predicted."'[3487] The methodology in Exhibit SCG-223/SDG&E-227 is consistent with the forecasting methodologies used and approved in past Commission rate cases and results in a reasonable forecasted level of costs. No party has taken issue with the forecast methodology or the resulting forecasted cost level for outside legal.

In rebuttal testimony and at the evidentiary hearing, SoCalGas provided evidence to show its correction of errors found and its thorough review of the underlying data supporting its outside legal forecast, to eliminate costs that should not be considered in rates. For example, Ms. Mijares testified:

> [The Companies looked] at a hundred percent of the matters where we incurred outside legal costs, and we made a determination of the ones that should be excluded from the rate case and did so.· As a result of that comprehensive assessment, if some cost remained, it's because they do not meet the criteria to record costs below the line.[3488]

Completion of this extensive review resulted in a decrease of $2.871 million for SoCalGas's outside legal forecast.[3489]

Specific to the areas CEJA is contesting in this proceeding, Mr. Barrett provided additional testimonial evidence supporting a conclusion that the remaining historical costs supporting outside

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[3485] *See, e.g.,* D.13-05-010 at 817 (finding that the Commission was "not persuaded by" a Division of Ratepayer Advocates argument to eliminate outside legal costs because "Applicants were unable to provide DRA with the type of legal services that have been provided, and that will be provided in the future.").

[3486] *See* Ex. SCG-223/SDG&E-227 (Cooper) at 9, *citing* Ex. SCG-23-R/SDG&E-27-R (Cooper) at DRC-54.

[3487] Ex. SCG-23-R/SDG&E-27-R (Cooper) at 54 and 11.

[3488] Tr. V16:2830:4-10 (Mijares); *see also, e.g.,* Tr. V14:2467:16-23 (Cooper) (explaining the "detailed review of all matters from the historical period, 2017 to 2021" that the Companies undertook:· "[A]n exhaustive effort to go through each matter for all those years in question for both SDG&E, SoCalGas and Sempra Corporate Center, as applicable, that was allocated to the utilities, and then determined what would be nonrecoverable in those matters….").

[3489] Ex. SCG-223/SDG&E-227 (Cooper) at 7-8. *Id.* at 10 describes the process of how the errors were corrected. *See also, e.g.,* Tr. V14:2467:21-2468:4 (Cooper).

legal expenses were reasonably incurred business expenses – with respect to the rationale for retention, outcome, and additional ratepayer benefits. Regarding the outside legal expenses incurred relating to the matter involving the CEC, Mr. Barrett explained the reasonableness of outside legal expenses and the resulting settlement, and the benefit to the public and ratepayer interest, as follows:

> [L]itigation was brought to enforce and in support of state law and state policy as determined by the California legislature and to enforce a mandate, a legislative mandate, to the California Energy Commission that the California legislature determined was in the public interest, and the public would include our ratepayers.[3490]

Mr. Barrett's testimony specifically referenced AB 1257,[3491] California's "Natural Gas Act," which required the CEC to issue an annual report "identify(ing) strategies to maximize the benefits obtained from natural gas, including biomethane for purposes of this section, as an energy source, helping the state realize the environmental and cost benefits afforded by natural gas."[3492] The statute specifies that the report must provide "strategies and options"[3493] regarding several types of "specified information related to major energy trends and issues facing the state,"[3494] including benefit strategies regarding the use of natural gas as a low-emission or cost-effective resource, a transportation resource, a combined heat-power option, a means of improving the safety and reliability of the electric system or providing job creation and economic growth, among other benefits that promote state policy and provide direct ratepayer benefits.[3495]

- [T]he settlement agreement reflects that we obtained a cooperative dialogue, and concluded that it was no longer nec – look, we don't enjoy or desire or seek to be in litigation with government agencies. ·And our concern that […] the CEC takes seriously its responsibilities in response to the AB 1257, the California Natural Gas Act, as directed by the legislature. ·We got comfortable that the litigation was no longer necessary for that purpose.[….If] you look at the 2019 Integrated Energy Policy Report from the CEC, and then you look at the most recent Integrated Energy Policy Report from the CEC, you'll see a dramatic difference in the degree to which -- and the robustness of which they address the role of natural gas and gas

3490 Tr. V16:2814:21-2815:2 (Barrett).

3491 *See* Tr. V16: 2819:7-10 (Barrett).

3492 AB 1257, Stats. 2013-2014, Ch. 749 (2013), codified to Public Resources Code Section 25303.5(b).

3493 *Id*.

3494 AB 1257, Stats. 2013-2014, Ch. 749 (2013), preamble.

3495 *See* generally, Public Resources Code Section 25303.5.

infrastructure in […] helping the state achieve its decarbonization goals. So we don't […] – we have no interest in litigating for the sake of litigating.[3496]

- [The settlement agreement […] specifically makes reference to the fact that after the litigation was filed the parties engaged in a cooperative dialogue regarding the subject matter of the proceeding. ·And what I would say is, there came a time where SoCalGas and other parties concluded that the litigation was no longer necessary in order to achieve the objective of having the California Energy Commission honor the intention of legislature and its integrated energy policy reports.[3497]

- [I]n this particular case, it was reasonable and appropriate for us, […] in connection with […] our normal operating of our business in the provision of utility service, […] it was entirely appropriate to include these costs […] in the underlying data in the forecast in this GRC.[3498]

Regarding the outside legal expenses incurred relating to the "Attorney General Inquiry," Mr. Barrett explained:

- [I]f you are asking me about […] outside legal support related to the development of below-the-line advertisement, this conversation might be different than if you're asking me about the treatment of outside legal costs to respond to an inquiry and potentially to address whether or not certain activities comply with or don't comply with state law. ·[…T]he fact that legal representation has some connection to an underlying below-the-line activity, to me, does not determine or dictate the treatment of the outside legal. What matters is the circumstances of the representation.[3499]

- And, again, […] I really am not comfortable getting close to a line of waiving attorney-client privilege or perhaps running afoul of other confidentiality obligations that I may be under with respect to certain matters. But I just want to try to express the view that it doesn't – it's not as simple as underlying – the activity around some underlying activity and connecting the dot to the legal representation.· That's all I'm trying to convey.[3500]

Regarding the outside legal expenses incurred related to "outside counsel expenses associated with an out-of-proceeding discovery pursuit by the Public Advocates Office," Mr. Barrett explained:

- [I]t is reasonable for us, and it is the utilities' interest and ratepayer interest for the utility to respond appropriately to government requests for information. ·The scale and scope of these requests for information were almost unprecedented in my

3496 Tr. V16:2819:2-23 (Barrett).

3497 Tr. V16:2816:15-25 (Barrett).

3498 Tr. V16:2820:12-21 (Barrett).

3499 Tr. V16:2829:2-14 (Barrett).

3500 Tr. V16:2829:15-25 (Barrett).

experience, and it was necessary to incur outside legal support just to be able to begin to respond to the scale and scope of the discovery requests that were at issue, including collecting and reviewing massive amounts of information for issues like responsiveness and privilege.[3501] ·

- The conflict was driven primarily in those three areas by, from our perspective, positions that the Public Advocates Office was taking that were unreasonable. […]I don't view outcome as determinative of appropriateness for being in an underlying data for a rate case, but to the extent you do, as this litigation progressed, the Public Utilities Commission itself agreed with the position we took with respect to confidentiality, and attorney-client privilege. ·And the California Court of Appeal in a unanimous published decision agreed with the position we took with respect to the First Amendment.· So I think it was the positions we were taking and the interests we were asserting were imminently reasonable.[3502] ·
- [I]t is in both utility interest and utility ratepayer interest for the relationship between regulated utilities and the PUC to conform to constitutional principles.· I think that's in everybody's interest. ·So, yes, I think these costs, as unfortunate as it was that they had to be incurred on both sides of this equation, are appropriately included in the forecast if the trends forecast […] for the rates in this GRC.[3503]·

SoCalGas has thus demonstrated the reasonableness of each specific matter questioned in CEJA's testimony and evidentiary hearing statements, as both reasonably incurred and in the public interest, which includes benefiting ratepayer interests. In accordance with the applicable GRC standard for reviewing reasonable costs and expenses, SoCalGas's outside legal forecasts are well-supported and should be approved.

29.4.3.1.3 No Refund Is Appropriate.

Moreover, the manual adjustments made to correct the errors that were found in SoCalGas's review of outside legal costs are appropriate to eliminate such costs from rates.[3504] SoCalGas believes that the additional areas CEJA has questioned are appropriately supported in evidence, as explained above; however, if the Commission were to determine that additional historical costs should not be included in the data supporting outside legal forecasts, the

3501 Tr. V16:2833:13-23 (Barrett).

3502 Tr. V16:2834:6-22 (Barrett).

3503 Tr. V16:2834:24-2835:7 (Barrett).

3504 *See* explanation in Ex. SCG-223/SDG&E-227 (Cooper) at 10. *See also,* SCG-245-E (Mijares) at 17, for an explanation of how errors are corrected.

appropriate remedy similarly would be to revise the forecast.[3505] No refund is appropriate, because the costs incurred at issue were not included in the historical years used to forecast the rates in the TY 2019 GRC.[3506] For all the above reasons, CEJA's arguments should be rejected.

29.4.4 External Affairs

Sempra companies conduct business in multiple communities, states, and countries. Corporate Strategy and External Affairs provides overall policy guidance for the Sempra companies' interactions with external constituents, in support of individual business objectives, and to ensure compliance with enterprise-wide objectives, laws, and regulations. This division is discussed in detail in SCG-23-R-E/SDG&E-27-R-E,[3507] and includes the major functions highlighted in the table below.

TABLE 29.7
External Affairs Summary of Costs

	Corporate Center			**Utility Allocations**		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
D-1 Corporate Affairs Officer	4,380	(1,190)	3,190	645	63	708
D-2 Corporate Citizenship	11,202	(1,485)	9,717	551	(166)	385
D-3 Corporate Communication	1,534	210	1,744	745	127	872
D-4 Corporate Sustainability	1,687	49	1,736	1,260	(77)	1,183
D.5 Board Events & Marketing	2,310	483	2,794	1,903	401	2,304
D-6 Federal Government Affairs	3,409	923	4,332	182	(26)	156
Total	$24,522	($1,010)	$23,513	$5,286	$322	$5,608
						Escalated 2024
Allocations						
SDG&E	2,331	217	2,547			2,925
SoCalGas	2,955	105	3,060			3,501
Total Utility	5,286	322	5,608			$6,426
Infrastructure / Retained	19,236	(1,331)	17,905			
Total	$24,522	($1,010)	$23,513			

3505 Further, as Ms. Mijares explained, the trend methodology for forecasting outside legal spend does not result in a dollar-for-dollar recovery of historical costs incurred on legal matters, in future rates. Tr. V16:2838:1-17 (Mijares).

3506 Ex. SCG-223/SDG&E-227 (Cooper) at 10.

3507 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper), Section IV.D at 55-61.

As shown in Table DC-3D above, the costs for Corporate Strategy and External Affairs that are assigned to SoCalGas and SDG&E are forecast to increase by $0.3 million from BY 2021 to TY 2024. This is primarily due to a slight increase in overall reporting, consulting, and travel costs.

No party contested the Corporate Strategy and External Affairs costs proposed to be allocated to SDG&E and SoCalGas. The Commission should approve these costs as reasonable.

29.4.5 Facilities and Assets

Certain cost centers are grouped together as they relate to the physical environment and tools used in the conduct of corporate shared services. This includes the depreciation expense of corporate capital assets and annual property taxes paid on them. The Facilities and Assets division is discussed in detail in Exhibit SCG-23-R-E/SDG&E-27-R-E[3508] and includes the major functions highlighted in the table below.

TABLE 29.8
Facilities and Assets Summary of Costs

	Corporate Center			Utility Allocations		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
F-1 Depreciation & Amortization	9,895	(3,057)	6,838	6,589	(2,167)	4,422
F-2 Property Taxes	3,087	246	3,333	1,910	160	2,070
F-3 Other Facilities & Assets	17,954	(63)	17,891	11,247	(11)	11,236
Total	$30,937	($2,875)	$28,061	$19,747	($2,018)	$17,728
						Escalated 2024
Allocations						
SDG&E	10,497	(1,010)	9,487			9,600
SoCalGas	9,250	(1,008)	8,241			8,329
Total Utility	19,747	(2,018)	17,728			$17,929
Infrastructure / Retained	11,190	(857)	10,333			
Total	$30,937	($2,875)	$28,061			

3508 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper), Section IV.F at 62-69.

As noted in the table above, the costs for Facilities and Assets assigned to SDG&E and SoCalGas are forecast to decrease by $2.0 million from BY 2021 to TY 2024. The primary factors for the decrease are:

$ - millions	
(2.2)	Lower depreciation & ROR, primarily due to the transfer of HR IT to the Utilities
0.2	Higher property taxes
$ (2.0)	

No party contested the Facilities and Assets costs proposed to be allocated to SDG&E and SoCalGas. The Commission should approve these costs as reasonable.

29.4.6 Pension & Benefits

Pension & Benefits (P&B) costs are allocated using average rates representing such costs as a percentage of direct labor dollars. The resulting costs are referred to as "labor overheads," which then can be allocated in the same manner as the direct labor in each cost center. The labor overheads were removed from the operational cost centers presented in sections IV.A through IV.E of Exhibit SCG-23-R-E/SDG&E-27-R-E and consolidated as depicted below in Table DC-3G. In addition to pension and other post-retirement benefits and payroll taxes, ICP, Long-Term Incentive Plan (LTIP), and the Supplemental Executive Retirement Plan (SERP) costs are included in this group of costs.[3509] This division is discussed in more detail in Exhibit SCG-23-R-E/SDG&E-27-R-E[3510] and includes the major functions highlighted in the table below.

TABLE 29.9
Pension & Benefits Summary of Costs

	Corporate Center			**Utility Allocations**		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
G-1 Employee Benefits	10,268	691	10,958	6,629	202,	6,832
G-2 Payroll Taxes	4,908	754	5,662	3,202	394	3,596
G-3 Incentive Compensation	15,676	881	16,557	8,665	89	8,754
G-4 Long-Term Incentives	39,886	5,844	45,730	8,400	(8,400)	-
G-5 Supplemental Retirement	18,611	(8,371)	10,240	2,436	(2,436)	-
Total	$89,349	($202	$89,147	$29,333	($10,152)	$19,181
						Escalated 2024

[3509] *Please see* the Direct Testimony of Peter Andersen (Ex. SCG-26/SDG&E-30) for more information on Pensions and Post-Retirement Benefits other than Pensions.

[3510] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper), Section IV.G at 69-73.

(2021 $$000s) Services Provided	Corporate Center Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Utility Allocations Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
Allocations						
SDG&E	13,345	(4,448)	8,897			10,013
SoCalGas	15,988	(5,704)	10,284			11,574
Total Utility	29,333	(10,152)	19,181			$21,587
Infrastructure / Retained	60,016	9,950	69,966			
Total	$89,349	($202)	$89,147			

As shown in Table DC-3G above, the forecasted requested costs for P&B assigned to SoCalGas and SDG&E in TY 2024 is $10.2 million lower than adjusted-recorded costs in BY 2021. The decreases are primarily related to Sempra voluntarily excluding from its 2024 forecast all the long-term incentive and supplemental retirement costs allocated to SoCalGas and SDG&E.

$ - millions	
(10.8)	Voluntarily excluding long-term compensation and supplemental compensation costs
0.6	Higher employee benefits costs and payroll taxes
$ (10.2)	

As noted in Mr. Cooper's rebuttal testimony, TURN recommends the removal of all Corporate Center ICP from TY 2024 in the amount of $8,805,000 ($4,066,000 for SDG&E and $4,739,000 for SoCalGas).[3511] TURN's proposal is unreasonable and should be rejected, as more fully set forth in Section 31.2.3, *infra.*[3512] The Companies have fully supported their Pension and Benefits costs proposed to be allocated from the Corporate Center to SDG&E and SoCalGas, and the Commission should approve these costs as reasonable.

29.5 Conclusion

The Corporate Center services described in Exhibits SCG-23-R-E/SDG&E-27-R-E , and SCG-23-WP-R-E/SDG&E-27-WP-R-E complete the scope of functions that would be essential to any large-scale public utility (apart from Corporate Insurance, which is separately addressed in the Direct Testimony of Dennis J. Gaughan (Ex. SCG-24/SDG&E-28) and discussed in section 30, *supra*). Through the centralized Corporate Center, Sempra delivers efficient service and

3511 Ex. SCG-223/SDG&E-227 (Cooper) at 1, n.2 (citing Ex. TURN-10 (Jones) at 2).

3512 *See also,* Ex. SCG-225/SDG&E-229 (Robinson) at 18-19.

professional oversight to its business units, using fair allocation policies. SDG&E and SoCalGas benefit from this approach by avoiding the need for staffing duplicative functions in their own organizations and by sharing the costs with other Sempra affiliates. SoCalGas's and SDG&E's TY 2024 forecasts for Corporate Center should be adopted as reasonable, as set forth herein.

30. Insurance

30.1 Summary of Proposals

SoCalGas and SDG&E's TY 2024 forecast for insurance costs is set forth in the following record exhibits:

Corporate Center – Insurance Exhibits	
Ex. SCG-24/SDG&E-28	The Prepared Direct Testimony of Dennis J. Gaughan (Public, Redacted)
Ex. SCG-24/SDG&E-28-C	The Prepared Direct Testimony of Dennis J. Gaughan (Confidential)
Ex. SCG-24-WP/SDG&E-28-WP	Workpapers to Prepared Direct Testimony of Dennis J. Gaughan
Ex. SCG-224-E/SDG&E-228-E Chapter 1	Rebuttal Testimony of Dennis J. Gaughan Chapter 1 (Rebuttal to direct testimony of Cal Advocates, TURN (public), and UCAN)
Ex. SCG-224-E-C/SDG&E-228-E-C Chapter 2 (public, redacted)	Rebuttal Testimony of Dennis J. Gaughan Chapter 2 (Public, redacted rebuttal to TURN's confidential direct testimony)
Ex. SCG-224-E-C/SDG&E-228-E-C Chapter 2 (confidential)	Rebuttal Testimony of Dennis J. Gaughan Chapter 2 (Confidential rebuttal to TURN's confidential direct testimony)
Ex. SCG-306/SDG&E-306	Hearing Exhibit – SoCalGas and SDG&E Responses to TURN Data Requests, (Public, redacted excerpts from TURN-SEU-007 and TURN-SEU-034 responses)
Ex. SCG-306-C/SDG&E-306-C	Confidential Hearing Exhibit – SoCalGas and SDG&E Responses to TURN Data Requests, (Confidential excerpts from TURN-SEU-007 and TURN-SEU-034 responses)

Table 30.1 below, from Mr. Gaughan's direct testimony,[3513] summarizes these costs. The TY 2024 forecasts are based on loss history, expected insurance market conditions, and input from the Companies' primary insurance broker, Marsh.

Table 30.1
Insurance
Test Year 2024 Summary of Total Costs

	Corporate Center			Utility Allocations		
(2021 $$000s) Services Provided	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A Property	19,973	7,521	27,494	19,447	7,280	26,727
B Liability	324,485	74,118	398,602	305,680	66,823	372,503
C Surety Bonds	149	36	185	142	37	179
Total	$344,607	$81,675	$426,281	$325,269	$74,140	$399,409
						Escalated 2024
Allocations						
SDG&E	259,959	56,212	316,172			316,172
SoCalGas	65,310,	17,928	83,237			83,237
Total Utility	325,269	74,140	399,409			$399,409
Global / Retained	19,337	7,535	26,872			
Total	$344,607	$81,675	$426,281			

30.1.1 Summary of Differences

The following tables, from the Companies' rebuttal testimony, Exhibit SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 1, summarizes the differences between the Companies' TY 2024 forecasted insurance costs and other parties' recommendations.

TOTAL O&M – Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change from Total O&M Test Year Request**
SOCALGAS/SDG&E	325,269	399,409	
CAL ADVOCATES	325,269	400,200[3514]	791
TURN	325,269	298,351	(101,058)
UCAN	325,269	348,218	(51,191)
FEA	325,269	398,614	(795)

3513 Ex. SCG-24/SDG&E-28 (Gaughan) at 1.

3514 As explained in Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 1, n.1, the $400.2 million total referenced in Cal Advocates' testimony should be corrected to $399.4 million.

TOTAL SoCalGas O&M – Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change from SCG/SDG&E Test Year Request**
SOCALGAS	63,310	83,237	
CAL ADVOCATES	63,310	83,237	
TURN	63,310	81,264	(1,973)
UCAN	63,310	83,237	
FEA	63,310	83,237	

TOTAL SDG&E O&M – Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change from SCG/SDG&E Test Year Request**
SDG&E	259,959	316,172	
CAL ADVOCATES	259,959	316,172	
TURN	259,959	217,087	(99,085)
UCAN	259,959	264,981	(51,191)
FEA	259,959	315,377	(795)

For the reasons set forth in the Companies' testimony and summarized below, the Companies urge the Commission to adopt their forecasts and proposals.

30.2 Description of SoCalGas's and SDG&E's Insurance Coverage Needs

SoCalGas' and SDG&E's insurance needs are generally grouped into three categories, each of which is discussed in more detail below:

- Property – Provides coverage for losses or damage to company assets;
- Liability – Provides coverage for legal liability resulting from third-party claims; and
- Surety Bonds – Backstops contractual performance obligations the Companies have to other parties.

The Sempra corporate insurance business unit procures insurance on behalf of SoCalGas, SDG&E, and Sempra Infrastructure Partners, LP. (Infrastructure/Retained).[3515] Insurance

[3515] "Infrastructure/Retained" costs, as the term is used herein, refers to costs incurred at Sempra's Corporate Center that are allocated to the holding company for most of Sempra's operating companies – *i.e.,* costs that are not allocated to SoCalGas and SDG&E and are not subject to CPUC regulation. For purposes of tables included in the Insurance testimony, "Infrastructure/Retained" is synonymous with "Global," "Global/Retained," and "SI Partners." *See* Ex. SCG-24/SDG&E-28 (Gaughan) at 2, n.1.

premiums are billed pursuant to the same Commission-approved cost allocation hierarchy as applied to the Corporate Center – General Administration costs described in Section 29, *supra*.[3516]

1. Direct Assignment
2. Causal / Beneficial (CB)
3. Multi-Factor Allocations
    a. Multi-Factor Basic
    b. Multi-Factor Split

As noted in Section 29, *supra*, the Commission has previously approved the Companies' cost allocation methodology.[3517] For each category of insurance described below, the allocation methodology applied is described in Exhibit SCG-24/SDG&E-28 (Gaughan).

30.2.1 Property

Table 30.2 below, from the Companies' direct testimony, Exhibit SCG-24/SDG&E-28 (Gaughan) at 3, provides a summary of SoCalGas's and SDG&E's TY 2024 forecasted property insurance costs.

Table 30.2
Property Insurance

	Corporate Center			Utility Allocations		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
A-1 Primary	9,094	6,167	15,261	8,908	6,060	14,967
A-2 Excess	9,572	979	10,550	9,400	920,	10,321
A-3 Other Property	1,307	375	1,683	1,139	299	1,439
Total	$19,973	$7,521	$27,494	$19,447	$7,280	$26,727
						Escalated 2024
Allocations						
SDG&E	11,874	5,001	16,875			16,875
SoCalGas	7,573	2,279	9,852			9,852
Total Utility	19,447	7,280	26,727			$26,727
Global / Retained	526	241	767			
Total	$19,973	$7,521	$27,494			

3516 Ex. SCG-24/SDG&E-28 (Gaughan) at 2-3 and Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 7-9 describe the cost allocation hierarchy and process more fully.

3517 *See, e.g.,* D.19-09-051, FOF 203 at 749 ("Applicants' proposed allocation methodology is consistent with Commission decisions and Applicants' last two GRCs.").

30.2.1.1 Activity Descriptions

30.2.1.1.1 Primary Property

Sempra's Primary Property program (also known as the "OIL Wrap") provides coverage for direct physical damage to property owned by SoCalGas, SDG&E, and SI Partners. Business Interruption coverage is not provided for SoCalGas and SDG&E and is therefore not included in the final costs allocated to them. Covered perils include machinery breakdown, earthquake, flood, and terrorism. Significant exclusions include electric and gas distribution and transmission lines. Property is valued at full replacement cost.[3518]

30.2.1.1.2 Excess Property

Excess Property insurance is provided by industry mutual OIL and includes coverage for physical damage, earthquake, flood, excess pollution liability, and control of well. Major exclusions include business interruption, extra expense, and electric transmission and distribution systems. Losses from terrorism are not excluded.[3519]

30.2.1.1.3 Other Property

As explained in the Companies' direct testimony, Exhibit SCG-24/SDG&E-28 (Gaughan) at 5-6, "Other Property" insurance includes such things as Control of Well, Crime, Arizona Public Service Corporation (APS) YUMA 500 kV Transmission System and San Onofre Nuclear Generating Station (SONGS) property insurance.

30.2.1.2 Forecast Approach

As explained in the Companies' direct testimony, Exhibit SCG-24/SDG&E-28 (Gaughan) at 7, a forecast was developed for each individual type of property insurance policy. Property insurance premiums are influenced by several factors that are directly related to the operation of Sempra operating companies and the conditions that impact the worldwide insurance marketplace. Each of our individual insurance programs is subject to specific market conditions that have various impacts on insurance pricing. Our future premiums can be impacted negatively by insurers' perceptions of California risks, their financial performance, worldwide losses from perils such as wildfires, earthquakes, floods, and hurricanes, as well as Sempra operating company losses.

[3518] Ex. SCG-24/SDG&E-28 (Gaughan) at 4-5.

[3519] *Id.* at 5.

Future premiums are difficult to forecast with reasonable certainty because there are many factors that affect insurance premiums, and certain factors are outside of our control or are difficult to foresee, including global insurer losses resulting from wildfires, hurricanes, floods, and other types of catastrophic events. Because premiums are difficult to predict, we base our property insurance forecasts primarily on: (i) projections provided by our primary insurance broker, Marsh,[3520] (ii) a forecast received from our Excess Property insurer, OIL,[3521] (iii) our loss history, and (iv) projected increases in the values of our insured property. OIL's base premium is calculated using a post-loss funding mechanism that recovers incurred losses over five years. The base premium is then adjusted depending on deductible, limits, asset types and industry sector.

30.2.1.3 Cost Drivers and Mitigation Efforts

30.2.1.3.1 Cost Drivers

The Primary and Excess portions of the Companies' property program are subject to different cost drivers.[3522]

- Primary Property—Commercial insurance provides coverage that "wraps" around the OIL coverage by responding within the deductible and then again in excess of the OIL policy. Primary Property insurance cost is impacted by worldwide insurer losses from catastrophes, insurer general financial performance, increases in insured property values, and broker estimates.
- Excess Property—The OIL component is subject to different cost drivers than our Primary Property insurance. As a mutual insurance company, OIL insures the assets of its members with premiums determined not by commercial markets but by a post-loss funding model designed to collect 100% of the members' incurred losses over five years. The OIL funding model, as applied to members' losses, drives the cost of the program. Though this type of program is uncommon within the power and utility space, it results in lower costs and expanded coverages than what is available from commercial insurance markets.[3523]

30.2.1.3.2 Cost Mitigation Efforts

Primary Property coverage is provided by several insurers located in the US, the UK/Europe, and Bermuda, as approximately 21.7% US, 73.9% UK/Europe, and 4.3% Bermuda for

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3520 Ex. SCG-24/SDG&E-28 (Gaughan) at 7 (citing Marsh's Five-Year Forecasts for Sempra's Insurance Programs as of January 1, 2022 in Appendix B).

3521 *Id.* at 7 (citing OIL Premium Indication Summary pre-tax forecasts in Confidential Appendix C).

3522 *Id.* at 7-8.

3523 *Id.* at 7-8 (citing January 14, 2022, Letter from Marsh estimating the minimum price to procure earthquake coverage from commercial insurance markets that is equivalent to what OIL provides, in Confidential Appendix D).

the 2021-22 policy year.[3524] Sempra accesses global capacity to diversify credit risk, increase available capacity, and increase competition and typically meets annually with incumbent and prospective insurance markets. During in-person or video conference meetings, Sempra generally reviews assets, risk mitigation strategies, loss history, and risk controls for each operating company with coverage. This strategy has helped manage the cost of property premiums for 2017-2021 (*see* Ex. SCG-24-WP/SDG&E-24-WP (Gaughan) at A-1).

Excess Property coverage is provided by OIL, a mutual insurance company that provides coverage to members engaged in energy operations. Premiums are formulaic, determined after member input that shapes OIL's product offerings, priorities, and business strategy. Although this type of program is uncommon within the power and utility space, it results in lower costs and expanded coverages, including excess pollution liability and control of well coverages that are not generally included in property policies. OIL holds an annual general meeting to give members an opportunity to provide input and vote on OIL policy proposals. An officer responsible for risk management at Sempra is a member of the OIL board of directors.

30.2.2 Liability

Table 30.3 below, from the Companies' direct testimony, Exhibit SCG-24/SDG&E-28 (Gaughan) at 9, provides a summary of SoCalGas's and SDG&E's TY 2024 forecasted liability insurance costs.

Table 30.3
Liability Insurance

	Corporate Center			Utility Allocations		
(2021 $$000s) **Services Provided**	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024	Base Year 2021	2021-2024 Incr/(Decr)	Forecast 2024
B-1 General Excess	107,679	30,661	138,340	91,817	25,524	117,341
B-2 Fire	202,888	35,191	238,079	202,746	35,167	237,913
B-3 D&O	3,727	3,161	6,888	1,896	1,548	3,444
B-4 Fiduciary	633	430	1,063	538	360	898
B-5 Workers Comp	7,092	2,882	9,974	6,639	2,714	9,353
B-6 Other Liabilility	2,465	1,793	4,258	2,045	1,510	3,555
Total	$324,485	$74,118	$398,602	$305,680	$66,823	$372,503
						Escalated 2024
Allocations						
SDG&E	248,001	51,190	299,191			299,191
SoCalGas	57,680	15,633	73,313			73,313

3524 *Id.* at 8 (citing 2021 Market Statistics for Sempra's Insurance Programs in Appendix E).

Total Utility	305,680	66,823	372,503		$372,503
Global / Retained	18,804	7,295	26,099		
Total	$324,485	$74,118	$398,602		

30.2.2.1 Activity Descriptions

30.2.2.1.1 General Excess Liability

General Excess Liability provides coverage for legal liability resulting from third-party property damage, bodily injury or personal injury claims made against SoCalGas, SDG&E, and other Sempra operating companies. Coverage includes and is in excess of separate policies covering operational pollution liability, auto liability, employer's liability, and aviation liability. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and pollution liability subsequent to disposal.[3525]

30.2.2.1.2 Wildfire Liability

30.2.2.1.2.1 Wildfire Liability

Wildfire liability provides coverage for third-party liability for bodily injury, property damage, or personal injury arising from wildfires. Major exclusions include property damage to property owned by the insured, injury to the insured's employees, and international losses.

30.2.2.1.2.2 Wildfire Property Damage Reinsurance

Wildfire Property Damage Reinsurance provides coverage for third-party legal liability for property damage arising from wildfires, provided by the reinsurance market (different from the commercial insurance market providing the coverage described in section 30.2.2.1.2.1 above). Major exclusions include bodily injury and fire damage arising from an earthquake.

30.2.2.1.2.3 ILS Property Damage Insurance

Insurance-linked securities (ILS) Property Damage Insurance refers to the wildfire liability insurance placed in conjunction with ILS issuance, including catastrophe (CAT) bonds, whereby the proceeds of the offering are held in trust to collateralize reinsurance. The ILS market is different from the commercial insurance and reinsurance markets that provide the coverages

[3525] *Id.* at 9.

described in sections 30.2.2.1.2.1 and 30.2.2.1.2.2 above. Major exclusions include bodily injury and fire damage arising from an earthquake.[3526]

30.2.2.1.3 D&O Liability

Directors and officers (D&O) Liability provides coverage to corporate directors, officers, and the corporation for third-party claims alleging financial loss arising from breaches of fiduciary duties and mismanagement. Major exclusions include fraudulent or criminal acts, and claims covered under other liability policies.

30.2.2.1.4 Fiduciary Liability

Fiduciary Liability provides coverage for third-party legal liability arising from wrongful acts committed by fiduciaries of employee benefit programs.[3527]

30.2.2.1.5 Worker's Compensation

Worker's compensation provides coverage for employee job-related injuries or diseases.

30.2.2.1.5.1 Excess Workers' Compensation (XS WC) Insurance

Sempra self-insures its Workers' Compensation exposure for employees of Corporate Center, Infrastructure/Retained, SoCalGas, and SDG&E in the State of California and purchases an XS WC policy to cover large claims for California employees.[3528]

30.2.2.1.5.2 Workers' Compensation & Employers' Liability (WC/EL) Insurance – All states other than California

WC/EL liability insurance provides coverage to Sempra operating companies outside of California for statutory benefits payable under the workers' compensation statutes of the various states. It also covers Corporate Center employees permanently assigned outside of California and third-party employer liability claims arising from employee injuries not covered by workers' compensation.

[3526] *Id.* at 11.

[3527] *Id.* at 12.

[3528] *Id.* at 13.

30.2.2.1.6 Other Liability

As explained in the direct testimony, Exhibit SCG-24/SDG&E-28 (Gaughan) at 14-16, "Other Liability" insurance includes cyber, auto, aviation, pollution, APS Yuma 500 kV transmission system, and railroad protective liability insurance, as well as broker services fees.

30.2.2.2 Forecast Approach

We developed a forecast for each individual type of insurance policy. Liability insurance premiums are influenced by several factors that impact the global insurance marketplace. Each of our individual insurance programs is subject to specific market conditions that have various impacts on insurance pricing. Our future premiums can be impacted negatively by insurers' perceptions of California risks, their financial performance, worldwide insurer losses from perils such as wildfires, earthquakes, floods, hurricanes, and other types of catastrophic events, as well as Sempra operating company losses.[3529]

Future premiums are difficult to forecast with reasonable certainty because of the unpredictable nature of the perils covered and the fact that many of the factors that are used to calculate insurance premiums are outside of our control, including global insurer losses resulting from wildfires, hurricanes, and floods.[3530] Because of the uncertainty of future liability insurance premiums, our forecasts are substantially based on forecasts provided by our primary insurance broker Marsh and our loss history.

30.2.2.3 Cost Drivers and Mitigation Efforts

30.2.2.3.1 Specific Cost Drivers

The drivers of future liability insurance costs are generally the same factors that make forecasts difficult:

- Wildfire – AM Best, a credit rating agency specializing in the insurance industry, has observed recently: "As the largest US insurance market and one of the largest in the world, the state of California in particular has been ravaged by the severity and frequency of wildfire events for several years."[3531] Moreover, as of February 23, 2021, "eight of the ten costliest US wildland fires were between 2017 and 2020" and all were in California.[3532] These wildfire-related losses and underwriting

[3529] *Id.* at 16-17.

[3530] *Id.* at 17 (citing excerpts from Chubb Bermuda's 2022 Liability Limit Benchmarks & Large Loss Profile by Individual Sector report, at 4-5, 28 in Appendix F).

[3531] *Id.* at 17 (citing "Weather Conditions Portend Another Destructive Year of Wildfire Losses," AM Best (July 9, 2021) in Appendix G).

[3532] *Id.*

concerns have resulted in fewer insurers providing insurance coverage to companies with wildfire exposure. Consequently, Sempra's wildfire insurance premiums have continued to rise even though no third-party property damage claim resulting from a wildfire has been paid by Sempra or the Companies since 2008.

- Inverse condemnation – This California doctrine exposes SoCalGas and SDG&E to potential liability regardless of fault if their equipment is a contributing cause of a wildfire ignition. Because of the inverse condemnation doctrine, insurers require higher premiums to cover public utilities in California than in other states.

- Lack of Competition in the Insurance Market – In response to diminishing insurance capacity, Sempra began accessing property reinsurance markets in 2010 to expand supply and to introduce competition. More recently, Sempra issued CAT Bonds in 2018, 2020, and 2021 to replace lost insurance capacity and to generate competition between different sources of risk capital.[3533]

30.2.2.3.2 Efforts to Mitigate Costs

30.2.2.3.2.1 Wildfire Mitigation Plan

The ability of Sempra to mitigate insurance cost drivers is linked to the success of the Companies' risk management programs. SDG&E's wildfire mitigation plan (WMP) serves as the main regulatory vehicle for evaluation of its wildfire risk reduction efforts.[3534] Insurers tend to focus on SDG&E's efforts to prevent and mitigate the effects of wildfires, as captured in its WMP, with the resulting underwriting assessments materially influencing the pricing and coverage available each year. For the last several years, the Sempra corporate insurance business unit has been able to confirm in its insurance applications that no third-party property damage liability claims resulting from a wildfire have been paid by Sempra or the Companies since 2008. The Companies' insurance cost forecasts that were made with the benefit of the Companies' differentiating loss history and assume that the Companies' maintain their track record of remaining free of wildfire claims throughout the period of the forecasts.

[3533] *Id.* at 18. Sempra's 2018 CAT bond matured in October 2021, after which Sempra issued its 2021 CAT bond. Sempra's 2020 CAT bond matured in June 2023. Sempra's 2021 CAT bonds remains outstanding. *See* Confidential Ex. TURN-109 at 15.

[3534] *Id.* at 18. *See* Testimony and workpapers of Wildfire Mitigation and Vegetation Management witness Jonathan Woldemariam (Ex. SDG&E-13-2R (Woldemariam)) for detail on SDG&E's wildfire risk mitigation efforts. *See also* D.20-09-024 at 52 ("Purchase of incremental wildfire insurance is not a substitute for comprehensive grid hardening, improved situational awareness, expanded inspections and vegetation management programs, and enhanced public outreach and wildfire-mitigation operational practices that SCE has already been implementing. In other words, these activities need to occur in tandem with and not in lieu of each other.").

30.2.2.3.2.2 Risk Capital Diversification

In its TY 2019 GRC Decision, the Commission recognized the unpredictability of wildfires and the potential impact on costs, while simultaneously agreeing with an intervenor's recommendation that, in conjunction with rising insurance premiums, "Applicants should explore alternative options to conventional insurance and should include these in testimony during their next GRCs."[3535] Accordingly, Exhibit SCG-24/SDG&E-28 (Gaughan) explains how the Companies' have explored and incorporated alternatives to conventional insurance as part of a programmatic approach to diversifying the sources of risk capital, introducing competition, and limiting the pricing power of any single source of insurance.[3536] Incorporating multiple sources of capital and risk transfer agreements into the Companies' liability program has reduced the Companies' exposure to the annual volatility associated with conventional insurance markets and any single source of capital.

The Companies' Excess Liability, Excess Fire, Wildfire Damage Reinsurance and CAT bond programs primarily comprise risk capital based in the United States, the United Kingdom/Europe, and Bermuda. Exhibit SCG-24/SDG&E-28 (Gaughan) explains how, to bind 2021 excess liability and wildfire insurance programs, the Companies approached 27 excess liability markets, 95 excess fire and wildfire damage reinsurance markets, and 85 potential purchasers of the 2021 CAT bond.[3537] The Companies have meetings with insurance markets annually to review risk mitigation measures and address any concerns and/or questions underwriters may have, including inviting underwriters to biennial tours of our wildfire mitigation assets, including an opportunity to discuss concerns with our experts. These strategies have mitigated the Companies' wildfire insurance premium increases.

The Companies also use six different types of risk transfer agreements in our excess liability and wildfire insurance programs: (a) commercial insurance, (b) reinsurance, (c) long term insurance agreements, (d) structured risk transfer, (d) ILS-CAT bonds, and (e) difference-in-conditions insurance.[3538] Each one of the six agreements draws from a different source of risk

[3535] *See* D.19-09-051 at 532.

[3536] Ex. SCG-24/SDG&E-28 (Gaughan) at 19.

[3537] *Id.*, (citing 2021 Market Statistics for Sempra's Insurance Programs (Appendix E).)

[3538] *Id.*

capital,[3539] so that the combined use of the six agreements introduces competition between capital sources. The six risk transfer agreements combine to represent an integrated and holistic approach to creating competition between different sources of capital, mitigating upward price pressures, and reducing annual premium volatility while ensuring coverage.[3540]

The weightings of the Companies' liability programs' components each year are also reallocated based on pricing, capacity availability, coverage developments, and market differentials at the time of renewal. Since the TY 2019 GRC Decision, for example, the Companies have expanded the total number of long-term agreements that are part of our General Excess Liability and Fire Liability programs from seven to 17, have gone from zero to three structured-risk financing arrangements, and have issued two additional ILS-CAT bonds, each with three-year terms.[3541] To maximize access to alternative risk capital, Sempra also makes substantial use of a protected cell captive facility at Energy Insurance Services (EIS), a wholly owned subsidiary of Energy Insurance Mutual Limited (EIM) that is licensed to conduct insurance operations and write insurance, reinsurance or coinsurance through the use of Mutual Business Programs (MBP). Each MBP is a protected cell, which provides that losses attributed to an MBP may only be paid from the assets attributed to that MBP. Sempra's MBP at EIS provides access to reinsurance and other markets that support alternative risk products, including the Companies' CAT bonds.

In sum, by incorporating multiple sources of capital and risk transfer agreements into our liability program, we have reduced the Companies' exposure to the annual volatility associated with conventional insurance markets and any single source of capital.

30.2.2.3.2.3 Blind-Bid Pricing Strategy

Large liability insurance programs generally comprise several "layers" of coverage that build upon each other to create the entire program, as exemplified by Sempra's 2021-2022 wildfire

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3539 Multiyear agreements and Difference-in-conditions (DIC) policies are not the norm for traditional commercial insurance and require separate negotiations on terms and conditions, and the Companies view and treat as unique the limited group of insurers that will enter into these types of risk transfer agreements.

3540 Ex. SCG-24/SDG&E-28 (Gaughan) at 20.

3541 *Id.* at 20 (citing the Appendix H for the description prepared by Marsh of the number of layers, long-term agreements, and structured agreements under the Companies' 2019-2020 and 2021-2022 General Excess and Fire Liability Programs); *see also* Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 7, n.16.

liability program, which consisted of 17 layers.[3542] Theoretically, pricing should decrease at each higher layer in conjunction with a decrease in expected loss.[3543] Many insurers require the insured to disclose the price of underlying layers so that their layer can be priced as a percentage of the underlying; many insurers also require that their price be no less than that of the layers above. In a complex and multi-layered program, this traditional pricing model inhibits the ability of the insured to minimize total program cost because of the ripple effect that price increases at lower layers have on upper layer pricing. Similarly, a price set by an upper layer insurer can trigger lower layer price increases because of the requirement that prices be no less than the overlying layers. In the past, market competition allowed Sempra to replace a mispriced layer with an alternative insurer and mitigate the impact that the traditional pricing model would have on the Companies' multi-layered program. For the last several years, however, pricing power has increased for the smaller number of insurers providing insurance for California risks, especially under the traditional pricing model.

To mitigate the impact that a price increase in one layer has on our overall program, the Sempra corporate insurance department has applied a blind-bid pricing strategy since 2015. This strategy requires each insurer to provide quotes based on their independent evaluation of the Sempra's risk at their attachment points. Any policy condition that requires disclosure of the price of underlying or overlying layers is removed, thereby eliminating the potential for a single insurer to have a disproportionate impact on the pricing of the entire program.

30.2.2.4 Liability Insurance Premium Balancing Account (LIPBA)

The Commission's TY 2019 GRC Decision authorized SoCalGas and SDG&E to establish separate LIPBAs, two-way balancing accounts for liability insurance premiums.[3544] In finding the two-way balancing account reasonable, the Commission observed that there are "many factors that affect insurance premiums, and certain factors are outside of Applicants' control or are difficult to foresee. This in turn makes it difficult to provide an accurate forecast. The LIPBA allows Applicants to address these uncertainties in a timely manner and at the same time ensure that there is adequate insurance coverage for known risks."[3545]

3542 Ex. SCG-24/SDG&E-28 (Gaughan) at 20 (citing Appendix H).

3543 *Id.* at 20-21.

3544 *See* D.19-09-051 at 533-536.

3545 *Id*. at 534.

Exhibit SCG-24/SDG&E-28 (Gaughan) explains that the volatile and uncertain pricing environment that existed when the Commission authorized the Companies' LIPBAs in the TY 2019 GRC Decision is still present and does not show signs of abating.[3546] Insurance market uncertainty continues because of wildfire risk, inverse condemnation, and global catastrophe losses. Because of this uncertainty and continued volatility in the cost of liability insurance, SoCalGas and SDG&E request that the Commission reauthorize their LIPBAs for liability insurance premiums. Exhibit SCG-24/SDG&E-28 (Gaughan) further explains how the Companies' LIPBAs were established and administered in accordance with D.19-09-051, specifically, by (1) approved advice letter submissions to establish the LIPBAs and (2) approved Tier 2 advice letters authorizing recovery of additional liability insurance coverage costs that were not requested in their TY 2019 GRC applications,[3547] namely, the costs recorded as over-limits.[3548]

Exhibit SCG-24/SDG&E-28 (Gaughan) also provides a description of its comprehensive approach to managing price volatility, including, for example, by diversifying risk capital sources with six different risk transfer agreements, and evaluating self-insurance and/or rebalancing of insurance burdens with their suppliers of goods and services.[3549] In sum, although the Companies have considered ways to manage price volatility in addition to the LIPBAs, the LIPBAs themselves function as parts of an integrated toolset rather than as independent and mutually exclusive options. Sempra's ability to manage price volatility[3550] in a timely manner while securing adequate insurance coverage depends on access to the mechanisms used to date, including the currently used six risk transfer agreements, the LIPBAs, and the blind-bid pricing strategy. All

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[3546] Ex. SCG-24/SDG&E-28 (Gaughan) at 24, *passim*.

[3547] *See* D.19-09-051 at 535-536.

[3548] SDG&E AL 3638-E/2922-G, approved February 2, 2021, with an effective date of December 9, 2020, and SoCalGas AL 5725-G, approved December 15, 2020, with an effective date of December 9, 2020. For further discussion on administration of the LIPBAs, please *see* the prepared direct testimony of Regulatory Accounts witnesses Rae Marie Yu (Ex. SCG-38-R-E) and Jason Kupfersmid (Ex. SDG&E-43-R-E).

[3549] Ex. SCG-24/SDG&E-28 (Gaughan) at 22-24; *see also id.* at 18-21, discussed in Section 30.1 *supra.*

[3550] As part of Sempra's overall risk management efforts, the Companies treat as confidential their insurance program pricing and limits of insurance. Nevertheless, Ex. SCG-24/SDG&E-28 (Gaughan) noted that the pricing and limits of our general excess and wildfire liability insurance programs compare favorably to the publicly disclosed levels of pricing and limits purchased by the other investor-owned utilities in California. *See* Edison International and Southern California Edison (2021) Form 10-Q for Q3 2021 at 79-80. *Available at* https://www.edison.com/home/investors.html. *See also* PG&E Corp. and Pacific Gas & Electric (2021) Form 10-Q for Q3 2021 at 56. *Available at* https://investor.pgecorp.com/financials/sec-filings/default.aspx.

of these tools complement one another and are necessary, collectively, to mitigate insurance market uncertainty and price volatility.

30.2.3 Surety Bonds

Surety bonds guarantee the contractual performance obligations the Companies have to other parties.[3551] Bonds are usually required by city, state or federal governmental agencies. The types of bonds typically required are franchise bonds, tax bonds, license and permit bonds, and appeals bonds. Bond premiums are paid either as a one-time premium for the life of the bond or as an annual premium and are procured on an as-required basis. Costs are directly assigned to the business unit requiring the bond.

30.3 SoCalGas and SDG&E's Response to Other Parties' Recommendations

Parties do not oppose the vast majority of the Companies' property and liability insurance forecasts; instead, they focus their recommendations on wildfire liability and directors and officers (D&O) insurance in ways that can be generally categorized as: (1) limiting wildfire liability insurance coverage to $1 billion; (2) implementing a limited amount of self-insurance now with an eye towards expanding the scope of self-insurance going forward; and (3) reducing the Companies' forecasted revenues for wildfire liability insurance, D&O insurance, or both. The Commission should approve the Companies' TY 2024 insurance forecasts, reauthorize the LIPBA, and reject the intervenors' recommendations, for the reasons discussed in more detail in the Companies' rebuttal testimony chapters, Exhibit SCG-224-E/SDG&E-228-E Chapter 1, Exhibit SCG-224-E/SDG&E-228-E-C Chapter 2 (public), and Exhibit SCG-306/SDG&E-306 (confidential), which are summarized below.

TOTAL O&M – Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SOCALGAS/SDG&E	325,269	399,409	
CAL ADVOCATES	325,269	399,409	
TURN	325,269	298,051	(101,358)
UCAN	325,269	348,218	(51,191)
FEA	325,269	398,614	(795)

[3551] Ex. SCG-24/SDG&E-28 (Gaughan) at 25.

30.3.1 Costs Authorized for Wildfire Liability Insurance

30.3.1.1 TURN

The Commission should reject TURN's recommendation to reduce the Companies' TY 2024 revenue forecast for wildfire liability insurance costs to $140.3 million, which is TURN's estimate of the cost of $1 billion of wildfire coverage with a $50 million self-insured retention.[3552] Adopting TURN's recommendation would represent a $97.6 million reduction in the Companies' test year wildfire liability insurance forecast of $237.9 million. TURN reaches its $140 million figure by: (1) assuming no escalation of wildfire liability costs between base year and test year, (2) calculating an assumed savings from capping coverage at $1 billion, (3) calculating an assumed savings by requiring self-insurance for the first $50 million of coverage,[3553] and (4) assuming no third-party wildfire claims, where even a small fire could consume the entire $50 million self-insurance layer, which would immediately increase the cost of TURN's recommendation to at least $190 million. By never addressing the issue, TURN also assumes, implicitly, that alternative risk transfer agreements already in place would not impact the ease and timing of its recommended restructuring. The result is that TURN's recommendation is built on a series of assumptions that, when scrutinized, reinforces the continued uncertainty around forecasting the future costs of the Companies' wildfire liability program, which supports the Companies' request for reauthorization of their LIPBAs.[3554]

As explained *supra* in section 1.2.2.3.2.2 and Exhibit SCG-24/SDG&E-28 (Gaughan), the Companies' wildfire liability insurance program has evolved to include several alternative risk transfer components, buttressed by the support and urging of both intervenors and the Commission in the TY 2019 GRC proceeding. The Companies have taken numerous steps to implement alternative cost-saving and risk-reducing options, including expanding the total number of long-

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[3552] *See* Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1at 6 (addressing Ex. TURN-11 (Finkelstein/Ellis) at 9).

[3553] *See* Confidential Ex. SCG-224-E/SDG&E-228-E-C (Gaughan) Chapter 2 at 2 for a discussion of TURN's calculations and assumptions.

[3554] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 6. The Companies negotiate aggressively to achieve the most cost-efficient wildfire liability insurance program. If, at the end of a reporting period, there are funds in their LIPBAs' under-limits sub-accounts, those funds get returned to ratepayers. *See* Ex. SCG-24/SDG&E-28 (Gaughan) at 22.

term agreements in their wildfire and general excess liability programs and issuing two ILS-CAT bonds since the TY 2019 GRC decision.[3555]

TURN's recommendation to reduce authorized revenue to $140 million would, as a result, simply restructure the Companies' wildfire insurance below $50 million and above $1 billion, notwithstanding the review and approval by the Commission's Energy Division (Energy Division) of the coverage when it accepted the Companies' 2020 Tier 2 Advice Letters. The Commission has firmly established that wildfire liability insurance is primarily designed to benefit ratepayers and that the associated premium costs are a normal cost of doing business for which ratepayer recovery is allowed.[3556]

30.3.1.2 UCAN

UCAN recommends that the Commission reduce SDG&E's TY 2024 forecast for liability insurance by $51,191,000,[3557] representing the total escalation requested for all liability insurance costs (both wildfire and non-wildfire) from base year to test year. UCAN bases its recommendation on the costs incurred to harden SDG&E's electric transmission and distribution infrastructure, without acknowledging how SDG&E's hardening efforts mitigate wildfire liability cost drivers. Simultaneously, UCAN fails to establish any nexus between the costs of hardening and the portion of its recommendation that encompasses non-wildfire liability insurance costs. As a result, UCAN's recommendation can be distilled into the non-sequitur that, because hardening is expensive, any escalation in liability insurance costs should be denied. The ability of SDG&E to remain free of third-party wildfire claims and to keep its wildfire liability insurance costs at levels substantially below the costs incurred by the other IOUs is directly related to the success of its hardening efforts.[3558] It is not logical or just and reasonable to reduce forecasted O&M insurance costs based on the success of the Companies' hardening efforts.

3555 Ex. SCG-24/SDG&E-28 (Gaughan) at 20.

3556 Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 7, citing, *e.g.,* D.20-09-024 at 49 ("[W]ildfire liability insurance is primarily designed to benefit ratepayers and not shareholders."); s*ee also* D.21-08-036 at FOF 484 at 615 ("Liability insurance is a standard cost of doing business that is primarily designed to benefit ratepayers.").

3557 *Id.*, Chapter 1 at 7, addressing Ex. UCAN (Zeller) at 9-11.

3558 Ex. SCG-24/SDG&E-28 (Gaughan) at 18; Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 8. Further, the Companies' hardening efforts are statutorily mandated. *See id.,* citing AB 1054, Stats. 2019-2020, Ch. 79 (Cal. 2019) at Sec. 2(b) ("The state's electrical corporations must invest in hardening of the state's electrical infrastructure and vegetation management to reduce the risk of catastrophic wildfire."); *see also* Pub. Util. Code Sec. (§) 8387(a).

30.3.2 Liability Insurance Balancing Account (LIPBA)

30.3.2.1 Cal Advocates' and TURN's Focus on Additional Review is Unnecessary, as Correctly Decided in D.19-09-051

Cal Advocates recommends that the Companies' request for reauthorization of the LIPBAs be granted on the condition that the LIPBAs receive additional regulatory review for any wildfire liability insurance costs above $250 million and would require (a) a Tier 2 advice letter for additional wildfire insurance costs between $250 million and $333 million, and (b) a Tier 3 advice letter for costs above $333 million.[3559] Similarly, TURN recommends that the Commission modify the LIPBAs to authorize recovery of "above-authorized costs" with "either an application (where there is reason to believe the increased costs are the result of the utility's loss history) or a Tier 3 advice letter;" provided, however that "given SDG&E's recent history of having paid no claims, the current practice of relying on a Tier 2 advice letter could continue so long as there continue to be no wildfire claims."[3560]

D.19-09-051's LIPBA process was designed to allow for addressing uncertainties in a timely manner while providing adequate insurance coverage for known risks.[3561] Cal Advocates' and TURN's recommendations would result in delays due to additional layers of regulatory review, inhibiting the quick decision-making that is necessary to make insurance purchases and allocate capital efficiently, to ratepayers' detriment (due to missed opportunities and higher insurance costs). D.19-09-051 correctly rejected Cal Advocates' and UCAN's similar requests for additional regulatory review in the TY 2019 GRC, determining that the Tier 2 advice letter process balanced these concerns.[3562] As Exhibit SCG-24/SDG&E-28 (Gaughan) noted, "The process

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[3559] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 9-10, addressing Ex. CA-12 (Chumack). Cal Advocates' LIPBA recommendation would convert the Companies' LIPBAs from a two-way balancing account to a one-way balancing account at $250 million.

[3560] Ex. TURN-11 (Finkelstein/Ellis) at 12, 14.

[3561] D.19-09-051 at 535 – 536 (as part of the Companies' TY 2019 GRC, granting the Companies' request for LIPBAs, subject to the requirement that they submit a Tier 2 Advice Letter for authorization of any coverage not requested in their TY 2019 GRC applications).

[3562] D.19-09-051 at FOF 227 at 751; *id.* at 535 (stating, "With respect to the modifications proposed by ORA and UCAN, we agree with ORA that there should be some mechanism within which to review additional insurance expenditure that was not requested in these GRCs . . . However, we also recognize Applicants' concern about being exposed to increased risk for a significant period while waiting for approval of an application in cases where it finds a need to purchase other and additional liability insurance coverage. Thus, we find that Applicants should be required to file a Tier 2 advice letter when they seek recovery of costs for additional liability insurance coverage that were not requested in these GRCs.").

worked as it was intended and allowed the Energy Division to review and consider the reasonableness of additional insurance that the Companies purchased and recorded in their LIPBAs."[3563] D.19-09-051's already-working Tier 2 process should continue without modification, even under a different claims and loss history. It is just and reasonable to continue with the level of review that the Commission established in its TY 2019 GRC Decision.

30.3.3 Cal Advocates' and TURN's Cap Proposals on Authorized Wildfire Liability Insurance Coverage Should Be Rejected.

Cal Advocates and TURN each recommend that the Commission cap the Companies' authorized wildfire coverage at $1 billion on the grounds that the California Wildfire Fund provides coverage above $1 billion.[3564] As explained in Exhibit SCG-224/SDG&E-228 (Gaughan), Cal Advocates' and TURN's recommendation is unwise and unnecessary, for several reasons.[3565]

First, the Public Utilities Code establishes $1 billion as a statutory minimum amount of wildfire liability insurance coverage that a participating electrical corporation must maintain for eligibility for the Wildfire Fund, which statutory minimum may be increased in periodic reviews by the California Earthquake Authority (CEA), as Wildfire Fund Administrator.[3566] There is no statutory maximum to the amount of wildfire liability insurance that the CEA can determine is reasonable.

Second, the CEA has confirmed in the Memorandum of Coverage that it has issued to SDG&E that the $1 billion "Threshold Amount"[3567] that it has established in its latest periodic review is merely the current (2023) minimum level of required insurance; that level may be adjusted above $1 billion in any future review.[3568]

3563 Ex. SCG-224/SDG&E-228 (Gaughan) at 10 (citing Ex. SCG-24/SDG&E-28 (Gaughan) at 25.

3564 Ex. CA-12 (Chumack) at 12; Ex. TURN-11 (Finkelstein/Ellis) at 7.

3565 Ex. SCG-224/SDG&E-228 (Gaughan) at 11-14.

3566 *Id.*

3567 *Id.* at 12 (citing ''Threshold Amount' means, as to each Participating Utility, an amount of Eligible Claims that, in the aggregate in any coverage year, is equal to the greater of (1) $1,000,000,000 or (2) the amount of insurance coverage required to be in place for the Participating Utility pursuant to section 3293 of the Public Utilities Code. . . ." SDG&E's Memorandum of Coverage, Sec. II.Q. at 4.).

3568 *Id.*, at 12-13 (citing Pub. Util. Code § 3293 makes clear that the Wildfire Fund Administrators' reviews and recommendations are to be conducted for each participating electrical corporation based on the facts, circumstances, loss histories and "other factors deemed appropriate by the administrator." Though the CEA has thus far set the same minimal levels of insurance for PG&E,

Third, the Commission's Energy Division approved CAT bond and wildfire property damage reinsurance costs in excess of $1 billion as part of its approval of the Companies' 2020 Tier 2 Advice Letters. In so doing, the Energy Division evaluated and approved coverage above $1 billion as a reasonable practice.[3569] In conjunction, the Companies have procured more than $1 billion of wildfire liability coverage since 2012,[3570] establishing a track record of protecting ratepayers from various claims, which, if uninsured or underinsured, would expose ratepayers to unnecessary risk.[3571]

Fourth, the Companies' forecasted costs are further supported as just and reasonable given the uncertainty around the frequency and severity of past and future wildfire losses of PG&E, SCE, and SDG&E, and the potential impact on the Wildfire Fund, as discussed in Exhibit SCG-224/SDG&E-228 (Gaughan) at 13.

In sum, the collective experience of PG&E, SCE, and SDG&E with wildfire losses, combined with the uncertainty around claims management of the four-year old Wildfire Fund, provides substantial additional support for the just and reasonableness of the Companies forecasted costs. Cal Advocates' and TURN's cap proposals are thus unwarranted.

30.3.4 Parties' Self-Insurance Proposals

30.3.4.1 Cal Advocates and UCAN

Cal Advocates recommends that the Companies strongly consider self-insurance if wildfire liability insurance costs reach $250 million;[3572] however, it does not oppose the Companies' request of $237.913 million for wildfire liability insurance.[3573] In Exhibit SCG-224/SDG&E-228 (Gaughan), the Companies acknowledge that if their wildfire liability insurance costs were to

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SCE, and SDG&E, it possesses the statutory authority to set different levels for each participating investor-owned utility (IOU).).

3569 *See discussion in* Ex. SCG-224/SDG&E-228 (Gaughan) at 11-14.

3570 *See also* D.20-09-024 at 45 (noting, "SCE has maintained $1 billion dollars in wildfire insurance since 2013 or for at least seven years so this business practice is nothing new."). *See also* D.20-12-005 at 255 (stating, "PG&E originally sought to obtain $2 billion worth of General Liability insurance and $1.4 billion of coverage represents a fair compromise with the proposals from other parties.").

3571 D.21-08-036 at 395 (noting, "The Commission generally permits rate recovery for costs related to wildfire liability claims absent a finding of utility imprudence, and therefore, it is ratepayers that face the most risk in the event of uninsured claims.").

3572 Ex. SCG-224/SDG&E-228 (Gaughan) Chapter 1 at 14 (addressing Ex. CA-12 (Chumack) at 11).

3573 *Id.*, (citing Ex. CA-12 (Chumack) at 12.).

increase to $250 million, the facts, circumstances, market conditions, and their own loss histories could present a scenario where the Companies would be compelled to discuss and consider self-insurance.

As more fully discussed in Exhibit SGG-224-E/SDG&E-228-E (Gaughan) Chapter 1, UCAN's recommendation appears to confuse and conflate coverages and risks and is generally unclear.[3574] If UCAN' s proposal is focused on SDG&E's wildfire liability insurance costs, then it would align with Cal Advocates' recommendation that the Companies consider self-insurance if wildfire liability insurance costs eventually reach $250 million, and SDG&E's response to UCAN's self-insurance recommendation is the same as their response to Cal Advocates' similar recommendation. If, however, UCAN intends its recommendation to encompass all of SDG&E's liability insurance costs, then SDG&E disagrees with UCAN's recommendation, because it: (1) makes no provision for the other liability insurance costs that are included in the Companies' $299,191,000 forecast, and (2) fails to explain why converting to self-insurance for the other liability coverages is just and reasonable.

30.3.4.2 TURN

Self-Insure the First $50 Million of Wildfire Liability Insurance Coverage

The Companies disagree with TURN's recommendation to require the Companies to self-insure the first $50 million of their wildfire liability insurance program.[3575] TURN states that it recognizes that the Companies' "claims histories, risk profiles, and recent and forecasted insurance costs" materially differ from PG&E and SCE, such that "a shift to self-insurance for the entirety of wildfire liability coverage may not be warranted for the Sempra utilities at this juncture."[3576] TURN focuses on the lowest, most expensive, tier of the Companies' wildfire program for purposes of its self-insurance analysis, but in recommending self-insurance for the first $50 million of wildfire coverage, it fails to acknowledge: (a) the benefit that the current insurance policy provides to ratepayers by transferring the risk of wildfire losses, (b) the burden on ratepayers of

[3574] *See discussion in* Ex. SGG-224-E/SDG&E-228-E Chapter 1 at 18-19 (discussing Ex. UCAN (Zeller) at 9-13).

[3575] Ex. SCG-224/SDG&E-228 (Gaughan) Chapter 1 at 14-18 (addressing Ex. TURN-11 (Finkelstein/Ellis) at 6. TURN's recommendation that the Companies self-insure the first $50 million of their wildfire liability insurance program is paired with its related recommendations that the Commission cap wildfire liability insurance at $1 billion and reduce their 2024 test year forecasts for wildfire liability insurance costs to $140 million.

[3576] Ex. TURN-11 (Finkelstein/Ellis) at 6.

even a single wildfire loss, and (c) the potential impact on ratepayers of aggregate losses from several small wildfires.

At the time of the writing of the Companies' rebuttal testimony, the first $50 million of the Companies' wildfire liability program (*i.e.,* the focus of TURN's self-insurance recommendation for SoCalGas and SDG&E) was being renegotiated for the 2023-2024 policy year.[3577] The negotiations are now complete, and the contracted cost of the premium has been provided to TURN in response to TURN-SEU-083, which is part of the evidentiary record as TURN Confidential Cross-Examination Exhibit TURN-109. The amounts shown in Exhibit TURN-109 demonstrate that the Companies have contracted for the first $50 million of the wildfire liability insurance program at a price that is substantially lower than the 2022-2023 policy year, and at a price that renders self-insurance unnecessary. This demonstrated success is a testament to the Companies' blind-bid pricing and other strategies with a proven track record of negotiating lower wildfire liability insurance coverage that provides an optimal outcome for ratepayers.

<u>Self-Insurance Analysis To Be Prepared Before TY 2028 GRC</u>

For similar reasons, the Commission should also reject TURN's recommendation to require the Companies to provide a robust analysis of self-insurance no later than test year 2028.[3578] Neither the Companies nor TURN have stated a threshold price where, in their view, self-insurance becomes more attractive than commercial insurance. Rather, the Companies' direct testimony explains that evaluation of self-insurance options is reliant upon pricing the Companies are able to secure in the market: "For a given insured, as the price that they pay for traditional insurance escalates, the price of self-insurance eventually becomes a reasonable alternative."[3579]

For the TY 2024 GRC, the Companies have employed a framework for evaluating potential enhancements to the ways that it manages the costs of its wildfire liability insurance program that can generally be described as: (a) diversifying risk capital sources with different types of risk transfer agreements and promoting price competition using their blind-bid pricing strategy; and then (b) evaluating whether there might be cost effective alternatives, including self-insurance, that

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[3577] Ex. SCG-24/SDG&E-28 (Gaughan) at 20–21. *See also* Confidential Ex. SCG-224-E-C/SDG&E-228-E-C (Gaughan) Chapter 2 at 2 for additional discussion. The Companies treat pricing and specific layer information as highly confidential.

[3578] Ex. TURN-11 (Finkelstein/Ellis) at 9-12.

[3579] Ex. SGG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 17 (citing Ex. SCG-24/SDG&E-28 (Gaughan) at 23.).

would enhance their ability to managing price volatility. The Companies' proven success in attracting wildfire program pricing[3580] that is far beneath the levels of the SCE and PG&E programs should warrant protection and should not be put at risk through the type of micromanagement and second-guessing that TURN's proposal would support. If the Companies can maintain their track record of remaining free of third-party wildfire claims and are able to manage insurance costs in the ranges that are forecasted, the framework used for their most recent self-insurance analyses is reasonable.

For this and the other reasons set forth in Exhibit SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 and Exhibit SCG-224-E/SDG&E-228-E-C (Gaughan) Chapter 2 (public and confidential),[3581] TURN's self-insurance proposals should be rejected.

30.3.5 Allocation of D&O Insurance Costs

FEA recommends that SDG&E's D&O insurance costs be reduced by 50% to $795,000 to be consistent with prior CPUC decisions.[3582] TURN primarily recommends that no D&O insurance costs be authorized because it believes that the Companies have failed to make a prima facie case for recovery of costs but adds an alternative recommendation similar to FEA's that would reduce the Companies' forecasted D&O costs to $785,000 for SDG&E and $937,000 for SoCalGas. [3583] FEA's and TURN's recommendations should be rejected, as set forth in Exhibit SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1.[3584]

Prima Facie Case for 100% Recovery of Allocated D&O Costs

TURN acknowledges that D&O costs are legitimate costs for recovery, if supported. Nevertheless, TURN recommends authorizing $0 of the Companies' TY 2024 D&O insurance cost forecasts, arguing that the Companies failed to establish a prima facie case for recovery. As shown below and in the Companies' rebuttal testimony, the Commission should reject this primary TURN argument, as well as TURN's alternative recommendation (and FEA's primary recommendation) to reduce by 50% the Companies' D&O forecasts.[3585]

3580 *See* Confidential Ex. SCG-224-E-C/SDG&E-228-E-C (Gaughan) Chapter 2 at 1.

3581 *See* Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 14-18 and Ex. SCG-224-E-C/SDG&E-228-E-C (Gaughan) Chapter 2 (public and confidential), *passim.*

3582 Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 19 (citing Ex. FEA-01 (Smith) at 34 – 35.)

3583 *Id.* at 19-20 (citing Ex. TURN-15 (Finkelstein) at 6, 10, n.25.)

3584 *Id.* at 19-22.

3585 *Id.* at 21-22.

As shown in Exhibit SCG-24/SDG&E-28 (Gaughan), Exhibit SCG-24-WP/SDG&E-24-WP (Gaughan) and Exhibit SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1, TURN's contention that the Companies have not supported their D&O requests is incorrect. For example, Exhibit SCG-24/SDG&E-28 (Gaughan), Table DG-6 provides the BY 2021 total and allocated costs for D&O insurance, as well as the TY 2024 forecast. Table DG-11 explains how costs were allocated using the multi-factor split methodology, which is explained on Exhibit SCG-24/SDG&E-28, pages 2, 3, and 11. Additional explanation of how D&O costs are allocated at Corporate Center to each utility, then subject to regulatory accounting treatment at each utility, was provided to TURN in TURN-SEU-083, Q7, which is included in TURN Exhibit-108.

Exhibit SCG-24/SDG&E-28 (Gaughan) further explains that the successful track record of the Companies' risk management programs, to the benefit of ratepayers, is dependent upon attracting and retaining high quality senior executives, which D&O insurance helps to accomplish.[3586] It also explains that, "[b]ecause of the uncertainty of future liability insurance premiums, our forecasts are substantially based on forecasts provided by our primary insurance broker Marsh."[3587] Exhibit SCG-24-WP/SDG&E-24-WP also explains that the TY 2024 D&O insurance cost forecast of $6.888 million, before allocations, is based on insurance broker forecast,[3588] and the Companies provided additional information in response to TURN-SEU-83, Questions 6a and 6b, which are included in TURN Exhibit-109.

Moreover, provided with the same evidence as TURN, Cal Advocates concluded: "After reviewing Sempra's request and supporting papers, Cal Advocates does not oppose Sempra's request for $3.444 million for D&O insurance."[3589] TURN's conclusion that that Companies have provided insufficient evidence to support their forecasts is thus incorrect and should be rejected.

Proposed Reduction of D&O Forecasts by 50%

As shown above, the Companies' TY 2024 GRC D&O requests are just and reasonable costs of doing business, which should be reasonably and fairly allocated solely pursuant to the multi-factor split methodology, as the Companies propose. The Companies recognize that the

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3586 Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 20, (citing Ex. SCG-24/SDG&E-28 (Gaughan) at 17-18 and Ex. SCG-24/SDG&E-28-WP (Gaughan) at 52.)

3587 Ex. SCG-24/SDG&E-28 (Gaughan) at 17 (citation omitted). *See also id.* at 1 ("[O]ur 2024 forecasts are based on our loss history, expected insurance market conditions, and input from our primary insurance broker, Marsh.").

3588 Ex. SCG-24/SDG&E-28-WP (Gaughan) at 52.

3589 Ex. CA-12 (Chumack) at 5.

Commission reduced the forecast for D&O Insurance by 50 percent in D.19-09-051[3590] and have demonstrated their compliance with D.19-09-051 in their discovery response to TURN-SEU-083 (included in Exhibit TURN-108 at 10-11), which shows how 50% of the monthly amortization expense for D&O insurance costs that are allocated to each utility[3591] is recorded to the LIPBA and subject to advice letter approval (in accordance with the TY 2019 GRC Decision and the Companies' tariffs)[3592].

The two-step allocation processes that FEA recommends, and that TURN includes in its analysis, differ in the first step that they would apply. FEA relies on the Commission's 2019 GRC decision in D.19-09-051 to treat the Companies' multi-factor split allocation as the first step. FEA then recommends as a second step a mechanical reduction by 50% the D&O costs allocated to the Companies, without acknowledging the earlier 50% reduction under the Companies' multi-factor split methodology. FEA's recommended allocation for SDG&E (and would result in a similar revision for SoCalGas) would result in a combined 25% allocation to the Companies as a result of applying a 50% reduction twice.

FEA Proposal: Two 50% Allocations ($000)		
	Test Year 2024	% of Total
SDG&E	795	11.53%
SoCalGas	928	13.47%
Infrastructure/Retained	5,166	75%
Total	6,889[3593]	100.00%

TURN's analysis[3594] focuses on the Commission's TY 2012 GRC decision as the basis of its construction of the Commission's TY 2019 GRC decision, with the result being that its first step would allocate total costs between Infrastructure/Retained, SoCalGas, and SDG&E, using the multi-factor basic methodology, and the second step would reduce by 50% the results of the first

3590 *See* D.19-09-051 at 751, FOF 223.

3591 As noted *supra* in Section 30.2*,* costs that are not allocated to SoCalGas and SDG&E are "retained" at Corporate Center and are not subject to CPUC regulation.

3592 *See* D.19-09-051 at 777-78, OP 7(e). and OP 8(c); *see also* the Companies' tariffs, *available at* https://tariff.sdge.com/tm2/pdf/tariffs/ELEC_ELEC-PRELIM_LIPBA.pdf *and* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_LIPBA_.pdf.

3593 The total amount of the Companies' D&O forecasted insurance costs for test year 2024, before allocations, is $6,888,000. Ex. SCG-24/SDG&E-28-WP (Gaughan) at 51. FEA's slightly higher figure is referenced only in this discussion of FEA's recommendation.

3594 Ex. TURN-15 (Finkelstein) at 6-7.

step.[3595] That two-step process would result in a total of $2.958 million in costs allocated to the Companies ($1.350 million for SDG&E and $1.608 million for SoCalGas),[3596] which contrasts with the $1.722 million ($.785 million for SDG&E and $.937 million for SoCalGas)[3597] that TURN submitted as its alternative recommendation.

As shown in the Companies' rebuttal testimony,[3598] although TURN's and FEA's recommendations may be consistent with the process the Companies currently follow (in accordance with D.19-09-051), there is no logical basis for diverting from the multi-factor methodology to reduce the Companies' D&O forecasts. The Commission should thus revisit its TY 2019 GRC Decision, which approved what amounted to two 50% reductions of the Companies' D&O costs. The Companies believe that D.19-09-051's Finding of Fact 224, citing D.13-05-010, may be in error, as it may represent a failure to recognize the impact of the language's resulting two-step split.[3599] The Commission should recognize the reasonableness of the Companies' proposed D&O cost allocations and authorize their total forecasted D&O costs.

30.3.6 Conclusion

In summary, SoCalGas and SDG&E respectfully request that the Commission adopt their proposed 2021 test year insurance forecasts and reauthorize the Companies' LIPBAs.

31. Compensation and Benefits

The direct testimony of Debbie Robinson on Compensation and Benefits provides an overview of the compensation and benefits program at SoCalGas and SDG&E.[3600] It also includes the results of the total compensation study (TCS) conducted by Willis Towers Watson (WTW),[3601] a nationally recognized compensation and benefits consulting firm. As Ms. Robinson describes in

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[3595] Ex. TURN-15 (Finkelstein) at 10, n.25.

[3596] The General Administration testimony confirms these calculations by first applying Sempra's multi-factor basic allocation methodology for TY 2024 and then shifting 50% from the Companies to Global/Retained. *See generally* Ex. SCG-23-R/SDG&E-27-R (Cooper).

[3597] Ex. TURN-15 (Finkelstein) at 10, n.25.

[3598] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 21-22.

[3599] *Compare* the total D&O costs and allocations resulting from D.19-09-051's two-step methodology, as shown in Ex. TURN-108 at 10-11, *with* the Companies' multi-factor split allocation rates shown in Ex. SCG-24/SDG&E-28 (Gaughan) at 12, Table DG-11.

[3600] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson); Ex. SCG-25-WP-E (Robinson). Ms. Robinson also sponsored rebuttal and update testimony exhibits, Ex. SCG-225/SDG&E-229 (Robinson) and Ex. SCG-401/SDG&E-401 (Robinson) Update Testimony (July 2023) at Attachments F, I, and J, respectively.

[3601] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at Appendix B (SoCalGas), Appendix C (SDG&E).

further detail throughout her testimony, SoCalGas's and SDG&E's compensation and benefits programs include the following components: base pay; short-term incentives (also referred to as "ICP" or "variable pay"); long-term incentives;[3602] special recognition awards; health and welfare benefits; retirement benefits; and other benefit programs. A summary of the projected TY 2024 compensation and benefit program costs (excluding base pay and benefits covered in other witness areas) is provided in Tables DR-1 and DR-2 in Ms. Robinson's direct testimony.[3603]

SoCalGas' and SDG&E's employees are critical to providing safe, efficient and reliable service to their customers. The Companies' total rewards programs are structured to attract, motivate and retain a high-performing workforce and reflect the impacts of the marketplace, collective bargaining and government regulation.[3604]

Ms. Robinson testified that SoCalGas and SDG&E, like other employers, have faced recent challenging labor market conditions due to labor shortages and inflation:[3605]

- Annual Net Job Gains: The U.S. economy added a record 6.4 million jobs in 2021. Growth continued in 2022, with 431,000 jobs added in March.
- Record Job Openings vs. Low Unemployment: The ratio of job openings per unemployed worker was approximately 1.7 as of December 31, 2021, the most in the past two decades.
- "The Great Resignation:" Record numbers of employees left their jobs in 2021. Some employees left for remote work opportunities, higher pay, or opportunities to change careers, while others left the workforce to care for children or elderly relatives during the pandemic.
- Wage Pressures: High inflation and the labor shortage are putting pressure on wages. Pay is rising as employers compete for a finite pool of workers. Wages and salaries increased 4.5% for the 12-month period ending in December 2021.

It is essential that SoCalGas and SDG&E continue to offer competitive compensation and benefit programs during these volatile times.

Compensation programs are designed to focus employees on the Companies' key priorities, the most important of which is safety. Safety is a core value of SoCalGas and SDG&E, and a

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3602 Long-term incentive plan costs were not included in the Companies' forecasts or the WTW Study.

3603 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson);at 2-3, Tables DR-1 and DR-2.

3604 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 4.

3605 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 4, *citing* the U.S. Bureau of Labor Statistics (internal citations omitted).

strong safety culture directly influences the safety performance of an organization.[3606] Ms. Robinson demonstrates SoCalGas's and SDG&E's strong safety culture in her testimony presentation, through the Companies' use of compensation metrics and key performance indicators to drive improved safety performance. Safety measures discussed in Ms. Robinson's testimony comprise 80% of the company performance component of non-executive ICP for SoCalGas and 68% for SDG&E.[3607] Benefit programs that promote employee health and welfare also contribute to SoCalGas's and SDG&E's safety performance and culture.

Compensation and benefits programs also are designed to support the Companies' commitment to diversity, equity and inclusion, and sustainability. The ICP includes goals related to employee and supplier diversity, charitable giving to diverse and underserved communities, and clean energy. Examples of benefits programs that support diversity, equity, and inclusion include the educational assistance program, which provides tuition reimbursement to help employees advance in their careers, and the enhancement of the employee assistance program to include mental health service providers that self-identify across a broad range of racial, gender, sexual and other cultural identities.

This holistic and competitive approach to total rewards has allowed SoCalGas and SDG&E to maintain an experienced, productive workforce while maintaining a labor cost structure that is in line with the market.[3608] The same approach to total rewards extends to the Sempra Corporate Center (Corporate Center), ensuring that total compensation costs for the services provided to SoCalGas and SDG&E by the Corporate Center are reasonable and competitive.

Activities and programs within each component of SoCalGas's and SDG&E's Compensation and Benefits forecast are outlined in detail throughout Ms. Robinson's direct testimony.[3609] Cal Advocates, TURN, and UCAN submitted direct testimony on SoCalGas and SDG&E's proposals.[3610] Cal Advocates submitted testimony addressing each item included under the Companies' compensation and benefits forecast. Tables 31.1 and 31.2 compare Cal

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[3606] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 5, *citing* the Risk Management Policy testimony chapters of Deana M. Ng (Ex. SCG-03, Ch. 1) and Michael M. Schneider (Ex. SDG&E-03, Ch. 1).

[3607] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 5.

[3608] *Id*.

[3609] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson), *passim.*

[3610] Ex. CA-20 (Hunter); Ex. CA-13-E (Emerson); Ex. TURN-10-R (Jones); Ex. UCAN-02 (Zeller).

Advocates' positions on each component of SoCalGas's and SDG&E's Compensation and Benefits TY 2024 forecasts:[3611]

Table 31.1

SoCalGas Compensation and Benefit Programs ($000s)	**2024 SoCalGas***	**2024 Cal Adv**	**Variance**
Compensation	115,021	48,917	(66,104)
Health Benefits	138,362	111,434	(26,928)
Welfare Benefits	1,748	1,815	67
Retirement Benefits	36,767	35,851	(916)
Other Benefit Program and Fees	7,000	6,893	(107)
Total**	**298,899**	**204,910**	**(93,989)**

**Values reflect the July 17, 2023 Update Testimony.*
***Variances are due to rounding.*

Table 31.2

SDG&E Compensation and Benefit Programs ($000s)	**2024 SDG&E***	**2024 Cal Adv**	**Variance**
Compensation	83,568	35,097	(48,471)
Health Benefits	79,233	61,042	(18,191)
Welfare Benefits	731	733	2
Retirement Benefits	25,174	23,797	1,377
Other Benefit Program and Fees	2,384	2,221	(163)
Total **	**191,091**	**122,890**	**(68,201)**
Adjusted ICP (*see* Emerson Table 13.7)		612	
Adjusted Total	**191,091**	**123,502**	**(67,589)**

**Values reflect the July 17,2023 Update Testimony.*
***Variances are due to rounding.*

TURN makes recommendations related to the Companies' ICP and ICP costs included within Sempra Corporate Center cost allocations to the Companies. UCAN makes recommendations related to SDG&E's ICP and proposes adjustments based on its review of SDG&E's TCS.[3612] The positions of the parties are discussed in the context of Ms. Robinson's testimony presentation, below. The differences between the amounts requested by SoCalGas and SDG&E and the amounts proposed by TURN and UCAN are summarized below in Table 32.3 for SoCalGas and Table 32.4 for SDG&E.

[3611] Ex. SCG-225/SDG&E-229 (Robinson), Tables DSR-1 and DSR-2 and Ex. SCG 401/SDG&E 401, Tables DSR-01 and DSR-02.

[3612] Ex. SCG-225/SDG&E-229 (Robinson) at 2.

31.1 Total Compensation Study

SoCalGas and SDG&E included a total compensation study as part of their TY 2024 General Rate Case submission, in compliance with Commission Decisions D.87-12-066, D.89-12-057, and D.96-01-011. For over 25 years, SoCalGas and SDG&E have submitted total compensation studies in connection with their GRCs, with Cal Advocates jointly sponsoring and participating in the studies through the Companies' TY 2016 GRC.[3613] The Companies requested Cal Advocates' participation in the total compensation study for the TY 2019 and TY 2024 GRCs as well, but Cal Advocates declined to participate.

The Companies selected WTW, a global advisory, broking, and solutions company, to conduct the TCS.[3614] The WTW TCS evaluated SoCalGas's and SDG&E's total compensation relative to the external labor market. It includes a detailed analysis of "total compensation," which is defined as the aggregate value of annualized base pay, short-term incentive compensation, and benefits programs. For short-term incentive compensation, both actual and target data were analyzed. Long-term incentive compensation was excluded from both the WTW TCS and SoCalGas's and SDG&E's cost forecasts.

The WTW TCS includes a detailed description of the study methodology. Even though Cal Advocates did not participate in the WTW Study for TY 2024, the methodology applied by WTW was generally consistent with total compensation studies in past GRCs in which Cal Advocates participated. The WTW Study should be viewed as a conservative assessment of the market, as it is based on 2021 market survey data that may not fully capture current market conditions. As the WTW Study notes:

> The current U.S. labor market is under a significant deal of volatility post-pandemic driven by high levels of inflation, upticks in early and planned retirements, openness of employees to take new opportunities, pressures on talent supply, as well as the demand for workers with new and emerging skills. Therefore, it is important to keep in mind that the survey data utilized for our assessment represents a specific point in time and may trail market trends to a certain degree.[3615]

SoCalGas' actual total compensation (defined as base salaries, short-term incentives, and benefits and including SCC) is within 1.9% of market (using actual ICP) and target total compensation (using target ICP) is within 0.7% of market. SDG&E's total compensation is within

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3613 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 5-6.

3614 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 6.

3615 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 6, *citing* WTW TCS at 12.

3.4% of market based on actual total compensation, and target total compensation is within 1.9% of market. Compensation professionals, including WTW, typically consider a range of plus or minus 10% of the average of the external market data to be competitive, and broader ranges are common and expected for long-term incentive plans and benefits.[3616]

In D.95-12-055, the Commission affirmatively stated that compensation levels that fall between plus or minus five percent of the relevant market are considered to be "at market" and reasonable.[3617] As shown in Ms. Robinson's direct testimony, for both SoCalGas and SDG&E, actual total compensation and target total compensation fall within both the competitive range of plus or minus ten percent that is widely used by compensation professionals and the range of plus or minus five percent cited by the Commission in D.95-12-055.[3618] No party presented testimony disputing SoCalGas and SDG&E's TY 2024 total compensation study. UCAN acknowledged that SDG&E's total compensation request "appears to be reasonable"[3619]

However, UCAN's testimony took issue with the compensation of '"128 individual SDG&E employees'" based on its review of SDG&E's Total Compensation Study and recommends a reduction of $2.5 million to SDG&E's overall Compensation and Benefits forecast.[3620] SDG&E strongly disagrees with UCAN's cherry picking and mischaracterization of the information provided in the Total Compensation Study, which defines its scope as follows:

> This study evaluates the competitiveness of total compensation provided by SDG&E to its employees based on a selection of SDG&E jobs ("benchmark jobs")…The study covers 280 benchmark jobs at SDG&E representing 3,062 employee (64.3% of 4,760 total SDG&E employees) as of October 2021.[3621]

As stated above, the purpose of the Total Compensation Study is to evaluate the overall compensation and benefits provided by SDG&E to its employees, in compliance with Commission requirements.[3622] The TCS evaluates SoCalGas's and SDG&E's total compensation relative to the external labor market, including a detailed analysis of "total compensation."[3623] Compensation for

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3616 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 6.

3617 D.95-12-055, 1995 Cal. PUC LEXIS 965, *29-31.

3618 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 7.

3619 Ex. SCG-225/SDG&E-229 (Robinson) at 20, *citing* Ex. UCAN (Zeller) at 23.

3620 Ex. SCG-225/SDG&E-229 (Robinson) at 19, *citing* Ex. UCAN (Zeller) at 24.

3621 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson), Appendix C (SDG&E) at 2 (citation omitted).

3622 *See* SCG-225/SDG&E-229 (Robinson) at 19.

3623 S*ee* Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson), Appendix B (SoCalGas) and Appendix C (SDG&E*)* at Appendices B and C at Appendix G: Glossary of Terms.

individual employees is influenced by a number of factors, such as the scope the role vs. the benchmark job and an individual incumbent's specialized skills, experience, tenure and performance.[3624] UCAN's recommendation is based on speculative and incorrect assumptions and an incorrect understanding of the purpose of the Total Compensation Study and should be rejected.

31.2 Short-Term Incentive Compensation (ICP)

ICP is an essential component of a competitive total compensation package, for a number of reasons. Short-term incentive compensation creates focus on and accountability for desired results, improves performance, and facilitates ideas and operational improvements. Variable pay plans are a prevalent market practice and are a key component of a competitive compensation package.[3625]

SoCalGas' and SDG&E's short-term ICP have been a longstanding part of the Companies' total compensation strategies, for all of their non-represented workforce. ICP places a portion of employee compensation at-risk, subject to achievement of the plan's performance measures, motivating employees to meet or exceed important safety, customer service, supplier diversity, reliability, and financial goals. Performance measures are reviewed and updated annually. ICP performance results are reviewed by the Sempra Audit Services department prior to board approval.[3626]

The SoCalGas and SDG&E ICP plans for non-executive employees include a company performance component, which trains employee focus on the achievement of company goals related to safety, reliability, customer satisfaction, and financial health. In addition, the plans include an individual performance component, which is based on the employee's contributions toward these company goals and their achievement of their individual performance objectives. The company performance component and individual performance component each are weighted at 50% of employees' target ICP award. As noted above, safety measures discussed in Ms. Robinson's testimony comprise 80% of the company performance component of non-executive

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3624 *See* SCG-225/SDG&E-229 (Robinson) at 19-20.

3625 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 8-9.

3626 Ex. SCG-25-R-E/SDG&E-29-R (Robinson) at 9.

ICP for SoCalGas and 68% for SDG&E.[3627] Safety is the top priority for SoCalGas and SDG&E, which is reflected in the weighting of the ICP safety measures.[3628]

31.2.1 Other Parties' Positions on ICP

In direct testimony, Cal Advocates and TURN recommended disallowance of a portion of SoCalGas and SDG&E ICP costs and UCAN recommended zero funding for SDG&E's ICP. Cal Advocates', TURN's and UCAN's proposals for funding SoCalGas's and SDG&E's ICP are shown in Tables 31.3 and 31.4 below.

Table 31.3

Variable Pay/ICP ($000s)	**2024** **SoCalGas ***	**Cal-Adv**	**Variance Cal-Adv**	**2024 TURN**	**Variance TURN**
Non-Executive	109,509	45,353	(64,156)	92,262	(17,247)
Executive	2,863	888	(1.975)	1,832	(1,031)
Total **	**112,372**	**46,241**	**(66,131)**	**94,094**	**(18,278)**

**Values reflect the July 17,2023 Update Testimony.*
***Variances are due to rounding.*

Table 31.4*

Variable Pay/ICP ($000s)	**2024 * SDG&E**	**2024 Cal-Adv**	**Variance Cal-Adv**	**2024 TURN**	**Variance TURN**	**2024 UCAN**	**Variance UCAN**
Non-Executive	79,794	33,180	(46,614)	54,740	(25,054)	-	(79,794)
Executive	1,867	612	(1.255)	1,167	(700)	-	(1,867)
Total **	**81,661**	**33,792**	**(47,869)**	**55,907**	**(25,754)**	-	(81,661)

**Values reflect the July 17, 2023 Update Testimony.*
***Variances are due to rounding.*

Cal Advocates' Position on ICP

Cal Advocates first applies a reduction to the TY 2024 ICP forecast based on their forecast for TY 2024 ICP-eligible headcount. They further reduce the ICP forecast to remove the portion of the ICP related to financial performance measures and to remove 50% of the funding for the portion of the ICP related to other performance measures.[3629]

3627 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 5.

3628 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 10-11, Tables DR-4 and DR-5, respectively, provides the performance measures for the 2022 SoCalGas and SDG&E ICP plans.

3629 Ex. SCG-225/SDG&E-229 (Robinson) at 6.

TURN's Position on ICP

TURN's funding recommendation for ICP varies by performance measure and ranges between zero funding and full funding based on their view of the degree to which each performance measure benefits customers.

For SoCalGas, TURN recommends:

- Zero funding: portion of the ICP related to financial performance measures and certain other specified Customer and Stakeholder measures:
  - Execute Clean Energy Transition Plan
  - Progress Toward 2022 Renewable Natural Gas Goal of 5%
  - Customer Insight Study (non-executive plan)
- 50% funding: portion of the ICP related to certain Customer and Stakeholder measures performance measures:
  - New Gas Business Customer Experience
  - Customer Insight Study (executive plan)
  - Execute 2022 Diversity, Equity, and Inclusion (DE&I) Priorities[3630]
  - Supplier Diversity
- Full funding: portion of the ICP related to safety and safety management systems.
- For SDG&E, TURN recommends:
- Zero funding: portion of the ICP related to financial performance measures and certain other specified Safety and Customer and Stakeholder measures:
  - Wildfire and Public Safety Power Shutoff (PSPS) System Hardening
  - Community Relations
- 50% funding: portion of the ICP related to certain Customer and Stakeholder measures performance measures:
  - SDG&E Listens (Voice of the Customer)
  - Supplier Diversity
- Full funding: portion of the ICP related to:
  - Safety/operational measures other than Wildfire and PSPS System Hardening

[3630] Ex. SCG-225/SDG&E-229 (Robinson) at 6.

- Customer and Stakeholder goals other than SDG&E Listens (Voice of the Customer) and Supplier Diversity measures[3631]

31.2.2 UCAN's position on ICP (SDG&E Only)

UCAN recommends zero funding for SDG&E's ICP, taking issue with the weighting of the financial health measures in SDG&E's ICP (10% weighting for non-executive and 28% weighting for executive in the 2022 ICP) and the inclusion of "difficult to quantify"[3632] measures such as public opinion surveys and progress toward a renewable natural gas goal (renewable natural gas goal was included in SoCalGas's 2022 ICP but was not included in SDG&E's 2022 ICP). They assert that funding for the ICP should be denied unless SDG&E designs a plan based on employee efforts to control costs and reduce customer rates. UCAN contends that the Commission has treated ICP as a "routine approval"[3633] in past GRCs.[3634]

31.2.3 SoCalGas and SDG&E's Rebuttal to Cal Advocates, TURN, and UCAN

In response to Cal Advocates', TURN's, and UCAN's direct testimony arguments summarized above, Ms. Robinson presented rebuttal testimony demonstrating the following points, which are described in more detail in her testimony and below:

- Incentive compensation programs are part of a reasonable, at-market compensation package.
- A compensation package that includes a combination of base pay and incentive compensation provides a greater benefit to ratepayers than providing the same level of compensation solely through base pay.
- Ratepayers benefit from incentive compensation programs because incentive programs are an integral part of a competitive total compensation package.
- ICP performance goals benefit customers and the community.
  - Safety performance measures,
  - Customer and supplier diversity performance measures,
  - Financial performance measures.

3631 Ex. SCG-225/SDG&E-229 (Robinson) at 7.

3632 Ex. UCAN-02 (Zeller) at 21.

3633 *Id*.

3634 Ex. SCG-225/SDG&E-229 (Robinson) at 7.

- Corporate Center allocations should be evaluated based on whether the amount allocated to the Companies is reasonable.[3635]

Incentive compensation programs are part of a reasonable, at-market compensation package.

Incentive compensation programs are an integral part of a reasonable and competitive total compensation package and, as such, should be treated no differently than base salary for cost recovery purposes. The WTW TCS found that SoCalGas's total compensation (defined as base salaries, short-term incentives, and benefits, and including the Sempra Corporate Center) is within 1.9% of market based on actual total compensation (using actual ICP) and target total compensation (using target ICP) is within 0.7% of market; and SDG&E's total compensation is within 3.4% of market based on actual total compensation (using actual ICP) and target total compensation (using target ICP) is within 1.9% of market.[3636] In D.95-12-055, the Commission affirmatively stated that compensation levels that fall between plus or minus five percent of the relevant market are considered to be "at market" and reasonable.[3637] Under this standard, both SoCalGas' and SDG&E's compensation is clearly reasonable, based on the standards set by the Commission.[3638] In D.15-11-021, the Commission acknowledged the importance of evaluating incentive compensation in the context of whether total compensation is reasonable:

> However, we do place weight on the results of the TCS and decline to adopt the deep cuts proposed by TURN and the ORA.[3639]

The Commission has declined to micromanage utilities' variable compensation programs, saying that "as long as [a utility's] *total compensation levels* are appropriate [they] will not dictate how [the utility] distributes compensation among various types of employment benefits."[3640] In SCE's TY 2021 GRC, the Commission noted that "it is within SCE management's discretion to target incentive compensation to achieve ratepayer benefits."[3641] The Commission has also noted:

> …it would be within [a utility's] managerial discretion to offer all cash compensation to employees in the form of base pay instead of a mix of base pay

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3635 *See* Ex. SCG-225/SDG&E-229 (Robinson) at 8-19.

3636 Ex. SCG-225/SDG&E-229 (Robinson) at 8.

3637 D.95-12-055, 1995 Cal. PUC LEXIS 965, *29-31.

3638 Ex. SCG-225/SDG&E-229 (Robinson) at 8.

3639 D.15-11-021 at 265.

3640 D.97-07-054 at 68 (emphasis added). *See also*, *e.g.*, D.13-05-010 at 882 (declining to micromanage SDG&E and SoCalGas' variable compensation metrics).

3641 D.21-08-036 at 428 (citation omitted).

> and incentive pay. In the event [the utility] were to do so, we would not take issue with ratepayer funding of the resulting compensation as long as total compensation is reasonable. If total compensation does not exceed market levels, a disallowance of reasonable expenses for the [incentive compensation] program would in effect be a substitution of our judgment for that of [utility] managers regarding the appropriate mix of base and incentive pay.[3642]

In their respective testimonies, Cal Advocates, TURN and UCAN inappropriately attempt to substitute their judgment for that of SoCalGas and SDG&E in determining the appropriate individual components that make up their incentive compensation program. It should also be noted that Cal Advocates, TURN, and UCAN each have different views of which measures benefit ratepayers, which underscores the inherent subjectivity of this approach.[3643] It would be unworkable and unwise for the utilities to manage ICP plans for their employees based on the wavering subjectivity of collective third-party opinions. A Commission order along such lines would be inconsistent with the well-settled regulatory principle that regulators set standards but do not manage the utility's business.[3644]

Cal Advocates', TURN's and UCAN's arguments fail to recognize that SoCalGas's and SDG&E's total compensation is at market and, as such, is reasonable and should be subject to full recovery, based on cost of service principles.[3645]

A compensation package that includes a combination of base pay and incentive compensation provides a greater benefit to ratepayers than providing the same level of compensation solely through base pay.

Cal Advocates', TURN's, and UCAN's arguments may have the unintended consequence of encouraging SoCalGas and SDG&E to provide higher base salaries in lieu of incentive compensation, while continuing to provide at-market aggregate total compensation.[3646] D.04-07-

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3642 D.04-07-022 at 217.

3643 Ex. SCG-225/SDG&E-229 (Robinson) at 9.

3644 *See, e.g., W. Ohio Gas Co. v. Pub. Utils. Comm'n of Ohio*, 294 U.S. 63 at *72 ("Good faith is to be presumed on the part of the managers of a business. [citations omitted] In the absence of a showing of inefficiency or improvidence, a court will not substitute its judgment for theirs as to the measure of a prudent outlay."); *accord* D.13-05-010 at 882 (declining to micromanage SDG&E and SoCalGas' variable compensation metrics).

3645 *See* D.03-02-035 at 6; *see also* D.14-08-011, at 31 ("'[T]he basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[.]"').

3646 Ex. SCG-225/SDG&E-229 (Robinson) at 9.

022 for SCE acknowledges that incentive compensation could be discontinued and offset with higher base salaries:

> We also note that it would be within SCE's managerial discretion to offer all cash compensation to employees in the form of base pay instead of a mix of base pay and incentive pay. In the event SCE were to do so, we would not take issue with ratepayer funding of the resulting total compensation as long as total compensation is reasonable.[3647]

Such an approach would not be beneficial to ratepayers, as these incentive programs encourage employees to continue to find opportunities to improve performance and operate efficiently. The ICP focuses employees on safety, reliability and customer service goals and provides accountability for results. It can also be a useful tool for management in building and maintaining a strong safety culture, as the Commission stated in D.16-06-054:

> One of the leading indicators of a safety culture is whether the governance of a company utilizes any compensation, benefits or incentive to promote safety and hold employees accountable for the company's safety record.[3648]

In contrast, base salary is fixed and does not provide the same level of focus on key goals.[3649] Therefore, a regulatory path that encourages movement toward replacing incentive compensation with base pay is misguided.

Ratepayers benefit from incentive compensation programs because they are an integral part of a competitive total compensation package.

Ratepayers benefit from incentive compensation programs because they are critical to SoCalGas's and SDG&E's ability to attract, retain, and motivate a highly-skilled, experienced workforce. In PG&E's TY 2014 GRC decision, the Commission stated:

> We conclude that offering employee compensation in the form of incentive payments is useful for recruiting and retaining skilled professionals and improving work performance. Conditioning a portion of management employees' compensation on achievement of specific company goals is a generally accepted compensation practice.[3650]

3647 D.04-07-022 at 217.

3648 D.16-06-054 at 153.

3649 Ex. SCG-225/SDG&E-229 (Robinson) at 10.

3650 D.14-08-032 at 520.

Along these lines, the Commission has recognized that "short term incentive compensation is a valuable tool for attracting and retaining skilled professionals to run and manage the companies, and to carry out and meet safety, diversity, and customer service goals."[3651]

In addition, as discussed below, the performance measures in SoCalGas's and SDG&E's incentive compensation programs, including financial measures, benefit ratepayers.

ICP Performance Goals Benefit Customers and the Community

The SoCalGas and SDG&E Non-Executive ICP plans include a company performance component, which trains employee focus on the achievement of company goals related to safety, reliability, customer satisfaction and financial health.[3652] In addition, the plans include an individual performance component, which is based on the employee's contributions toward these company goals and their achievement of their individual performance objectives. The company performance component and individual performance component each are weighted at 50% of employees' target ICP award. SoCalGas's and SDG&E's Executive ICP plans also include company performance goals related to safety, reliability, customers and stakeholders, and financial health. The executive plans do not include an individual performance measure, although the SoCalGas and SDG&E boards of directors may adjust individual executive ICP awards in consideration of individual performance.[3653]

The 2022 ICP goals for SoCalGas and SDG&E are shown in Ms. Robinson's rebuttal testimony.[3654]

Safety and Customer and Stakeholder Performance Measures

Cal Advocates does not dispute that ICP measures related to safety and safety management systems and customers and stakeholders benefit ratepayers.[3655] They contend, however, that strong performance for these measures also benefits shareholders and, therefore, shareholders should fund a portion of ICP. Cal Advocates recommends that ratepayers and shareholders each fund 50% of the portion of ICP related to these goals. TURN recommends that ratepayer fund 50% of certain safety and customer and stakeholder goals with no funding for certain goals.[3656]

[3651] D.13-05-010 at 882.

[3652] Ex. SCG-225/SDG&E-229 (Robinson) at 10.

[3653] Ex. SCG-225/SDG&E-229 (Robinson) at 10-11.

[3654] Ex. SCG-225/SDG&E-229 (Robinson) at 11-12, Tables DSR-5 and DSR-6.

[3655] Ex. SCG-225/SDG&E-229 (Robinson) at 12.

[3656] Ex. SCG-225/SDG&E-229 (Robinson) at 12-13.

The recommendations of Cal Advocates, TURN and UCAN are inconsistent with the Commission's decision in SoCalGas and SDG&E's TY 2019 GRC, in which the Commission found that metrics focused on safety, operational efficiency, reduced costs and improved service provide a tangible benefit to ratepayers:

> We reviewed various performance metrics for the ICP and find that most of the performance metrics provide tangible benefits to ratepayers in that they encourage and promote either safety, operational efficiency, reduced costs, improved service or a policy that the Commission. While some metrics also align with shareholder goals, we find that these are not necessarily inconsistent with ratepayer benefits.[3657]

The Commission did not apply any reductions or cost sharing to any non-executive ICP metrics other than financial metrics,[3658] finding that "10 percent of the ICP, or the amount representing the financial metrics, should be disallowed."[3659]

The differences between the Cal Advocates, TURN and UCAN's recommendations, as well as differences in their recommendations from one GRC to the next, demonstrate that attempting to allocate incentive compensation funding based on the perceived benefits to ratepayers and shareholders is unreasonable and subjective.[3660] Because ICP is part of a competitive and reasonable total compensation package, it is a reasonable cost of service and should be fully recoverable. The fact the interests of ratepayers and shareholders are aligned should not trigger a reduction in ratepayer funding.

In addition, conditioning the funding for incentive programs on the Cal Advocates' and intervenors' retroactive and subjective assessment of the merits of each individual ICP performance measure constitutes micromanagement of the incentive plan design. The Commission has declined to micromanage the performance goals in incentive plans. In SoCalGas's and SDG&E's 2012 GRC decision, the Commission concluded:

> With respect to the argument of TURN and UCAN that the metrics for the ICPs of SDG&E and SoCalGas should be revised, we do not adopt that suggestion. SDG&E and SoCalGas are in the best position to decide what metrics to use to measure the performance of its employees, and to revise the metrics as UCAN has

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[3657] D.19-09-051 at 542.

[3658] *Id.* at 543-544. The Commission disallowed the 10% of non-executive ICP tied to financial measures and reduced the SDG&E non-executive ICP forecast by $2.2 million to adjust the methodology used to forecast ICP for SDG&E union employees on temporary ICP-eligible assignments.

[3659] *Id.* at 771, Conclusion of Law 83.

[3660] Ex. SCG-225/SDG&E-229 (Robinson) at 13.

suggested would result in the Commission's micromanaging of the Applicant's variable compensation.[3661]

TURN and UCAN singled out specific ICP measures for criticism. SoCalGas and SDG&E provide additional information related to these measures below:[3662]

- Wildfire and PSPS System Hardening (SDG&E only): The goal of this program is to mitigate the risk of wildfire and minimize the impact of PSPS. TURN incorrectly contends that the program 'explicitly rewards capital investment to the exclusion of a cost-effective, wholistically developed program that includes operations and maintenance (O&M) (such as vegetation management, maintenance and replacement programs, etc.) as a reasonable and equal-footed program.'[3663] To the contrary, the record shows that SDG&E has a holistically-developed program of wildfire and PSPS risk reduction that includes O&M programs such as vegetation management and replacement programs as discussed in the testimony of Jonathan Woldemariam (Ex. SDG&E-13-2R). It is still reasonable that this metric be chosen as an ICP goal, because SDG&E's programs that reduce the greatest amount of wildfire and PSPS risk are its system hardening programs, specifically the installation of covered conductor and the undergrounding of its distribution circuits.[3664]

- Execute Clean Energy Transition Plan (SoCalGas): This goal focuses on the advancement of hydrogen projects such as clean fuels infrastructure projects and hydrogen blending. The projects included under the Clean Energy Transition category are projects that align with SoCalGas's ASPIRE 2045 sustainability strategy as well as California's climate policy goals as clearly stated in the direct testimonies for Climate Policy and Sustainability Policy (Ex. SCG-02-R) of Johnathan Peress and Michelle Sim (adopted by Shirley Arazi and Despina Niehaus), Clean Energy Innovations (Ex. SCG-12-R) of Armando Infanzon, and Gas Engineering (Ex. SCG-07-R) of Maria Martinez. The items listed under the Clean Energy Transition would have direct benefits to ratepayers, as these activities and projects will support combating climate change in California, improve air quality in the communities of ratepayers and improve energy resiliency, all of which are directly and measurable relevant to SoCalGas's ratepayers.[3665]

- Progress Toward 2022 Renewable Natural Gas Goal of 5% (SoCalGas): This goal focuses on replacing 20% of the traditional natural gas delivered to SoCalGas core customers with renewable natural gas by 2030.[3666] TURN opposes this performance measure on the mistaken assumption that it is not based on sound

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3661 D.13-05-010 at 882.

3662 Ex. SCG-225/SDG&E-229 (Robinson) at 14.

3663 Ex. TURN-10 (Jones) at 24.

3664 Ex. SCG-225/SDG&E-229 (Robinson) at 14-15.

3665 Ex. SCG-225/SDG&E-229 (Robinson) at 14-15.

3666 Ex. SCG-225/SDG&E-229 (Robinson) at 15.

policy principles and is being used to improve SoCalGas's image.[3667] The direct testimonies for Climate Policy and Sustainability Policy (Ex. SCG-02-R) of Johnathan Peress and Michelle Sim (adopted by Shirley Arazi and Despina Niehaus) discusses the various decarbonization goals California has in place, such as Assembly Bill 32, Senate Bill 32, Executive Order B-55-18, Senate Bill 1440, and Renewable Natural Gas (RNG) is one of many initiatives that will play a critical role in enabling the state to reach net-zero GHG emissions by 2045.[3668]

- New Business Customer Experience (SoCalGas only): This goal focuses on Gas Distribution on-time performance and Customer Contact Center level of service for new business customers.[3669] TURN incorrectly suggests 50% funding of this measure, contending that there is an 'obvious-image crafting aspect' and an 'ancillary cost-saving aspect,' and that this is not a benefit to ratepayers since it is not related to safety and reliability.[3670] SoCalGas clarifies that this goal is related to providing reliable service to its customers and ratepayers as a part of its obligation to serve as a utility, as well as minimizing any lost labor time. Customers expect to have access to energy in a timely manner as a part of their basic standard of living. This is especially true in new construction, as customers wait for their new homes or businesses to be fully ready.[3671] Through this ICP goal, SoCalGas quantifies and measures its comment to deliver its construction services to its customers to meet their expectations.

- SDG&E Listens Survey (SDG&E): This goal focuses on customers' perceptions of their interactions with SDG&E.[3672] Customers are asked to rate whether SDG&E made the interaction easy for the customer, providing SDG&E with valuable input.

- SoCalGas Customer Insight Study (CIS) (SoCalGas): This goal measures the CIS Residential overall favorability score, which is based on a survey of residential customers.[3673] This feedback allows SoCalGas to identify improvement opportunities with its communications and assess any gaps between customer needs and preferences and the customer experience, products and services that SoCalGas offers.

- Community Relations (SDG&E): This goal focuses on SDG&E's charitable giving to diverse and underserved communities, and it aligned with SDG&E's aim to help support communities it serves.

- Execute 2022 DE&I Priorities (SoCalGas): This goal focuses on initiatives in SoCalGas's Equity Action Plan, including items tied to purchasing diversity,

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3667 UCAN criticizes SDG&E's renewable natural gas goal (Ex. UCAN (Zeller) at 21); however, SDG&E's ICP does not include a renewable natural gas goal.

3668 Ex. SCG-02-R (Peress and Sim) at 3–-4. *Also see* Ex. SCG-202 (Niehaus and Arazi) at 16.

3669 Ex. SCG-225/SDG&E-229 (Robinson) at 15.

3670 Ex. TURN-10-R (Jones) at 29.

3671 Ex. SCG-225/SDG&E-229 (Robinson) at 15-16.

3672 Ex. SCG-225/SDG&E-229 (Robinson) at 16.

3673 Ex. SCG-225/SDG&E-229 (Robinson) at 16.

philanthropy and people. TURN supports the items related to the People category, expresses concerns with aspects of the Diverse Purchasing category, resulting in an overall recommendation of 50% funding for this goal. SoCalGas disagrees with TURN.[3674] SoCalGas' DE&I goals support SoCalGas' efforts to attract and retain the best employees. SoCalGas' customers benefit when SoCalGas is able to attract and retain high-caliber employees, particularly employees who are committed to diversity, equity and inclusion and community service. Additional information on SoCalGas DE&I Priorities can be found in direct testimony of People and Culture (Ex. SCG-28-R-E) of Abigail Nishimoto.

- Supplier Diversity (SDG&E and SoCalGas): These goals are focused on Diverse Business Enterprise spend as a percentage of overall spend. SoCalGas and SDG&E remain committed to supporting its supplier diversity program so they may continue creating contracting and sourcing opportunities for diverse businesses.[3675] SoCalGas and SDG&E are proud of their supplier diversity programs, results, and the positive impact they have had with diverse businesses and with the communities served by SoCalGas and SDG&E.[3676] Additional information on supplier diversity programs can be found in the direct testimony of Supply Management Logistics and Supplier Diversity (Ex. SCG-17-E) of Joseph Chow, and Daniel Castillo (Ex. SDG&E-20).

Financial performance measures

The inclusion of financial performance measures in the ICP is aligned with the interests of ratepayers. The weighting of financial performance measures in the 2022 ICP for SoCalGas and SDG&E is shown below in Table 32.5.[3677]

Table 32.5

Financial Health Performance Measures	2022 ICP Weighting
SoCalGas Non-Executive Plan	4%
SoCalGas Executive Plan	27%
SDG&E Non-Executive Plan	10%
SDG&E Executive Plan	28%

In the TY 2019 Decision, D.19-09-051, the Commission did not allow funding for the portion of SoCalGas's and SDG&E's ICP tied to financial performance. SoCalGas and SDG&E do not agree with this approach. A financially sound utility benefits ratepayers. A financially strong utility will have the ability to attract more external funding, if needed, at lower rates and

3674 Ex. SCG-225/SDG&E-229 (Robinson) at 16, *citing* Ex. TURN-10 (Jones) at 32.

3675 Ex. SCG-225/SDG&E-229 (Robinson) at 16-17.

3676 Ex. SCG-225/SDG&E-229 (Robinson) at 17.

3677 Ex. SCG-225/SDG&E-229 (Robinson) at 17, Table DSR-7.

allows the utility to be more flexible with its financing. The achievement of sustainable efficiencies is reflected in future GRCs, which also benefits ratepayers.

Cal Advocates and TURN are incorrect to assume that strong utility financial performance does not benefit ratepayers.[3678] The linkage between utility financing costs and benefits to ratepayers was discussed by Commissioner Ferron in his comments at an October 3, 2013 investor meeting:

> This reduction in risk has led to a direct reduction in the cost of financing capital for the utility sector in California. If you do the math, the reduction in the risk premium – the reduction in the incremental cost of capital to our utilities – when applied to the balance sheet of our utilities, is equal to several hundred million dollars every year in direct savings to rate-paying customers. In short, the ratepayer is ultimately the direct benefactor of this Commission making decisions that improve the investment climate in California.[3679]

Consistent with these points, it is reasonable to recognize the sound policy and ratepayer benefits of providing employees with an incentive to run the company efficiently while still focusing on safety, customers, and stakeholders.[3680] As the Commission has recognized:

> The financial metric may benefit ratepayers as a result of the companies' lower borrowing costs.[3681] …[A] financially strong company usually has lower borrowing costs, which benefits ratepayers by lowering costs.[3682]

Moreover, the Companies' Total Compensation Study (TCS) found that SoCalGas's and SDG&E's total compensation – which includes all incentive compensation – falls within both the industry and the Commission's definitions of "market" compensation.[3683] SoCalGas' actual total compensation is within 1.9% of market and target total compensation is within 0.7% of market. SDG&E's total compensation is within 3.4% of market based on actual total compensation, and target total compensation is within 1.9% of market. As Ms. Robinson explained in direct testimony,[3684] these results demonstrate the reasonableness of SoCalGas's and SDG&E's compensation forecasts, including all ICP metrics.

3678 Ex. SCG-225/SDG&E-229 (Robinson) at 17.

3679 A.17-10-007/008 (cons.), Ex. SCG-230/SDG&E-228 (Robinson) at 24.

3680 Ex. SCG-225/SDG&E-229 (Robinson) at 18.

3681 D.13-05-010 at 882.

3682 *Id*. at 883.

3683 Ex. SCG-25-R/SDG&E-29-R (Robinson) at 5-8 and Appendices B and C.

3684 *Id.* at 17-19.

Corporate Center allocations should be evaluated based on whether the amount allocated to the utilities is reasonable.

TURN takes issue with the design of the Corporate Center ICP and recommends no funding for performance measures related to Sempra's financial performance.[3685] A portion of Corporate Center compensation and benefits costs, including Corporate Center ICP costs, is allocated to SoCalGas and SDG&E to cover the costs of the services provided to the utilities by Corporate Center. Corporate Center allocations are included in the direct testimony of Derick Cooper.[3686] SoCalGas and SDG&E strongly disagree with TURN's approach. Corporate Center employees are not employees of SoCalGas and SDG&E, and their ICP costs should not be treated as such. Rather, Corporate Center employees provide services to all Sempra business units and their ICP is designed to be broad enough to capture performance across all businesses.[3687]

Corporate Center jobs were included in the SoCalGas and SDG&E Total Compensation Study. The Total Compensation Study determined that total compensation, including an allocation of costs for Corporate Center jobs, was in line with the market.

Recovery of Corporate Center allocations, including allocations for Corporate Center ICP, should be based only on whether the allocation methodology and allocation amounts are reasonable.[3688] The performance measures of the Corporate Center ICP are not relevant. Allocation methodologies and percentages (percent of a given cost allocated to each utility) are covered in Mr. Cooper's testimony. The remaining variable impacting the allocation amount is the compensation level for Corporate Center employees.[3689]

31.3 Benefits

Benefit programs are a critical component of a competitive total rewards program. SoCalGas and SDG&E offer a comprehensive and balanced employee benefits program that includes:

- Health benefits: medical, dental, vision, wellness, employee assistance program (EAP), and mental health and substance abuse benefits;

[3685] Ex. SCG-225/SDG&E-229 (Robinson) at 18.

[3686] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper).

[3687] Ex. SCG-225/SDG&E-229 (Robinson) at 18-19.

[3688] Ex. SCG-225/SDG&E-229 (Robinson) at 19.

[3689] Ex. SCG-225/SDG&E-229 (Robinson) at 19.

- Welfare benefits: long-term disability, workers compensation, life insurance, accidental death and dismemberment (AD&D) insurance, and business travel accident insurance;
- Retirement benefits: pension and retirement savings plans; and
- Other benefit programs.[3690]

Cal Advocates recommended adjustments to the forecasts for Health Benefits (medical, dental and vision), nonqualified retirement savings plan and supplemental pension. They did not take issue with SoCalGas's and SDG&E's other benefit programs. TURN and UCAN did not propose any changes to benefit program cost forecasts.

Cal Advocates Position on Health Benefits

Cal Advocates recommended reductions to SoCalGas's and SDG&E's medical, dental and vision forecasts shown in Ex. SCG-225-E/SDG&E-229, Tables DSR-7 and DSR-8, are based on a lower TY 2024 headcount forecast and the application of a reduction related to employees who waive or are otherwise not covered by benefits.[3691] Cal Advocates applies a reduction related to their lower headcount forecast of approximately 15% for SoCalGas and approximately 9% for SDG&E. They incorrectly apply a further reduction of approximately 8% for SoCalGas and approximately 13% for SDG&E based on their understanding that '"Sempra's … cost projections assume 100% enrollment.'"[3692]

SoCalGas and SDG&E take issue with Cal Advocates' forecast. The evidence shows that SoCalGas's and SDG&E's headcount forecast is reasonable and should not be adjusted, other than the error correction the Companies made in the rebuttal and update phases of this proceeding,[3693] and that SDG&E's Health Benefits forecast do not assume 100% enrollment. Rather, the assumption is based on actual 2021 open enrollment data for 2022 benefits. SoCalGas's and SDG&E's medical, dental and vision cost forecasts include only the cost of a modest "waive credit" provided to employees who waive benefits. At SoCalGas the enrollment percentages for TY 2024 are Medical 88%, Dental 92% and Vision 91%. At SDG&E, the enrollment percentages

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[3690] Certain benefits are covered in other testimony volumes. Peter Andersen covers broad-based pension benefits and postretirement benefits in Ex. SCG-26/SDG&E-30, and Abigail Nishimoto and Alexandra Taylor cover long-term disability and workers compensation in Ex. SCG-28-R-E and Ex. SDG&E-32-2E, respectively.

[3691] Ex. SCG-225/SDG&E-229 (Robinson) at 21, *rebutting* Ex. CA-13-E (Emerson).

[3692] Ex. SCG-225/SDG&E-229 (Robinson) at 21, *quoting* Ex. CA-13-E (Emerson) at 12.

[3693] *See infra* Section 31.3 ("Correction of Forecasting Error"), Tables 31.6 and 31.7.

for TY 2024 are Medical 89%, Dental 93% and Vision 90%. SoCalGas' "Revised Workpapers to Prepared Direct Testimony" for Medical, Dental, and Vision have specific line items for Waives and Employees or Leaves Not Covered under the respective benefit.[3694] SDG&E's "Revised Workpapers to Prepared Direct Testimony" for Medical, Dental, and Vision have specific line items for Waives and Employees or Leaves Not Covered under the respective benefit.[3695]

Cal Advocates' Position on Retirement Benefits

Cal Advocates proposes a reduction to the nonqualified retirement savings plan cost forecast by 15% for SoCalGas and 9% for SDG&E in consideration of their lower TY 2024 forecast. Cal Advocates proposes 50% funding for the nonqualified retirement savings plan (net of their headcount adjustment) and supplemental pension. Cal Advocates' proposed reductions are shown in Tables DSR-9 and DSR-10 in Ms. Robinson's rebuttal testimony.[3696]

SoCalGas and SDG&E take issue with Cal Advocates' forecast. SoCalGas's and SDG&E's headcount forecast is reasonable and should not be adjusted, other than the error correction discussed in Ex. SCG-225-E/SDG&E-229 (Robinson), Section 5.[3697] Attracting and maintaining talented employees at all levels provides value to ratepayers. SDG&E and SoCalGas request that the Commission approve the Nonqualified Retirement Savings Plan and Supplemental Pension requests as submitted; or, at a minimum, continue the Commission's current practice of 50 percent ratepayer funding of these costs.[3698]

Headcount Forecast

SoCalGas's and SDG&E's TY 2024 compensation and benefits costs are based on a headcount forecast. Headcount differs from the full-time equivalent, or "FTE," forecasts used in other witness areas. FTEs may include contractors, overtime, etc., while compensation and benefits costs are driven by the number of employees.

3694 Ex. SCG-25-WP-E (Robinson) Workpapers at 21-24 (Medical), at 31 (Dental), and at 46-47 (Vision).

3695 Ex. SDG&E-29-WP-R-E (Robinson) Workpapers at 35-38 (Medical), at 45 (Dental), and at 52 (Vision).

3696 Ex. SCG-225/SDG&E-229 (Robinson) at 21, Tables DSR-9 and DSR-10.

3697 *See infra* Section 31.3 ("Correction of Forecasting Error"), Tables 31.6 and 31.7.

3698 D.13-05-010 (SDG&E and SoCalGas TY2012 GRC), D.15-11-021 (SCE TY2015 GRC), D.14-08-032 (PG&E TY2014 GRC), and D.19-09-051 (SDG&E and SoCalGas TY2019 GRC).

Correction of Forecasting Error

SoCalGas and SDG&E identified an error in the headcount forecast used in direct testimony and workpapers, which were corrected in rebuttal testimony.[3699] The headcount forecast was overstated due to the double counting of certain employees on leave. The tables below summarize the impact of the correction:

Table 31.6

	2022 Original	2023 Original	2024 Original	2022 Revised	2023 Revised	2024 Revised	2022 Variance	2023 Variance	2024 Variance
Headcount									
SDG&E									
Actives	4,934	5,131	5,388	4,813	5,010	5,267	(121)	(121)	(121)
Leaves	104	104	104	121	121	121	17	17	17
SCG									
Actives	9,092	9,741	10,080	8,725	9,374	9,713	(367)	(367)	(367)
Leaves	360	360	360	367	367	367	7	7	7

Table 31.7

$000s	2022 Original	2023 Original	2024 Original	2022 Revised	2023 Revised	2024 Revised	2022 Variance	2023 Variance	2024 Variance
Compensation and Benefits Overall Variance									
SDG&E	168,114	180,014	194,285	164,761	176,533	190,667	(3,353)	(3,481)	(3,618)
SCG	260,259	286,442	304,412	252,695	278,490	296,200	(7,564)	(7,951)	(8,212)

SoCalGas and SDG&E reflected their revised headcounts in the Debbie Robinson's Update Testimony.[3700]

Cal Advocates Headcount Forecast

Cal Advocates takes issue with SoCalGas's and SDG&E's forecast based on its claims that the projected headcount forecast for TY2024 assumes a higher growth rate than the 2017-2021 average growth rate. UCAN takes issue with SDG&E's headcount forecast and recommends that the Commission deny SDG&E's request for additional staff and reduce overall compensation and benefit costs by $25 million.

[3699] Ex. SCG-225/SDG&E-229 (Robinson) at 23-24, Tables DSR-11 and DSR-12.

[3700] Ex. SCG-401/SDG&E-401 (Robinson) at Attachments F, I, and J.

Policy testimony rebutting Cal Advocates' arguments regarding SoCalGas's headcount is provided in the rebuttal testimony chapter of Policy Overview witness Maryam Brown (Exhibit SCG-201) and is addressed in Section 6 (SoCalGas Policy Overview), *supra*. Testimony supporting SoCalGas's headcount is also provided in the rebuttal testimony chapter of People and Culture witness Abigail M. Nishimoto (Exhibit SCG-228).

Policy support for the reasonableness of SDG&E's headcount forecast to rebut Cal Advocates' and UCAN's arguments is provided in the rebuttal testimony chapter of Policy Overview witness Bruce Folkmann (Exhibit SDG&E-201) and is addressed in Section 6 (SDG&E Policy Overview), *supra*. Testimony supporting SDG&E's headcount is also provided in the rebuttal testimony chapter of People and Culture witness Alexandra Taylor (Exhibit SDG&E-232).

UCAN's Proposal to Install Batteries in Rural Areas

UCAN suggests that SDG&E install batteries in rural areas to allow for continuity of service despite a high fire risk.[3701] UCAN does not link this proposal to any adjustment to SDG&E's compensation and benefit forecast and this proposal is outside of the scope of the Compensation and Benefits testimony. Testimony describing SDG&E's Resiliency Grant Programs, Standby Power Programs, and Resiliency Assistance Programs is provided in the Wildfire Mitigation and Vegetation Management direct testimony of Jonathan T. Woldemariam (Ex. SDG&E-13-2R-E)

31.4 Conclusion

Ms. Robinson's testimony presentation, including the Total Compensation Study performed by Willis Towers Watson, demonstrates that SoCalGas's and SDG&E's request for compensation and benefits cost recovery is reasonable, consistent with past CPUC decisions, will benefit customers, and should be approved. The compensation and benefits programs provided to SoCalGas and SDG&E employees, retirees and their dependents reflect the impacts of the marketplace, collective bargaining and government regulation. Compensation programs are designed to focus employees on the Companies' key priorities, the most important of which are safety and customer service. Benefits include health and welfare programs and retirement plans. SoCalGas' and SDG&E's compensation and benefits programs are critical to attracting, motivating and retaining a skilled, high-performing workforce. The Total Compensation Study found SoCalGas's and SDG&E's total compensation to be in line with the competitive market and

[3701] Ex. UCAN (Zeller) at 23.

consistent with Commission standards. Costs for SoCalGas's and SDG&E's compensation and benefits costs programs are well-supported, market-driven, reasonable and should be approved as submitted.

32. Pension and Post-Retirement Benefits Other Than Pensions

Pension and post-retirement benefits other than pensions (PBOP) are key components of a competitive total compensation program that enables the Companies to attract, motivate, and retain a high-performing workforce. The Commission has a longstanding practice of providing funding for pension and PBOP benefits that are offered as part of a reasonable total compensation program.[3702]

As set forth below and in the testimony of Peter H. Andersen,[3703] the Companies propose to continue the current funding policy that the Commission authorized in D.19-09-051, while shortening the amortization period of the PBO shortfall/surplus from fourteen years to seven years (as originally proposed by the Companies in the TY 2019 GRC proceeding),[3704] to further improve and maintain a strong funded position, minimize long-term costs due to the PBO shortfall, and advance intergenerational equity among ratepayers. Mr. Andersen's testimony shows that the currently approved methodology (adopted in the TY 2019 GRC Decision)[3705] successfully improved the intergenerational burden on ratepayers and contributed to significant improvements in the Pension Plans' funding levels[3706] by increasing contributions beyond the minimum ERISA-

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3702 As discussed *supra* in Section 31.1 and in SoCalGas and SDG&E witness Debbie Robinson's direct testimony for Compensation and Benefits, a comprehensive study of the Companies' compensation and benefit programs, the Willis Towers Watson Study (WTW Study), found the Companies' total compensation to be within the CPUC's and industry definitions of "at market." Ex. SCG-25-R-E/SDGE-29-R-E at 5-8 and Appendix B and C. For purposes of the WTW Study, "total compensation" consisted of the aggregate value of annualized base pay, incentive compensation (short-term and long-term) and benefits programs, including pension and PBOP benefits. *Id*.

3703 Exs. SCG-26/SDG&E-30 (Andersen) and SCG-26-WP (Andersen).

3704 *See* A.17-10-007/008 (cons), Application of SDG&E for Authority, Among Other Things, to Update its Electric and Gas Revenue Requirement and Base Rates Effective on January 1, 2019 (October 6, 2017).

3705 D.19-09-051 at 561-62.

3706 As determined pursuant to Subtopic 715 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 715), the authoritative source of Generally Accepted Accounting Principles (GAAP). *See, e.g.*, D.19-09-051 at 557-58.

required contribution and targeting full funding within fourteen years.[3707] The Companies' proposal is designed to build upon the improvements made.[3708]

The Companies' projected TY 2024 costs are based on:

- Pension: Continuing to recover pension costs based on the structure of the TY 2019 GRC Decision, with an adjustment to the PBO shortfall/surplus amortization period from fourteen to seven years.[3709]
- PBOP: Continuing to recover postretirement health and welfare benefits expense based on costs determined pursuant to Subtopic 715 in the FASB Accounting Standard Codification (ASC 715).
- Two-Way Balancing Accounts: Maintaining the long-standing use of the two-way balancing account mechanism for pension and postretirement benefits other than pension costs, since cost variability is generally due to external economic and regulatory variables, which are outside the control of the Companies.[3710],

As summarized in Table 32.1 below, projected TY 2024 for Pension and PBOP costs are $170.7 million for SoCalGas and $35.3 million for SDG&E.

Table 32.1 – Summary of 2019 vs. 2024 Pension Benefit and PBOP Cost[3711]

	Benefit Description	**2019 Actual $000s**	**2024 Projected $000s**	**2019-2024 Change $000s**
SoCalGas	Pension	150,465	170,718	20,253
	PBOP	0	0	0
SDG&E	Pension	50,668	34,928	(15,740)
	PBOP	0	347	347

3707 Ex. SCG-26/SDG&E-30 (Andersen) at 5-13.

3708 *Id.* at 13-25.

3709 The Companies have proposed a one-time transition to re-amortize the total PBO shortfall (or surplus), as explained in Ex. SCG-26/SDG&E-30 (Andersen) at 14.

3710 Exs. SCG-26/SDG&E-30 (Andersen) and SCG-26-WP (Andersen) at 2. As stated in Ex. SCG-26/SDG&E-30 (Andersen) at 5, any variance between authorized and actual contributions would be subject to the current two-way balancing account mechanism, as discussed in the Regulatory Accounts Direct Testimonies of Jason Kupfersmid (Ex. SDG&E-43-R-E) and of Rae Marie Yu (Ex. SCG-38-R-E).

3711 Ex. SCG-26/SDG&E-30 (Andersen) at 3; Ex. SCG-401/SDG&E-401 (Andersen) Update Testimony (July 2023), Attachment J at J-3.

Pension and PBOP Exhibits. SCG-26/SDG&E-30 and SCG-26-WP were served with SoCalGas's and SDG&E's respective applications in May 2023. Thereafter, parties submitted and received discovery responses on the Pension and PBOP Exhibits. Cal Advocates submitted direct testimony in April 2023 stating that it does not oppose the Companies' Pension and PBOP proposals set forth in Exhibit SCG-26/SDG&E-30,[3712] stating:

> Cal Advocates reviewed Sempra's testimony and workpapers, historical data, and actuarial reports, and does not oppose Sempra's request to continue the current funding structure. Cal Advocates also does not oppose changing to a seven-year amortization period. A shorter amortization period furthers intergenerational equity for customers by better aligning pension costs with the customers who benefited from the services. It also reduces long-term costs by decreasing interest on the PBO deficit versus a longer amortization period.[3713]

No other party submitted testimony regarding, and no party took issue with, the Companies' Pension and PBOP proposals set forth in Exhibits SCG-26/SDG&E-30 and SCG-26-WP. As shown in Section 31, SoCalGas' and SDG&E's total compensation programs are in line with the market and reasonable, and should be approved.

The Companies' proposals regarding Pension and PBOP are just and reasonable, as shown in direct testimony. No party has contested the Companies' requests set forth in Exhibits SCG-26/SDG&E-30 and SCG-26-WP. The Commission should approve SoCalGas's and SDG&E's Pension and PBOP requests as proposed.

32.1 Pensions

See Section 32, *supra*.

32.2 Post-Retirement Benefits Other than Pensions (PBOPs)

See Section 32, *supra*.

33. People and Culture Department

SoCalGas's and SDG&E's forecasted operations and maintenance (O&M) costs for the People and Culture Department are reasonably supported by the specific cost drivers and activities contained in their case-in-chief and will enable Applicants to attract and retain the most qualified, competent, and safe workforce on behalf of their customers. Furthermore, the test year forecasts for the Executive Offices function accurately reflects the positions and activities being recorded in those cost centers.

[3712] *See* Ex. CA-13-E (Emerson) at 21-24; Ex. CA-13-WP (Emerson).

[3713] *Id.* at 23.

Developing and maintaining a skilled, qualified, dedicated, and diverse workforce is critical to SoCalGas and SDG&E's ability to meet its goal of delivering safe and reliable gas and electric service to millions of customers. At both utilities, the People and Culture Department is responsible for three key areas of responsibility: (1) sourcing, hiring, developing, training and retaining employees, (2) establishing, implementing, and managing employee-related programs, policies, and guidelines to ensure compliance and alignment to best practices, and (3) administering and managing long-term disability programs, wellness programs, drug and alcohol testing/compliance program, leave of absence policies, and self-insured workers' compensation programs.[3714] At each utility, the Executive Offices provide executive leadership guidance and strategic direction for their mission, vision, and values.[3715]

33.1 Common Issues

33.1.1 Long-Term Disability (LTD)

LTD is an income replacement benefit that pays an employee a portion of their income if they are unable to work due to illness or injury for an extended period of time.[3716] Both SoCalGas and SDG&E forecasted LTD costs for the TY 2024 using the non-standard escalation, zero-based forecast methodology. This methodology takes 2021 recorded costs and escalates them for estimated changes in labor costs, medical premiums, and year-over-year percentage change in headcount.[3717] SoCalGas and SDG&E's methodology is the most appropriate forecast method because future LTD costs are most appropriately calculated using the most recent labor costs, the most recent medical premium costs, and the most recent headcount, and then escalated based on various factors.

Cal Advocates recommends that costs for SoCalGas's LTD Plan be forecasted using a three-year average forecast methodology and recommends that SDG&E's LTD costs be forecasted utilizing 2021 expenses, without any escalation.[3718] The utilities disagree with Cal Advocates' position as the forecast methodologies proposed do not correctly reflect future LTD costs. The escalation rates used by the utilities were prepared by Willis Towers Watson, SoCalGas and SDG&E's actuary and benefits broker, and consider demographic factors specific to each utility,

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3714 Ex. SCG-28-R-E (Nishimoto) at 1:17-25; Ex. SDG&E-32-2E (Taylor) at 1:15-22.

3715 *Id.* at 34:10-14; *Id.* at 32:2-3.

3716 *Id.* at 29:15-21; *Id.* at 14:6-10.

3717 *Id.* at 30:5-8; *Id.* at 14:25 –15:2.

3718 Ex. CA-14 (Amin) at 27-29.

including location, salary information, workforce demographics, medical design and change in headcount.[3719] Additionally, historical data shows that labor and medical costs rise each year. This is exemplified by the fact that 2022 actual expenses for LTD at both utilities have already exceeded Cal Advocates' recommendation for TY 2024.[3720]

The Commission has previously agreed that escalation rates prepared by Willis Towers Watson are the most reasonable method of forecasting future costs for Long-Term Disability, stating, "[W]e find that the medical trend forecast prepared by Willis Towers Watson is more reasonable to apply because the forecast was prepared specifically for SoCalGas taking into account workforce demographics, historical utilization data, and medical plan design and is more reflective of SoCalGas's medical premium costs."[3721]

The Commission should adopt SoCalGas's and SDG&E's forecasts for LTD as reasonable.

33.1.2 American Gas Association (AGA) Trade Association Dues

As part of SoCalGas's and SDG&E's request in the Executive Offices area, non-labor expenses associated with membership in the AGA are included in the TY 2024 forecast.[3722] SoCalGas and SDG&E are jointly billed for their membership in the AGA. In 2021, the total cost of AGA membership for both utilities was $1,090,876.[3723] Upon receiving the invoice, SoCalGas assigns a portion of the dues to SDG&E through an inter-company billing process based on total gas revenue. In 2021, after excluding amounts attributable to lobbying activities, SoCalGas allocated $926,581 of the dues payment to ratepayers and SDG&E allocated $122,841.[3724] These amounts formed the basis of each utility's forecast for AGA dues in TY 2024.

Up until this GRC, SoCalGas and SDG&E's recovery of the non-lobbying portion of AGA dues was not contested. Indeed, neither Cal Advocates nor TURN takes issue with the utilities' forecast for trade association dues related to the AGA. CEJA was the only party to object to SoCalGas's TY 2024 forecast of $926,581 and SDG&E's forecast of $122,841 for AGA dues, arguing that a funding level of $0 should be adopted by the Commission.[3725] CEJA states that

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[3719] Ex. SCG-228 (Nishimoto) at 12:5-13; Ex. SDG&E-232 (Taylor) at 9:7-10.

[3720] Ex. SCG-228 (Nishimoto) at 12; Ex. SDG&E-232 (Taylor) at 9; Ex. CA-14 (Amin) at 65:8-11.

[3721] D.19-09-051 at 574 (citation omitted) (Sept. 26, 2019).

[3722] Ex. SCG-28-R-E (Nishimoto) at 36:11-15; Ex. SDG&E-32-2E (Taylor) at 32:24-28.

[3723] Ex. CEJA-37 (Barker) at 1.

[3724] *Id*.

[3725] Ex. CEJA-01 (Barker) at 100-114.

neither utility provided any "substantive evidence that these costs are reasonable or necessary" and argued the full cost of the dues are more appropriately attributable to "lobbying activities" excluded from ratepayer recovery.[3726]

SoCalGas and SDG&E disagree with CEJA's proposed funding level of $0 for AGA dues. Both SoCalGas and SDG&E utilize their AGA membership across several divisions and rely heavily on AGA committees to provide benchmarking information and best practices.[3727] The AGA is an important RAMP mitigation as it brings employees together with peers and colleagues from other companies in the industry to perform collective activities not regularly performed by the individual companies on a full-time basis, such as benchmarking studies, industry surveys, and sharing of ideas.[3728] This collaborative approach reduces the need for expensive customized research and studies, independent engagement with consultants and experts, and allows for allows for broader database development and specialized training.[3729]

Both SoCalGas and SDG&E based their TY 2024 forecast for AGA dues on the amounts reflected on the 2021 AGA invoice, which was provided to CEJA in response to data request CEJA-SEU-008, Q.14.[3730] The 2021 AGA invoice identifies the portion of the membership fees that AGA attributes to "lobbying activities."[3731] These amounts were specifically excluded from SoCalGas's and SDG&E's TY 2024 forecast and neither utility is seeking funding in this GRC for any amounts attributable to AGA's "lobbying activities." In fact, neither utility disputes that the AGA engages in certain lobbying activities that should be excluded from their TY 2024 forecast. SoCalGas and SDG&E have accounted for this by excluding the percentage of dues the AGA lists on its annual invoice as attributable to excludable "lobbying activities" – in 2021, that amount was 3.8% of total dues.[3732]

CEJA argues that reliance on the invoice is misplaced as the invoice uses a definition of "lobbying" that "may be" narrower than what the Commission has defined as appropriate.[3733]

3726 *Id.* at 101:17-19; 104:6-9.

3727 Ex. SCG-228 (Nishimoto) at 13-15; Transcript (Tr.) Vol. 20:3508:11-20 (Nishimoto); Ex. SDG&E-232 (Taylor) at 25-27.

3728 Ex. SCG-228 (Nishimoto) at 13-15; Ex. SDG&E-232 (Taylor) at 25-27.

3729 *Id*.

3730 Ex. CEJA-37 (Barker).

3731 *Id*.

3732 Ex. CEJA-37 (Barker).

3733 Ex. CEJA-01 (Barker) at 108:6-11.

However, the best source of information currently available about the AGA's lobbying activities is its invoice. CEJA spends a considerable amount of time in its testimony and on cross-examination focusing on a few, isolated, regional activities engaged in by the AGA that they argue should be excluded from ratepayer recovery. CEJA fails to directly link the costs of those activities to the amounts excluded as "lobbying activities" on the 2021 invoice. In fact, the majority of the examples relied on by CEJA reflect activities by the AGA in 2022 and 2023.[3734] CEJA does not point to any specific activity that was inappropriately included as a lobbying activity on the 2021 AGA invoice. Additionally, the percentage the AGA allocates to "lobbying activities" may vary from year to and, despite an anticipated increase in the cost of AGA membership in TY 2024, neither SoCalGas nor SDG&E increased its forecast for AGA dues beyond what is reflected on the 2021 invoice as non-lobbying activities.

As stated by Abigail Nishimoto in cross-examination on this topic, "[the focus is on] ensuring [sic] that we're deriving ratepayer benefits from the many activities that we engage with with [sic] AGA."[3735] The examples presented by CEJA do not diminish the clear ratepayer benefits that SoCalGas and SDG&E glean from the non-lobbying activities of this trade association. Certainly, CEJA has not provided sufficient information to justify a funding level of $0. As such, the Commission should adopt SoCalGas's and SDG&E's forecast as reasonable.

33.2 SoCalGas Issues

SoCalGas seeks $48.923 million for O&M costs for both non-shared and shared services associated with the People and Culture Department and Executive Office areas.[3736] The Test Year 2024 request represents a $4.035 million increase over Base Year 2021 adjusted-recorded costs of $44.888 million.[3737]

SoCalGas People and Culture Department O&M Costs

	2021 Adjusted-Recorded (000s)	Estimated TY 2024 (000s)	Change (000s)
Total Non-Shared Services	44,564	48,599	4,035
Total Shared Services (Incurred)	324	324	0
Total O&M	**44,888**	**48,923**	**4,035**

3734 *Id.* at 100-114.

3735 Tr. V20:3505:16-18 (Nishimoto).

3736 Ex. SCG-401/SDG&E-401(Hom) at A-12; Ex. SCG-28-R-E (Nishimoto) at iv. Note that the Update Testimony reflects an updated total for non-shared services of $48.599 million, thereby reducing the total forecast for shared and non-shared services to $48.923 million.

3737 *Id.*

Summary of RAMP O&M Costs

RAMP ID	Description	BY 2021 Embedded Base Costs (000s)	TY 2024 Estimated Total (000s)	Change
SCG-Risk-5 - C09	Utilizing Industry Best Practices and Benchmarking	929	929	0
SCG-CFF-7 - 01	Workforce Planning	585	793	208
SCG-Risk-5 - C02	Drug and Alcohol Testing Programs	253	306	53
SCG-Risk-5 - C03	Employee Wellness Programs	672	672	0
SCG-CFF-7 - 02	Knowledge Transfer	35	190	155
SCG-CFF-7 - 03	Training	1,115	1,115	0
SCG-CFF-7 - 04	Training - Technical non-HR	295	295	0
	Total	**3,884**	**4,300**	**416**

Over half of those costs, or $23.475 million, reflect costs associated with Workers' Compensation and Long-Term Disability.[3738] SoCalGas's TY 2024 request for these two areas represent a $1.628 million increase from Base Year 2021 adjusted-recorded costs. Additional increases include a RAMP-related request for workforce planning in the Performance Management and Organizational Strategy (PMOS) Department and an increase in funding for the Diversity, Equity, and Inclusion Department to support new programs and initiatives as part of SoCalGas's sustainability strategy.[3739]

No objections were raised by any party related to SoCalGas's forecasts and allocation of non-shared service expenses for the areas of: (1) Labor Relations and Wellness, (2) Organizational Effectiveness, (3) Diversity, Equity, and Inclusion, (4) Performance Management, (5) Workers' Compensation, or (6) Executive Offices. Similarly, no objections were raised to SoCalGas's business justification for IT capital projects and Cal Advocates recommended the capital expenses be funded at the proposed amounts of $6.705 million in 2022, $7.503 million in 2023, and $7.582 million in 2024.[3740] No opposition to SoCalGas's forecasts and allocation for shared services expenses was raised.[3741]

[3738] *Id.* at 29.

[3739] *Id.* at 26-28; 30-33.

[3740] *See* Ex. CA-11 (Waterworth) at 61, Table 11-29.

[3741] Ex. CA-14 (Amin) at 10.

Response to Other Party Recommendations
Total O&M

	Base Year 2021 ($000)	Test Year 2024 ($000)	Change
SOCALGAS	44,888	48,923	4,035
CAL ADVOCATES	44,849	46,959	2,332
CEJA	43,923	48,370	927

The only parties to rebut SoCalGas's revenue request were Cal Advocates and CEJA, who recommended adjustments to SoCalGas's forecast for TY 2024 in the following areas:

33.2.1 Human Resources and Employee Services (HR&ES)

The HR&ES department supports the entire SoCalGas organization and is comprised of multiple teams: Compensation, Employee Care Services, Ethics & Workplace Investigations, HR Business Partner, HR Research & Analysis, HR Services Operations, HRIS & ECS Systems, and Staffing.[3742] SoCalGas requests $12.172 million in TY 2024 for O&M costs associated with the HR&ES department, reflecting a $1.339 million increase over 2021 adjusted recorded costs of $10.833 million.[3743] Rather than adopt SoCalGas's forecast methodology of base year recorded, Cal Advocates recommends freezing SoCalGas's HR&ES funding at 2021 recorded adjusted expenses, suggesting that 2021 recorded adjusted expenses are a reasonable level for TY 2024 activities.[3744]

SoCalGas disagrees with Cal Advocates' position as it ignores natural escalations in labor costs and funding for new programs and activities. HR&ES' past and future labor growth is primarily attributable to increases in statutory and regulatory requirements, additional support for the Staffing department due to an increase in hiring and backfilling for vacant positions, an increase in the number of employee transactions and requests for employee data, and the expansion of the Ethics & Investigations Team.[3745]

SoCalGas provided explanations and rationale for the incremental increases in its original testimony, workpapers, rebuttal testimony and in numerous responses to data requests from multiple parties. For example, HR Services Operations is undergoing an effort to scan all

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3742 Ex. SCG-28-R-E (Nishimoto) at 9.

3743 *Id*.

3744 Ex. CA-14 (Amin) at 29:18-20.

3745 Ex. SCG-228 (Nishimoto) at 8-11.

employee personnel files and related documents to a digital media format to support a digital file room.[3746] File digitization will improve data efficiency and aligns with SoCalGas sustainability strategy. In support of this effort, SoCalGas is seeking $150,000 in TY2024.[3747]

The Commission should adopt SDG&E's forecast as reasonable.

33.2.2 Conclusion for SoCalGas

For the reasons above, the Commission should adopt SoCalGas's TY 2024 forecast of $48.923 for O&M shared and non-shared expenses for HR&ES, Workers' Compensation, Long-Term Disability, Labor Relations and Wellness, Diversity, Equity and Inclusion, Organizational Effectiveness, Performance Management and Organizational Strategy, and Executive Offices and the shared expense for ECS System Reporting. These expenses support the sustainability strategy outlined by the Company, represent a strong and highly productive People and Culture organization, and are just and reasonable.

The Commission should also adopt as reasonable the business rationale for the IT Capital Projects that support People and Culture.

33.3 SDG&E Issues

SDG&E seeks $21.574 million for O&M costs for both non-shared and shared services associated with the People and Culture Department and Executive Office areas.[3748] The Test Year 2024 request represents a $4.356 million increase over Base Year 2021 adjusted-recorded costs of $17.218 million.[3749] The testimony and workpapers of Alexandra G. Taylor support incremental increases that ensure the safe and reliable delivery of electric and gas service to SDG&E's 3.6 million customers.

SDG&E People and Culture Department O&M Costs

	2021 Adjusted-Recorded (000s)	Estimated TY 2024 (000s)	Change (000s)
Total Non-Shared Services	15,390	19,605	4,215
Total Shared Services (Incurred)	1,828	1,969	141
Total O&M	**17,218**	**21,574**	**4,356**

3746 Ex. SCG-28-R-E (Nishimoto) at 15:23-29.

3747 *Id*.

3748 Ex. SDG&E-32-2E (Taylor) at iv.

3749 *Id*.

Summary of RAMP O&M Costs

RAMP ID	Description	BY 2021 Embedded Base Costs (000s)	TY 2024 Estimated Total (000s)	Change
SDG&E-CFF-8-New	Workforce Planning	0	466	466
SDG&E-Risk-8-C12	Utilizing OSHA and Industry Best Practices and Industry Benchmarking	915	915	0
SDG&E-Risk-8-C02	Drug and Alcohol Testing Program	81	125	44
SDG&E-Risk-8-C07	Employee Wellness Programs	105	176	71
	Total	**1,101**	**1,682**	**581**

No objections were raised to the shared services expenses or non-shared O&M expenses for Total Disability, Workers' Compensation, Business Optimization, and Executive Offices.[3750] The only parties to rebut SDG&E's revenue request were Cal Advocates, TURN and CEJA. In total, Cal Advocates recommends a $3.067 million reduction in labor and non-labor costs for various departments within People and Culture.[3751] The primary argument put forth by Cal Advocates is that SDG&E failed to meet its burden in several areas and, as such, 2021 recorded adjusted expenses more accurately reflect TY 2024 expenses than SDG&E's use of the base year recorded methodology.[3752] Both TURN and CEJA recommended that SDG&E's request for the non-lobbying portion of membership dues in the amount of $792,294 for the Edison Electric Institute (EEI) be approved at no more than 50%, or, in the case of CEJA, at 0%.[3753]

Response to Other Party Recommendations
Total O&M

	Base Year 2021 ($000)	Test Year 2024 ($000)	Change
SDG&E	17,218	21,574	4,356
CAL ADVOCATES	17,218	18,576	1,358
TURN	17,218	20,782	3,564
CEJA	17,218	20,659	3,441

3750 Ex. CA-11 (Waterworth) at 59; Ex. CA-14 (Amin) at 10.

3751 Ex. CA-14 (Amin) at 58.

3752 *Id.* at 57-70.

3753 Ex. CEJA-01 (Barker) at 115:4-14; Ex. TURN-15 (Finkelstein) at 4-6.

SDG&E disagrees with the recommended adjustments to its forecast for TY2024 in the following areas:

33.3.1 Human Resources (HR)

For TY 2024, SDG&E seeks $2.9 million for O&M costs for non-shared services associated with the Human Resources Department.[3754] The Test Year 2024 request represents a $650,000 increase over Base Year 2021 adjusted-recorded costs of $2.250 million.[3755]

Cal Advocates' sole argument in contesting SDG&E's TY 2024 forecast for HR is that it does not believe SDG&E provided sufficient documentation to justify the incremental increases requested.[3756] However, the direct testimony, workpapers, rebuttal testimony, and responses to data requests specific to HR demonstrate that the increases requested are just and reasonable. For example, despite the 10% growth in SDG&E's non-represented headcount from year-end 2019 to year-end 2022, HR has maintained the same number of personnel since 2019.[3757] Human Resources Business Partners (HRBPs, previously called HR Advisors (HRAs), are the primary point of contact on human resources issues for SDG&E leadership and employees.[3758] In 2021, HRBPs had an average client load of 671 non-represented employees.[3759] Part of the requested incremental increase allows for an additional HRBP to be hired, thereby reducing the overall ratio of HRBPs to client groups and allowing all HRBPs to be more proactive with their clients to help ensure the successful implementation of strategic human resources plans in support of short and long-term business goals.[3760]

The Commission should adopt SDG&E's forecast as reasonable.

3754 Ex. SDG&E-32-2E (Taylor) at 10.

3755 *Id.* at 10.

3756 Ex. CA-14 (Amin) at 62.

3757 Ex. SDG&E-232 (Taylor) at 11:3-10.

3758 Ex. SDG&E-32-2E (Taylor) at 15:17-26.

3759 Ex. SDG&E-232 (Taylor) at 11:3-10.

3760 *Id*.

33.3.2 Diversity and Inclusion (D&I)

SDG&E is seeking $945,000 for O&M costs associated with the Diversity and Inclusion Department.[3761] The Test Year 2024 request represents a $460,000 increase over Base Year 2021 adjusted-recorded costs of $485,000.[3762]

Cal Advocates recommends that funding for D&I remain at 2021 levels, or at $485,000, without any consideration of the various D&I programs and initiatives SDG&E has committed to as part of its Sustainability Strategy and effort to maintain a diverse and inclusive workplace.[3763] Cal Advocates' recommendation that the Commission only authorize 2021 adjusted-recorded expenses does not accurately reflect SDG&E's enhanced focus and commitment to diversity and inclusion over the past few years. The forecast for TY 2024 includes several new programs and initiatives planned for implementation that will be managed by the D&I department. D&I's current staffing level is unable to manage the anticipated increase in program activities and interest, including management of an increased number of Employee Resource Groups (ERGs) and diversity and inclusion efforts focused specifically on the needs of approximately 1,200 field and represented employees.[3764] Having a diverse workforce and inclusive culture helps drive the innovation that is needed to provide cleaner energy and processes that lead to more efficient operations – all of which have ratepayer benefit.

Through its testimony, workpapers, and responses to data requests specific to D&I, SDG&E has established that the forecast for TY 2024 is just and reasonable. As such, the Commission should adopt SDG&E's forecast as reasonable.

33.3.3 Diversity and Workforce Management (DWM)

For TY 2024, SDG&E seeks $3.057 million for O&M costs associated with the Diversity and Workforce Management Department.[3765] The Test Year 2024 request represents a $449,0000 increase over Base Year 2021 adjusted-recorded costs of $2.608 million.[3766]

Cal Advocates does not disagree with SDG&E's forecast methodology. Rather, Cal Advocates argues that SDG&E did not meet its burden in establishing that such costs were just and

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3761 Ex. SDG&E-32-2E (Taylor) at 10.

3762 *Id.* at 10.

3763 *Id.* at 8–9.

3764 Ex. SDG&E-32-2E (Taylor) at 19-20; Ex. SDG&E-232 (Taylor) at 16-17.

3765 Ex. SDG&E-32-2E (Taylor) at 10.

3766 *Id.* at 10.

reasonable.[3767] SDG&E disagrees with this assertion and believes that its testimony, workpapers, and data responses provide sufficient information and detail to support the incremental increases requested. For example, SDG&E's testimony explains that DWM provides company-wide support in the following areas: Staffing & Workforce Readiness, Staffing Operations, Compliance & Human Resources Information Systems (HRIS), and Relocations.[3768] As explained in testimony, workpapers, and data requests, over half of the TY 2024 forecast, or $297,000, is for incremental labor costs associated with the hiring of a project manager and support staff within the Staffing & Workforce Readiness group to support the Company's workforce resource plan.[3769]

The Commission should adopt SDG&E's forecast as reasonable.

33.3.4 Organizational Effectiveness

SDG&E seeks $1.819 million for O&M costs for non-shared services associated with the Organizational Effectiveness Department.[3770] The Test Year 2024 request represents a $609,000 increase over Base Year 2021 adjusted-recorded costs of $1.819 million.[3771]

SDG&E has provided substantial information detailing the rationale for the requested incremental increases associated with delivering company-wide organizational effectiveness programs and initiatives that focus on safety, individual expertise, leadership competency, workforce planning, and people analytics.[3772] Cal Advocates disagrees with SDG&E's TY 2024 forecast for Organizational Effectiveness by arguing that the incremental increases are not adequately supported or justified.[3773] Cal Advocates calls out two programs for which non-labor expenses were authorized in the prior GRC – the Human Performance (Just Culture) Program and the Working Foreman Leadership Training Program – and argues these programs should not be funded in this GRC cycle.[3774] The Working Foreman Leadership Training Program was created to enhance the leadership skills of working foreman, crew leads, and personnel following an internal needs assessment, analysis, and benchmarking with best-in-class utilities across the county.[3775]

[3767] Ex. CA-14 (Amin) at 68.

[3768] Ex. SDG&E-32-2E (Taylor) at 21:14-16.

[3769] *Id.* at 23:22-26.

[3770] *Id.* at 10.

[3771] *Id.* at 10.

[3772] *Id.* at 25-27; Ex. SDG&E-232 (Taylor) at 19-21.

[3773] Ex. CA-14 (Amin) at 68-70.

[3774] *Id.* at 70.

[3775] Ex. SDG&E-32-2E (Taylor) at 27:19-29.

While it is true that the Working Foreman Leadership Program was delayed, it was delayed due to the COVID-19 pandemic and associated restrictions with hosting in-person training.[3776] The Just Culture Program was rolled out in 2019, and reinforced again in 2022, to supervisors of represented employees. The request for costs associated with Just Culture in the TY 2024 forecast are to continue training on the Program to ensure that its principles remain foundational to how the Company evaluates employee behavior.[3777]

Additional incremental increases of $454,000 support a new Workforce Planning Department, consisting of four (4) new hires, who will support SDG&E's new Workforce Planning Platform.[3778] The Department is part of an SDG&E RAMP mitigation that will centralize workforce planning activities and more accurately forecast staffing needs, staffing trends, economic drivers, and the skill readiness of organizational groups to predict future attrition and gaps in talent availability.[3779] The new department will work with the various operations departments to provide recruitment support, implement field leadership training, assess compensation, and manage succession planning such that each operations department can attract, develop, and maintain a skilled, safe, and qualified workforce.[3780]

As demonstrated in its testimony, workpapers, and responses to data requests, SDG&E has established that its forecast in this area is just and reasonable and should be adopted by the Commission.

33.3.5 VP – People and Culture

Cal Advocates does not oppose SDG&E's labor costs for the TY 2024 forecast for VP – People and Culture.[3781] Cal Advocates only takes issue with the incremental non-labor request of $300,000 associated with catering and food-related activities for a variety of leadership events, including leadership events that focus on collaboration and connection, the HR Safety Stand Down event, and the HR Leadership Summit.[3782] These costs were incurred prior to the COVID-19

3776 Ex. SDG&E-232 (Taylor) at 20:7-27.

3777 *Id.*

3778 *Id.* at 21. Note the IT capital project that would create the Workforce Planning Platform was not objected to by any party.

3779 Ex. SDG&E-32-2E (Taylor) at 28; Ex. SDG&E-232 (Taylor) at 21.

3780 Ex. SDG&E-32-2E (Taylor) at 6, Table AT-4.

3781 Ex. CA-14 (Amin) at 60.

3782 *Id.* at 59; Ex. SDG&E-232 (Taylor) at 21-22.

pandemic and, now that the majority of SDG&E's workforce has returned to a hybrid work environment, these costs have resumed.[3783] The request is simply to reinstate the level of funding for these activities to better align with their pre-pandemic level.

The Commission should adopt the forecast as reasonable.

33.3.6 Edison Electric Institute (EEI) Dues

As part of SDG&E's Executive Offices request for TY 2024, $792,294 is being sought for membership in the EEI.[3784] While Cal Advocates does not contest SDG&E's forecast for dues related to the EEI, CEJA and TURN argue that EEI dues should either be 100% shareholder funded or alternatively, that no more than 50% of the gross cost of dues recorded in 2021 be approved by the Commission.[3785] CEJA and TURN both argue that SDG&E failed to meet its burden of proof in showing the expense is reasonable and failed to properly account for "lobbying" exclusions.[3786]

SDG&E disagrees with CEJA's and TURN's proposed reductions. First, EEI membership provides a value for ratepayers that has been recognized by the Commission: "[A]s a general matter we do support utility EEI membership in that it can allow for the sharing of industry-specific information, training, databases, best practices and other information from experts and consultants that can translate to ratepayer benefits."[3787] As outlined in its RAMP filing, SDG&E believes memberships with trade associations, such as EEI, are an important way the Company improves awareness of various utility issues and programs that benefit customers.[3788] EEI brings SDG&E employees together with peers and colleagues from other companies in the industry to perform collective activities that are not regularly performed by the individual companies on a full-time basis, such as benchmarking studies, industry surveys, and sharing best practices.[3789] This collaborative approach benefits SDG&E ratepayers by reducing the need for expensive customized research and studies, consultants and experts, database development and maintenance, publication

3783 Ex. SDG&E-232 (Taylor) at 22.

3784 Ex. SDG&E-32-2E (Taylor) at 32-33; Ex. CEJA-28.

3785 Ex. TURN-15 (Finkelstein) at 6:7-9.

3786 Ex. CEJA-01 (Barker) at 115:4-14; Ex. TURN-15 (Finkelstein) at 4-6.

3787 D.20-07-038, Order Modifying D.19-09-051 and Denying Rehearing, as Modified, at 6-7 (July 20, 2020).

3788 Ex. SDG&E-32-2E (Taylor) at 32-33.

3789 *Id.* at 33:3-7; Ex. SDG&E-232 (Taylor) at 24-25.

development, and specialized training.[3790] Further, SDG&E benefits from building relationships with other safety leaders, accessing best practices on employee and contractor safety, and benchmarking on leading indicators and key safety program elements.[3791]

The basis for SDG&E's TY 2024 forecast for EEI membership is EEI's 2021 invoice. The requested amount of $792,294 reflects SDG&E's total dues of $946,924 minus the portion EEI identified as related to "influencing legislation," or $154,629.[3792] SDG&E used the invoice as the basis for its TY 2024 forecast because it is the most reasonable method of determining costs EEI attributes to lobbying. The EEI invoice sets forth various categories of activities engaged in by EEI. For each category, a percentage is marked as "not deductible for federal income tax purposes" because it is attributable to "influencing legislation."[3793] On the 2021 invoice, these percentages ranged between 13-22%. According to data provided by EEI in 2023, EEI uses definitions provided by both the Federal Lobbying Disclosure Act[3794] and the Internal Revenue Code (IRC) Section 162(e) to identify activities aimed at "influencing legislation."[3795]

Using the percentages that EEI uses to determine nondeductible lobbying expenses for tax purposes is the most reasonable method of determining costs properly allocated as below-the-line for purposes of SDG&E's TY 2024 forecast for EEI dues. IRC Section 162(e) prohibits tax deductions for many of the same activities identified by the Commission as not ratepayer recoverable. For example, deductions are not allowed under Section 162(e)(1)(B) and (C) for activities related to "participation in, or intervention in, any political campaign," or for "any attempt to influence the general public, or segments thereof, with respect to elections, legislative matters or referendums."[3796] This includes activities at any level of government and is directly in line with activities the Commission has specifically barred from ratepayer funding, such as legislative advocacy, regulatory advocacy, advertising, marketing and public relations.[3797] The Act similarly excludes activities that the Commission has identified as not ratepayer recoverable. The

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3790 SDG&E-232 at 24-25.

3791 Ex. SDG&E-32-2E (Taylor) at 5-6, Table AT-4.

3792 Ex. CEJA-28.

3793 *Id*.

3794 2 U.S. Code Chapter 26 – Disclosure of Lobbying Activities (Act).

3795 Ex. CEJA-28 at EEI, 2023 Lobbying, Advocacy, and Other Expenditures at 3 (Feb 2023).

3796 IRC Section 162(e)(1)(B) and (C).

3797 *Id*.; D.20-07-038 at 6-7.

Act's definition of "lobbying activities" includes "preparation or planning activities, research, and other background work" associated with lobbying.[3798] This encompasses any policy research or advocacy by EEI at the local, state, or federal level.[3799]

SDG&E acknowledges that it is funding request for EEI dues in the last GRC was reduced by 39% following an appeal by TURN because it failed to provide sufficient detail about ratepayer benefits.[3800] Indeed, in the last GRC, TURN did "not appear to oppose ratepayer funding of EEI membership in all circumstances, but contends that funding was unjustified here because SDG&E failed to disaggregate costs with sufficient detail to allow for an informed allocation of costs between ratepayers and shareholders."[3801] To rectify this issue in this GRC proceeding, SDG&E has been transparent about the basis for its TY 2024 forecast for EEI dues and its internal process for allocating the below-the-line amount of EEI dues.[3802] SDG&E has also provided information on how EEI defines lobbying activities and detailed information on the ratepayer benefits of EEI membership.[3803] As such, the concerns raised by the Commission in the last GRC proceeding have been addressed through the testimony and data responses provided in this GRC proceeding.

As such, the Commission should adopt SDG&E's forecast as reasonable.

33.3.7 Conclusion for SDG&E

For the reasons above, the Commission should adopt SDG&E's TY 2024 forecast of $21.574 million for O&M shared and non-shared expenses for the following areas: VP – People and Culture, Total Disability, Workers' Compensation, Long-Term Disability, Human Resources, Diversity and Inclusion, Diversity and Workforce Management, Organizational Effectiveness, Business Optimization, Employee Care Services, People Research, Drug and Alcohol Testing Program, Wellness Activities, and Executive Offices. These expenses support the RAMP mitigations and Sustainability Strategy outlined by the Company, represent a strong and highly productive People and Culture organization, and are just and reasonable.

3798 2 U.S.C. Section 1602(7).

3799 Ex. CEJA-28 at EEI, 2023 Lobbying, Advocacy, and Other Expenditures at 3 (Feb 2023).

3800 D.20-07-038 at 6.

3801 *Id.,* (citation omitted).

3802 Ex. SDG&E-232 (Taylor) at 22-25.

3803 *Id.*; Ex. CEJA-28.

34. Administrative and General

34.1 SoCalGas Introduction

34.1.1 SoCalGas Summary of Administrative & General Costs and Activities

SoCalGas's Administrative and General (A&G) request is described and justified in A&G's requested funding and forecasted activities for 2022-2024.[3804] As shown below, SoCalGas requests TY 2024 O&M (both shared and non-shared) funding totaling $47.177 million, an increase of $7.813 million over BY 2021 costs of $39.364 million for SoCalGas's Accounting and Finance (A&F), Legal, Business Strategy and Energy Policy (BSEP), Regulatory Affairs, and External Affairs divisions. Table 34.1, Table 34.2 and Table 34.3 below – from SoCalGas's rebuttal testimony (Ex. SCG-229-E (Mijares) -- summarize the total cost forecast for these A&G functions for TY 2024 as compared to Cal Advocates forecast.

A&G functions include accounting, financial and business planning, regulatory support and analysis, case management, legal, business strategy and energy policy, community relations, media relations and strategic engagement. These functions are necessary in order to attend to our customers, maintain our internal controls, support internal clients and external stakeholders, and meet accounting, regulatory, and legal requirements. A&G also includes Franchise Fees expense paid to counties and incorporated cities pursuant to local ordinances that grant a franchise to the Company to place utility property used for transmitting and distributing gas in public rights of way.

In general, expenses attributable to Utility operations are above-the-line and recoverable in rates. Consistent with California Public Utilities Commission (CPUC or Commission) requirements, certain SoCalGas costs are borne solely by shareholders. Those costs include below-the-line (BTL) costs and other non-recoverable expenses (*e.g.*, SB 901) as determined by the Commission. Examples of such expenses include: (1) political activities; (2) political contributions and memberships; (3) charitable contributions; (4) penalties; and (5) other activities not attributable to Utility operations. In this GRC Application, SoCalGas has made adjustments to determine the appropriate amount of BTL and other non- recoverable expenses to be excluded from this GRC. Adjustments have been reflected in workpapers (*See* Ex. SCG-29-WP-R-E).

[3804] *See generally* Ex. SCG 29-R-E (Mijares), Ex. SCG-229-E (Mijares), and Ex. SCG-29-WP-R-E (Mijares).

34.1.2 SoCalGas Forecast Methodology

The development of the TY 2024 forecasts for A&G expenses was initially based on the recorded data for each workpaper analyzed from the previous 5 years in the A&G area. After analyzing the recorded costs, specific adjustments were made to align the historical costs to SoCalGas's current operations and organizational structure. Please refer to the supporting workpapers for the adjustments made to the recorded data.

A&G costs are generally prone to fluctuations because of changes in regulatory mandates, new accounting requirements, and legal proceedings. These changes impact staffing levels purchased service costs, and other factors. Our workpapers support these fluctuations when reviewing the past 5 years of A&G recorded costs. It is generally recognized that the use of multi-year averaging is a valid methodology where costs fluctuate significantly from year-to-year.[3805] As such, for most A&G workpapers, a 5-year average is used,[3806] as it represents a reasonable base to estimate operational needs for TY 2024.

34.1.3 SoCalGas Summary of Differences with Other Parties

The following tables – taken from SoCalGas's rebuttal testimony, Ex. SCG-229-E - summarize the difference between SoCalGas's proposal and intervenor's recommendations.

SOCALGAS VERSUS OTHER PARTY - SUMMARY OF DIFFERENCES
Table 34.1
Summary of Total O&M Costs

TOTAL O&M - Constant 2021 ($000)				
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**	**Variance to SoCalGas Ask**
SOCALGAS	39,365	47,178	7,759	-
CAL ADVOCATES	39,365	27,234	(12,131)[3807]	(19,944)
CEJA	39,365	45,239	5,820	(1,993)

3805 *See, e.g.*, D.19-09-051 at 62 (finding five-year average better accounted for highs and lows of fluctuating costs).

3806 There were only six workpapers that utilized BY 2021 costs instead of the five-year average. The base year forecast methodology is more appropriate when the function or activity is newer and does not have a long expense history or when the activity has changed in recent years and history is not a good indicator of anticipated future work.

3807 Cal Advocates submitted two chapters of testimony relevant to SoCalGas A&G, by Refat Amin (Exhibit (Ex.) CA-14-E), and Stephen Castello (Ex. CA-23-C-E-R). Cal Advocates does not specify their total recommended TY 2024 forecast for SoCalGas A&G. Exhibit CA-23-C-E-R (at 2 and 37) requests a blanket 35% reduction to the overall Administrative and General Costs. To reflect the totality of Cal Advocates' proposal, SoCalGas has first applied the 35% reduction recommended in CA-23-C-E-R, which it seeks to have applied first, before applying Cal Advocates' other adjustments (*i.e.*, $3.432 million related to Claims Payments and BSEP). Calculation: $47.178 million x 65% = $30.666 million; $30.666 - $3.432 million = $27.234 million.

Table 34.2
IT Capital Project Business Case Justifications[3808]

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance to SoCalGas Ask**
SOCALGAS	7,954	51,757	32,415	92,126	-
CAL ADVOCATES	2,786	8,875	9,853	21,514	(70,612)

Table 34.3
Summary of Franchise Fees[3809]

Constant 2021 ($000)	**2022**	**2023**	**2024**	**Change from SoCalGas**
SOCALGAS	44,612	47,611	53,149	-
CAL ADVOCATES	43,939	47,140	52,684	(1,609)

As reflected in the Tables above, Cal Advocates recommended an adjustment of $3.432M related to SoCalGas's O&M forecast for non-shared services non-labor costs in the Claims Payments area and labor costs in the BSEP area.[3810] SoCalGas disagrees that any amount should be disallowed in these two areas. With respect to Cal Advocates' other assertion, that amounts should be disallowed as "Political Activities Booked to Ratepayer Accounts," SoCalGas has addressed Cal Advocates' recommendation *infra* in Section 48.2, Other Issues. CEJA recommends a downward adjustment of $1.993 million to the BSEP workpaper from SoCalGas's proposal of $4.815 million.[3811] SoCalGas similarly believes that no downward adjustment is warranted. No party opposed SoCalGas's TY forecast for shared services O&M or its methodology for forecasting its Franchise Fees expenses. With respect to capital expenditure forecasts, Cal Advocates recommends the removal of the $70.612 million Systems Applications and Products

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3808 SoCalGas A&G provided the business justification for four capital IT projects and only one of these projects was challenged. The costs are contained within the IT capital Section. *See* Section 27, *infra*.

3809 The numbers provided in the Table have been adjusted as part of SoCalGas's Update Testimony. Exhibit SCG-401/SDG&E-401 Update Testimony dated July 7, 2023 was served after Cal Advocates March 27, 2023 testimony. Cal Advocates did not contest SoCalGas's original Franchise Fee forecast. *See* CA-14-E (Amin) at 2:21-23, and 3, Table 14-1. While the Table 34.3 reflects SoCalGas's updated Franchise Fees forecast, SoCalGas has not adjusted Cal Advocates numbers, as stated in CA-14-E, which is the reason for the variance in values.

3810 Ex. CA-14-E (Amin) at 34:11-14.

3811 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 7.

(SAP) Transformation Information Technology (IT) capital project but does not oppose the business rationale for the remaining proposed capital IT projects.[3812]

For the reasons set forth below, SoCalGas requests that the Commission adopt its proposals as reasonable.

34.1.4 SoCalGas Non-Shared Services O&M

34.1.4.1 Contested Item – Claims Payments and Recovery (Claims)

SoCalGas is requesting a TY 2024 forecast of $8.467 million, for Claims Payments and Recovery, which is an increase of $2.817 million from BY 2021 adjusted recorded costs. The non-labor forecast in this area consists primarily of payments to third parties for claims associated with property damage, business income losses, and bodily injury claims. The remaining costs are for expenses SoCalGas incurs when it seeks recovery for damages the Company suffered from at-fault responsible third parties. Costs contained in the Claims Payment and Recovery forecast reflect the actual claims payments made, offset by any recoveries the Company receives from third parties for harm to Company property or interests.[3813]

Cal Advocates took issue with the five-year average forecast methodology, stating that SoCalGas had not "adequately supported or justified its TY forecast and the requested increase in expense relative to historical expenses."[3814] Cal Advocates then developed its own TY 2024 recommendation by utilizing a three-year average (2019-2021) forecasting methodology.

SoCalGas disagrees with Cal Advocates' use of a three-year adjusted average methodology and its claim that SoCalGas is seeking an incremental request that is not supported or justified. Specifically, SoCalGas points to (1) the previous TY 2019 GRC approval of the five-year adjusted average methodology used for Claims Payments and Recovery,[3815] and (2) the results of the Cal Advocates Financial Examination,[3816] as evidence for the accuracy of historical costs used for the TY 2024 GRC forecast. As noted by the Commission,

> "The five-year adjusted average has been consistently applied for this workpaper in prior SoCalGas GRCs. Refer to Decision (D.) 19-09-051 in section 34.1.6 (relating

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3812 Ex. CA-11 (Waterworth) at 3.

3813 Ex. SCG-229-E (Mijares) at 12-13.

3814 Ex. CA-14-E (Amin) at 38:14-15.

3815 D.19-09-051 at 589.

3816 Ex. CA-19 (Chia/Lee), as noted on page 1, the "examination addresses: (1) SCG's and SDG&E's recorded historical data used in connection with forecasting the revenue requirement in their current applications; (2) recommended adjustments related to forecast years; and (3) compliance issues."

> to A&G), which states 'Many of the activities that are included in the forecasts are activities that have been approved in prior GRCs and we find these to be reasonable and necessary. We have no objection to the forecast methodology which utilized the five-year historical average as the basis for the forecast because many of the divisions and activities have been in existence for a long period of time and costs are subject to year-to-year fluctuations because of new programs or because of certain activities such as the GRC application filing which occurs every three years.'"[3817]

Cal Advocates makes a series of unfounded and misleading assertions that SoCalGas "has not adequately supported or justified its TY forecast," or "did not provide any documentation," and that Cal Advocates was "not able to review, evaluate or analyze SCG's historical cost increases or decrease or compare the associated activities and costs to its TY proposals."[3818] Yet, Cal Advocates elsewhere acknowledges,[3819] that SoCalGas provided Cal Advocates with "the 10-year historical data from 2012-2021 for the Claims and Recovery workpaper."[3820] SoCalGas' testimony and responses to data requests provided the support necessary to justify its TY forecast and any incremental increase in expense relative to historical expenses.

Cal Advocates focuses on a decrease in claim expenses from 2018-2020, but the claim expenses increased from 2020-2021. In addition, SoCalGas explained to Cal Advocates[3821] a key and non-recurring contributing factor to the decrease from 2018 to 2020 is the COVID-19 pandemic. The COVID-19 pandemic, which began in 2020 and continued to the date of the data response, had a nationwide impact that resulted in the temporary closing of the court systems. As a result, for most of 2020, there were significant delays in the resolution of outstanding claims. SoCalGas continued to see delays well into 2021. The variability in the timing and payment of claims that resulted from the COVID-19 pandemic further justifies use of a methodology that captures a longer average period, rather than a shorter period that does not account for abnormalities in the ordinary course of claims resolution.

The five-year average forecasting methodology has been consistently utilized to forecast the expenses for this workpaper and has been adopted by the Commission over multiple GRCs. In

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[3817] Ex. SCG-229-E (Mijares) at 11:8-15, citing D.19-09-051 at 589.

[3818] Ex. CA-14-E (Amin) at 38:14-15, 40:4, 40:12-14.

[3819] *Id.* at 38:16-17 and at 39, Table 14-19.

[3820] *See* Ex. SCG-229-E (Mijares), Appendix G for Cal Advocates' data request PubAdv-SCG-RA6-083, Q.2i.

[3821] *See* Ex. SCG-229-E (Mijares), Appendices E and F for SoCalGas's responses to Cal Advocates data request PAO-SCG-083- RA6, Q.2c and PAO-SCG-083-RA6, Q.2d.

addition, SoCalGas provided the Cal Advocates' auditor with a detailed listing of claims for various historical periods and provided support for specific claims payments selected by the auditor. As outlined in its Report on the Results of Operations for…Southern California Gas Company Test Year 2024 General Rate Case,[3822] "from the list of transaction entries for the recorded A&G expenses, Cal Advocates selected transactions to review the associated supporting documents (*i.e.*, invoices, timesheets, and other source data) to determine the accuracy of SCG's recorded transaction entries," which included claims payments. "Cal Advocates also review[ed] the transaction to determine if it is a recurring expense or a one-time expense." Upon its review, the Cal Advocates auditor concluded that there was "no recommended adjustment to SCG's O&M expenses."[3823] Therefore the Commission should reject Cal Advocate's proposed reduction to SoCalGas's Claims Payments and Recovery workpaper.

34.1.4.2 Contested Item –BSEP

34.1.4.2.1 BSEP by Cal Advocates

Cal Advocates takes issue with the TY 2024 O&M forecast of $4.815 million included in the BSEP workpaper. Cal Advocates' recommendation is $1.492 million less than SoCalGas's forecast, which is based on SoCalGas's 2021 adjusted recorded expense and SoCalGas's 2024 forecast adjustments for proposed activities. Specifically, Cal Advocates normalized SoCalGas's incremental TY 2024 labor and non-labor request by taking the incremental request and dividing that by four to account for additional TY activities.[3824]

Cal Advocates states that SoCalGas did not provide documentation demonstrating that its 2021 adjusted-recorded expenses would not be sufficient to address its TY activities or to justify the need for eight new full-time equivalents (FTEs) in the TY. SoCalGas disagrees with the conclusion Cal Advocates reached that an estimate of $3.377 million provides adequate funding for the TY. This position fails to take into account incremental work being required of SoCalGas that necessitates incremental FTEs. As described below, SoCalGas detailed in testimony the increased activities, which include significant regulatory proceedings at the CPUC and before other regulatory agencies, that drive the BSEP Test Year O&M forecast and incremental FTE request. In addition, Cal Advocates' proposed reduction in non-labor to $0.590 million fails to

3822 Ex. CA-19 (Chia/Lee) at 7.

3823 *Id.* at 1.

3824 Ex. CA-14-E (Amin) at 35:10-13 and n.103.

acknowledge the fact that SoCalGas's ~$0.700 million increase to $1.133 million request is attributable to incremental consulting services related to the Gas System Planning Order Instituting Rulemaking (OIR) (Rulemaking 20-01-007) proceedings.[3825]

As noted in the Climate Policy direct testimony of Naim Jonathan Peress (Ex. SCG-02, Chapter 1), since SoCalGas' last GRC filing, the State's GHG emissions goal has changed. Previously, there was an economywide goal to reduce GHG emissions 40 percent below 1990 levels by 2030.[3826] Now, there is an economywide 100% carbon neutrality goal seeking achievement no later than 2045.[3827] In addition, State agencies have begun considering unprecedented policies, such as in the California Energy Commission (CEC) research project: Strategy Pathways and Analytics for Tactical Decommissioning of Portions of Natural Gas Infrastructure, as well as in the CPUC's Rulemaking (R.) 20-01-007.[3828] These regulatory efforts will likely have significant implications on the energy transition and SoCalGas' obligation to provide customers safe, reliable, equitable and affordable service, and require SoCalGas's engagement.

To represent the interests of SoCalGas customers, the BSEP group incurs labor and non-labor costs related to policy analysis and engagement with local and state regulatory organizations, as these organizations develop rules and regulations on climate change, energy utilization and air quality. The state and local jurisdictions have numerous proceedings, hearings and workshops that could impact the utilities' operations and customers. Understanding the implications of these proceedings and providing analysis and evidence to support efficient use of natural gas and increasingly clean fuels in support of state policy benefits customers and state policy makers. Non-labor costs incurred by this group include employee-related costs and costs for external support in the areas of economic, air emissions and decarbonization impacts of proposed policies, laws, and regulations, decarbonization strategies, and company and customer compliance impacts.

The staffing and non-labor increases reflected in the forecast are necessary to respond to a significant increase in energy and environmental legislative, policy and regulatory activities and

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3825 *See* Ex. SCG-29-R-E (Mijares) at 39:9-11.

3826 Senate Bill 32 (Pavley, 2016) GHG Emission Reduction Targets.

3827 Executive Order B-55-18 to Achieve Carbon Neutrality (September 10, 2018).

3828 R.20-01-007, Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Safe and Reliable Gas Systems in California and perform Long-Term Gas System Planning (January 16, 2020).

implications for the customers. Therefore, the Commission should reject Cal Advocate's proposed reduction to SoCalGas's BSEP workpaper.

34.1.4.2.2 BSEP by CEJA

CEJA takes issue with the Test Year O&M forecast for the BSEP workpaper. CEJA recommends "a downward adjustment in the revenue for the BSEP department of $1.993 million, which is about 41% of the 2024 forecast."[3829] CEJA recommends this adjustment, asserting that amount represents 60% of the $2.880 "million in 2021 recorded-adjusted costs plus the $265,000 in incremental labor costs for 1.7 FTE positions that were vacant during the base year that SoCalGas has not explained or justified."[3830] SoCalGas disagrees with this recommendation for the following reasons.

CEJA recommends a 60% reduction to the BSEP organization in its entirety.[3831] However, to justify this reduction, CEJA points solely to portions of comment letters that SoCalGas provided to state and local agencies, such as CARB, CEC, and SCAQMD that were prepared by the Energy Policy (EP) group, which is just one of four functional areas covered within the BSEP workpaper. In the testimony of Sara Gerson (Gerson), CEJA posits that, after reviewing all of the 57 letters EP submitted to regulatory agencies in 2021, CEJA calculated that 60% of the pages (274 pages out of a total of 453 pages) from those letters contained some language CEJA believes constitutes advocacy that should not be a ratepayer cost.[3832] As noted in Ex. SCG-229-E Table SM-3, SoCalGas reviewed the letters CEJA included in Attachment 6 to its testimony and confirmed that only 7 of the comment letters CEJA attached were related to below-the-line activities (either as defined by D.22-03-010 or because SoCalGas otherwise determined not to seek ratepayer funding). The associated costs relating to those 7 letters had already been excluded from the GRC before SoCalGas's GRC Application was filed, rendering CEJA's argument moot. Following CEJA's logic, the corrected recommended reduction would be 0%.

[3829] Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 121:24-25.

[3830] *Id.* at 121:26-27, 122:1-2.

[3831] *Id.* at 121:24-27.

[3832] *Id.* at 124.

CEJA's assertion is also flawed as it is based on a narrow definition of political activities that is not in line with the FERC USofA,[3833] specifically that anything that does not directly impact the business is considered lobbying, regardless of the audience, message and intent. For CPUC accounting purposes, the FERC definition of lobbying applies.[3834] Also, the CPUC has referenced the below-the-line FERC Account 426.4 in numerous ratemaking decisions, such as in a 1993 SoCalGas rate case decision (D.93-12-043), noting that "SoCalGas and DRA [Public Advocates Office's predecessor] agree that Account 426.4 is the authority for defining lobbying activities that should not be funded by ratepayers." As Ms. Mijares explained during cross-examination,

> "There are various instances where our regulators ask us for information. There are instances where we are mandated to provide information, and just because it's a qualifying official, just because it is a public official, doesn't dictate that it automatically goes to 426.4. The content, the purpose, all have to be taken into consideration for that to be the case. If we were engaging with an intent to influence in addition to merely providing information, then we would record it to 426.4."[3835]

While CEJA may not agree with some pathways to reach carbon neutrality, that viewpoint does not determine that all state agency comment letters should be excluded from the GRC. SoCalGas adheres to the guidance of its regulators when determining the appropriate accounting treatment for Company activities.[3836]

[3833] For the purposes of this proceeding, "Political Activities" is defined by the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounting (USoA) – Account 426.4. 18 C.F.R. Section 367.426.4:

"(a) This account must include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials.
(b) This account must not include expenditures that are directly related to appearances before regulatory or other governmental bodies in connection with an associate utility company's existing or proposed operations."

[3834] *Id.* Numerous CPUC decisions have recognized that that the USoA is the primary guidance for what constitutes USoA costs, including at the CPUC. Section 793 of the Pub. Util. Code requires the CPUC to adopt FERC's system of accounts and precludes any conflict between state and federal accounting: "The system of accounts and the forms of accounts, records, and memoranda prescribed by the commission for corporations subject to the regulatory authority of the United States, shall not be inconsistent with the systems and forms from time to time established for such corporations by or under the authority of the United States."

[3835] Tr. V16:2912:11-20 (Mijares).

[3836] *See e.g.*, Tr. V16:2794:1-20 (Barrett); Tr. V16:2903:18-24 (When booking cost of comment letters, "[w]e do consider the instructions and guidance in FERC 426.4.").

Additionally, CEJA's isolation of excerpts or selected pages from a document is not a valid method for determination of accounting treatment. As determined by the Commission in SoCalGas's last GRC, context matters, and the document must be read as a whole. Specifically, the CPUC found that:

> "… we reviewed the various comment-letters sent by SoCalGas to state and local government agencies that were identified by Sierra Club and UCS as constituting lobbying activities aimed at promoting natural gas use over electric options as a means of reducing fossil fuel reliance. We reviewed each letter and find that each letter, as a whole, and when read in its entirety, does not constitute a means to block measures to replace natural gas with electric options. Instead, the comment-letters in question contain or provide SoCalGas' input and opinion with regards to the topics being addressed in the comment-letters. Some of the letters include information on the benefits of natural and renewable gas options or suggest consideration of these options but we find that these are generally informational as opposed to what Sierra Club and UCS suggest."[3837]

Although CEJA is unclear on where the "line between 'educating policymakers' and legislative lobbying,"[3838] is drawn, SoCalGas is not. SoCalGas has made a concerted and good faith effort to accurately track costs associated with political activities as defined by the FERC USofA in internal orders that settle to FERC 426.4 and to exclude the costs from the GRC manually if an error is identified as part of GRC controls. SoCalGas believes that CEJA's concerns are mitigated given the controls in place throughout 2021.[3839]

With respect to CEJA's assertion that SoCalGas had not justified its incremental 1.7 FTE request, SoCalGas disagrees. SoCalGas provided CEJA with information about the 1.7 FTE positions in data request response CEJA-SEU-011 Question 13c indicating that the 1.7 FTE was to annualize labor true-up to account for staff that was hired during 2021 and therefore their costs were not fully reflected in 2021 without an incremental adjustment.[3840] For all of the reasons set forth above, the Commission should reject CEJA's proposed reduction to SoCalGas's BSEP workpaper.

3837 D.19-09-051 at 380. CEJA's counsel (and witnesses) are aware of the standard set by the Commission on this issue, as they represented Sierra Club and Union of Concerned Scientists (UCS) in SoCalGas's' 2019 GRC.

3838 Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 128:20-21.

3839 Ex. SCG-245-E (Mijares) at 13:4-24 and Figure SM-1 at 8.

3840 *See* Ex. SCG-313 at pdf p. 3 of 5.

34.1.5 SoCalGas IT Capital Project Business Case

Cal Advocates recommends the removal of the SAP Transformation project on the basis that "the SAP Transformation project completion date will occur in the post test year, the project cost is quantitatively unsupported, and the business justification is inadequate."[3841] The costs and timing for this project are justified in the direct and rebuttal testimonies of William J. Exon,[3842] while the A&G rebuttal testimony expands upon the business justification that was previously provided in testimony.[3843]

SAP, the financial accounting system, was implemented in 1999 and is utilized by SoCalGas to help generate its financial statements and regulatory reports. As described below in greater detail, this system is critical to SoCalGas's operations. Upgrades and implementations are necessary to maintain a very complex and customized system that handles large volumes of highly sensitive data. There is a new version of SAP that was created and SoCalGas's existing version will no longer be supported by the vendor, rendering the current version obsolete and opening the Company to unacceptable cybersecurity and reporting risk if the SAP Transformation Project is not executed.

The current SAP platform is 23 years old, and the vendor has notified SoCalGas and its other customers, including Southern California Edison (SCE) and Pacific Gas and Electric Company (PG&E), that it is discontinuing vendor support for the current platform in 2027. For SoCalGas to prudently and accurately manage its business, a replacement solution is necessary. These efforts take years to plan and implement, so we must start now. Cal Advocates' assertions to the contrary are unsupported and speculative.

SAP is a shared system between SoCalGas, SDG&E and Sempra Corporate Center. The Company's current version of SAP helps to manage its finance, work management, supply chain, asset management, services, and procurement business processes in an integrated system. SoCalGas utilizes SAP to help generate its financial statements and regulatory reports (*e.g.*, Federal Energy Regulatory Commission (FERC) Form 2, Risk Spending Accountability Report (RSAR), Risk Assessment Mitigation Phase (RAMP), General Order-77M, etc.).

[3841] Ex. CA-11 (Waterworth) at 3:26-29.

[3842] *See* Ex. SCG-29-R-E (Mijares) and Ex. SCG-221 (Gordon/Exon). *See also* Section 27, *infra*.

[3843] Ex. SCG-29-R-E (Mijares) at 60:13-25; Ex. SCG-229-E (Mijares) at 23-26.

Over the last two decades, our SAP system has become increasingly complex and difficult to support due to customizations and the need to increase functionality to meet business requirements as well as improve performance for complex business processes. SoCalGas, SDG&E and Sempra Corporate Center are not unique in this regard – SCE and PG&E are also SAP Enterprise Resource Planning (ERP) Central Component (ECC) customers and all of us have customized versions of SAP. The Company's complex SAP landscape is further discussed in William Exon's rebuttal testimony (*see* Ex. SCG-221).

SAP released a completely redesigned version (S/4) of their ERP software and announced in February 2020 that by 2027[3844] there would no longer be full vendor support for SoCalGas's current ERP version. The SAP Transformation is not discretionary and will require multiple phases, in addition to the initial phase requested in this GRC.

Much of the transformation during the 2023-2024 timeframe will involve configuring the new base system only. The SAP Transformation project allows SoCalGas, SDG&E and Sempra to more seamlessly transition our configurations and master data from the current version, saving us time and considerable effort in the long run and minimizing costs to the ratepayers when compared to implementing a different ERP system (*e.g.*, Oracle or Salesforce). In addition to the ~$71 million requested in this TY 2024 GRC, there will be future forecasts in the next GRC proceeding or a separate application for the multi-year approach envisioned to fully adopt the new SAP S/4 platform.

Cal Advocates recommends the removal of the SAP Transformation project on the basis that "the SAP Transformation project completion date will occur in the post test year…"[3845] The Rebuttal Testimony of Mr. Exon, (Ex. SCG-221) provides the anticipated timeline for this project, which includes meeting the deadline of completing this phase of the project in the last quarter of 2024.

SoCalGas has demonstrated the need for increased costs because they are prudent and reasonable estimates of future requirements. Accordingly, for the reasons set forth above, the Commission should reject Cal Advocates' and CEJA's proposed reductions to SoCalGas's A&G witness area.

3844 Ex. SCG-229-E (Mijares) at Appendix K.

3845 Ex. CA-11 (Waterworth) at 3:26-29.

34.2 SDG&E Introduction

34.2.1 SDG&E Summary of Administrative & General Costs and Activities

SDG&E's Administrative and General (A&G) request is described and justified in A&G's requested funding and forecasted activities for 2022-2024.[3846] As shown below, SDG&E requests TY 2024 O&M (both shared and non-shared) funding totaling $41.885 million, an increase of $3.021 million over BY 2021 costs of $38.864 million for SDG&E's Accounting and Finance, Legal, Regulatory Affairs, and Community Affairs divisions. Table 34.4, Table 34.5 and Table 34.6 below – from SDG&E's rebuttal testimony (Ex. SDG&E-233 (Agarwal)) -- summarize the total cost forecast for these A&G functions for TY 2024 as compared to Cal Advocates forecast.

A&G functions include accounting, financial and business planning, regulatory support and analysis, case management, legal, and community relations. These functions are necessary to attend to our customers, maintain our internal controls, support internal clients and external stakeholders, and meet accounting, regulatory, and legal requirements. A&G also includes Franchise Fee expenses paid to counties and incorporated cities pursuant to local ordinances that grant a franchise to the Company to place utility property used for transmitting and distributing electricity and gas in public rights of way.

SDG&E has experienced continued and increasing accounting and financial reporting and regulatory requirements, and increased safety and reliability activities across Company operating divisions over the last several years and anticipates these changes will have a direct impact on the A&G divisions. As a result, to meet changes in reporting processes, accounting standards, and directives by the Commission, including new regulatory proceedings, and additional reporting requirements associated with RAMP and Accountability Reporting, SDG&E is proposing to add additional resources to its workforce to effectively conduct the increased level of activities necessary for business operations.

34.2.2 SDG&E Forecast Methodology

The development of the TY 2024 forecasts for A&G expenses was initially based on the recorded data for each workpaper analyzed from the previous 5 years in the A&G area. After analyzing the recorded costs, specific adjustments were made to align the historical costs to

[3846] *See generally* Ex. SDG&E-33-R-E (Agarwal), Ex. SDG&E-233 (Agarwal), and Ex. SDG&E-33-WP-R (Agarwal).

SDG&E's current operations and organizational structure. Please refer to the supporting workpapers for the adjustments made to the recorded data.

A&G costs are generally prone to fluctuations because of changes in regulatory mandates, new accounting reporting requirements, and legal proceedings. These changes impact staffing levels, purchased service costs, and other factors. Our workpapers support these fluctuations when reviewing the past 5 years of A&G recorded costs. It is generally recognized that the use of multi-year averaging is a valid methodology where costs fluctuate significantly from year-to-year. As such, for most A&G workpapers, a 5-year average is used[3847] as it represents a reasonable base to estimate operational needs for TY 2024.

34.2.3 SDG&E Summary of Differences with Other Parties

The following tables – taken from SDG&E's rebuttal testimony, Ex. SDG&-233 - summarize the difference between SDG&E's proposal and Cal Advocates' recommendation.

SDG&E VERSUS OTHER PARTY - SUMMARY OF DIFFERENCES

Table 34.4
Summary of Total O&M Costs

TOTAL O&M - Constant 2021 ($000)				
	Base Year (BY) 2021	**Test Year (TY) 2024**	**Change**	**Variance to SDG&E Ask**
SDG&E	38,864	41,885	3,021	-
CAL ADVOCATES	38,864	41,393	2,529	(492)

Table 34.5
IT Capital Project Business Case Justifications[3848]

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	**2023**	**2024**	**Total**	**Variance to SDG&E Ask**
SDG&E	1,799	1,265	1,265	4,329	-
CAL ADVOCATES	1,799	1,265	1,265	4,329	-

3847 There were only two workpapers that did not use the five-year average. 1AG001 – Financial & Business Planning utilized a base-year forecast methodology and is the only workpaper that Cal Advocates challenged. Workpaper 2100-4080 utilized a three-year average and was not challenged.

3848 SDG&E A&G provided the business justification for three capital IT projects. The costs for these projects were not challenged and are contained within the IT capital Section. *See* Section 27, *infra*.

Table 34.6
Summary of Franchise Fees3849

	2022	2023	2024	Change from SDG&E
SDG&E	77,966	81,916	93,859	-
CAL ADVOCATES	77,957	82,391	93,791	398

Cal Advocates was the only party to contest any portion of SDG&E's A&G TY 2024 forecast. With one exception, Cal Advocates did not oppose SDG&E's TY 2024 forecast.[3850] Cal Advocates recommended an adjustment of $492,000 related to SDG&E's O&M forecast for non-shared services labor in the Financial & Business Planning area.[3851] No party opposed SDG&E's TY forecast for shared services O&M, the business justification for its three IT Capital expenditure requests or its methodology for forecasting its Franchise Fees expenses. For the reasons set forth below, SDG&E requests that the Commission adopt its proposals as reasonable.

34.2.4 SDG&E Non-Shared Services O&M

34.2.4.1 Contested Item – Financial & Business Planning

SDG&E is requesting a TY 2024 forecast of $6.37 million, for Financial & Business Planning, which is an increase of $492,000 from BY 2021 adjusted recorded costs. Cal Advocates took issue with the incremental request for 3 additional positions and filling the 1.3 FTE partial year vacancies in the base year, stating that SDG&E had not "demonstrate[ed] that its 2021 adjusted expenses were insufficient to address its TY activities for Financial and Business Planning activities."[3852]

SDG&E disagrees with Cal Advocates' assessment. This need is based on the increase in financial accounting and regulatory compliance requirements and associated increase in business needs. The Commission should reject Cal Advocates' recommendation. SDG&E described in

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3849 The numbers provided in the Table have been adjusted as part of SDG&E's Update Testimony. Ex.SCG-401/SDG&E-401 Update Testimony dated July 7, 2023 was served after Cal Advocates March 27, 2023 testimony. Cal Advocates did not contest SDG&E's original Franchise Fee forecast. *See* CA-14-E (Amin) at 5:13-15, 73:1-3. While the Table 34.3 reflects SDG&E's updated Franchise Fees forecast, SDG&E has not adjusted Cal Advocates numbers as stated in CA-14-E, which is the reason for the variance in values.

3850 Ex. CA-14-E (Amin) at 71:8-10 and 72, Table 14-33.

3851 *Id.* at 73:12-14.

3852 *Id.* at 74:14-16.

detail, in its direct testimony, work papers and rebuttal, the nature of the increased work performed by the Financial & Business Planning department. In direct testimony, SDG&E explained that substantially all of the Financial & Business Planning's forecast is comprised of labor dollars and the costs for the department fluctuate depending upon SDG&E's strategic plan and capital program, and the new initiatives, new accounting guidance, regulatory requests, and policy directives that impact the Company's operations. The Financial & Business Planning department includes Financial Planning, Business Planning and Financial & Strategic Analysis and works closely with the operating divisions to provide budgets, develop financial plans, optimize all aspects of debt issuances, assess cash flow needs, and provide accounting, and financial support, analysis and modeling of department programs, initiatives and capital investments in support of regulatory filings.[3853] As the overall number and complexity of capital programs grow, the business planners track and report on an increasing number of projects, and larger dollar amounts . In addition, as regulatory requirements continue to grow, the Financial & Business Planning group's assistance with additional data requests and support in connection with regulatory proceedings has also increased.[3854] While the nature of the work performed is not new, the complexity and extent of that work has increased and is expected to increase in TY 2024.[3855]

Specifically, SDG&E sought funding for three Senior Business Analyst FTEs to provide financial support and analysis related to increased O&M and Capital Planning activities, the large increase in capital projects, and increasing reporting requirements, such as complying with Commission Risk Spending Accountability Reporting (RSAR) reporting requirements that continue to evolve and increase as described in D.19-04-020 and D.22-10-002. Rulemaking (R.) 20-07-013, which began in 2020, was broken into several tracks as "part of the Commission's efforts to continuously improve the risk-based decision-making framework that regulated energy utilities use to assess, manage, mitigate and minimize safety risks."[3856] Phase 1, Tracks 3 and 4, which began in November 2020, refines certain reporting requirements for the RSAR, updates requirements for the Risk Assessment and Mitigation Phase (RAMP) and clarifies information requirements related to RAMP filings for submittal in General Rate Case (GRC) applications.[3857]

3853 *See* Ex. SDG&E-33-R-E (Agarwal) at 16:6–18:18.

3854 Ex. SDG&E-33-R-E (Agarwal) at 19:3-7.

3855 *See* Ex. SDG&E-233 (Agarwal) at 3.

3856 *Id.* at 3-4 (citing D.22-10-002 at 2).

3857 *Id.* at (Agarwal) at 3:19-4:6.

The expanded RSAR reporting now requires SDG&E to report on all of SDG&E's GRC workpapers, which includes risks identified in the RAMP filing, instead of just the safety, reliability, and maintenance workpapers, starting with SDG&E's first annual RSAR following approval of this TY 2024 GRC Application.[3858]

Cal Advocates largely ignores the detailed illustrative examples of the expanded and growing workload expected for the TY due to the recent Commission decisions in the Safety Model Assessment Proceeding (S-MAP), and other anticipated requirements in that active Rulemaking proceeding.[3859] Tracking the authorized GRC funds and actual results involves not only the analysis and reporting activities, but also requires accounting system enhancements to accomplish the increased reporting requirements, and requires additional labor dedicated to system enhancements, tracking, and reporting of the financial accountability to the Commission.[3860] Similarly, the additional funding requested in SDG&E's TY 2024 GRC will also necessitate an increased level of financial and accounting activities by the Financial & Business Planning organization to facilitate proper recording and compliance tracking.[3861]

SDG&E has demonstrated the need for increased resources over BY 2021 levels. Accordingly, for the reasons set forth above, the Commission should reject Cal Advocates' proposed reduction to SDG&E's A&G division.

35. Shared Services & Shared Assets Billing, Segmentation & Capital Reassignments

SoCalGas and SDG&E's shared services and shared assets billing, segmentation, and capital reassignment testimony is set forth in the revised testimony of Angel N. Le and Paul D. Malin.[3862]

35.1 Shared Services Billing

SoCalGas and SDG&E have the same practice for shared services and shared assets billing.[3863] Shared services costs that are incurred by one utility on behalf of the other utility, and/or on behalf of Sempra or any of its unregulated subsidiaries, are allocated and billed to those

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3858 *Id.* at (Agarwal) at 3-4.

3859 *Id.* D.22-10-002, OP 1 and Appendix A.

3860 Ex. SDG&E-33-R-E (Agarwal) at 19:13-19. *See also* Ex. SDG&E 33-WP-R (Agarwal) at 31.

3861 *See* Ex. SDG&E-233 (Agarwal) at 4 and Table RA-1.

3862 Ex. SCG-30-R/SDG&E-34-R (Le/Malin).

3863 *Id.* at 3:4.

companies receiving services.[3864] The purpose of the practice is to ensure ratepayers of the utility providing a shared service do not subsidize the costs incurred that support the other utility or any Sempra affiliate.[3865]

The total amount of shared services "billed out" to Sempra affiliates will be determined in the final Results of Operations (RO) Model. No party opposes SoCalGas and SDG&E's shared service billing process and allocation of Shared Services costs.

35.2 Shared Assets Billing

Shared Assets are assets that are on the financial records of one utility, but also benefit other Sempra affiliates.[3866] Shared assets are recorded on the financial records of the utility that receives the most use from the asset.[3867] The utility owning the shared asset bills the other Sempra affiliates using allocation percentages, which are based on factors that reflect the usage level of the asset by the other Sempra affiliates.[3868] These utilization factors vary depending on the asset.[3869]

SoCalGas and SDG&E's shared assets consist primarily of facilities, computer hardware and software, and communications (telecommunication infrastructure).[3870] SDG&E and SoCalGas charge Sempra affiliates for the use of these assets by developing a capital revenue requirement.[3871] The various revenue requirement components are determined and sponsored by other GRC witnesses.[3872]

The total amounts of shared assets "billed out" to the Sempra affiliates will be determined in the final RO Model but is currently forecasted to be approximately $71,664,000 for SoCalGas and $19,001,000 for SDG&E.[3873]

No party opposes SoCalGas and SDG&E's shared assets billing process or allocation of Shared Assets costs.

[3864] *Id*. at 3:5-7.

[3865] *Id*. at 3:7-9.

[3866] *Id.* at 16:14-15.

[3867] *Id*. at 16:23-24.

[3868] *Id*. at 16:28-30.

[3869] *Id*. at 16:30-31.

[3870] *Id.* at 17:15-16.

[3871] *Id*. at 17:17-18.

[3872] *Id.* at 18:14-15.

[3873] *See* Ex. SCG-401/Ex. SDG&E-401.

35.3 Business Segmentation Allocation (SDG&E Only)

For SDG&E, the FERC account series of Clearing Accounts, Customer Accounts, Customer Service and Information, and A&G Accounts that are specifically related to the Electric, Electric Generation or the Gas Department are directly assigned to the appropriate department.[3874] The general expenses not directly chargeable to the departments are common costs that must be allocated between the three operating functions (Electric, Electric Generation and Gas) for ratesetting purposes.[3875] In addition, Gas Department expenses and only the Electric Department expenses attributable to Electric Distribution and Electric Generation are recoverable in customer rates authorized by the CPUC.[3876] Therefore, Electric Department costs, excluding Electric Generation, were further allocated to Distribution and Transmission.[3877] An example of the segmentation process is shown in Appendix D of Ex. SDG&E-34-R.

No party opposes SDG&E's business segmentation allocation process.

35.4 Reassignment to Capital

SoCalGas and SDG&E charge most of their operating costs directly to either capital or O&M; however, certain costs, including some of the A&G expenses, labor overheads (*e.g.,* pension and benefits, injuries and damages), and clearing account costs support construction efforts and are therefore reassigned from O&M to capital.[3878] After SoCalGas and SDG&E have determined the portion of costs associated with Electric, Electric Generation, and/or Gas Services, it begins the capital reassignment process.[3879] Since these costs are not charged directly to capital, reassignment to capital rates have been developed based on 2021 base year data.[3880] Reassigned costs become part of SoCalGas's and SDG&E's rate base.[3881]

The total amount of costs in the TY 2024 O&M reassigned to capital will be determined in the final RO Model but is currently forecasted to be approximately $248,416,000 for SoCalGas

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3874 Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 23:19-22.

3875 *Id*. at 23:22-24.

3876 *Id*. at 23:25-27.

3877 *Id.* at 23:27-24:2.

3878 *Id.* at 27:13-16.

3879 *Id*. at 27:16-18.

3880 *Id*. at 27:18-19.

3881 *Id*. at 27:21-22.

and $180,657,000 for SDG&E Electric, excluding Electric Generation, $6,495,000 for SDG&E Electric Generation, and $53,594,000 for SDG&E Gas.[3882]

No party opposes SoCalGas and SDG&E's capital reassignment process.

35.5 Exclusion of Electric Transmission (SDG&E only)

Electric Transmission costs are under the jurisdiction of the FERC, and thus the costs allocated to Electric Transmission are excluded from this GRC.[3883] To allocate Electric Department expenses, excluding Electric Generation, between the Electric Distribution and Electric Transmission functions, SDG&E used an allocation method based on labor charges for most O&M accounts.[3884] For capital reassignment and Clearing Accounts, SDG&E used 2021 actual data.[3885] The summary of segmentation rates is shown in Appendix E (SDG&E) of Ex. SDG&E-34-R.

For TY 2024, the total O&M amount allocated to Electric Transmission O&M and excluded from this GRC will be determined in the final RO Model but is currently forecasted to be approximately $116,622,000.[3886] For TY 2024, the total capital amount allocated to Electric Transmission Capital and excluded from this GRC will be determined in the final RO Model but is currently forecasted to be approximately $38,945,000.[3887]

No party opposes SDG&E's Electric Transmission allocation process.

36. Rate Base

SoCalGas requests a weighted average rate base for TY 2024, as contained in Update Testimony, of $13.414 billion.[3888]

[3882] *See* Ex. SCG-401/Ex. SDG&E-401.

[3883] Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 32:27-28.

[3884] *Id.* at 32:28-33:3. For certain other O&M accounts, such as Account 924.0 (Property Insurance), FERC has established a different allocation methodology, as explained in Ex. SDG&E-34-R/Malin at 33-35.

[3885] *Id.* at 33:4-5.

[3886] *See* Ex. SCG-401/Ex. SDG&E-401.

[3887] *Id.*

[3888] Ex. SCG-401/SDG&E-401, Attachment A at A-1.

SoCalGas
Weighted Average Depreciated Rate Base
(Thousands of Dollars)

Line No.		Recorded Year 2021	Estimated Year 2022	2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	19,249,235	21,059,708	22,897,278	24,865,874
2	Work-In-Progress (non-interest bearing)	21,960	3,434	1,633	1,538
3	Total Fixed Capital	19,271,195	21,063,142	22,898,911	24,867,413
	Working Capital				
4	Materials & Supplies	52,586	52,022	52,525	50,319
5	Working Cash[1]	95,488	95,488	95,488	168,847
6	Total Working Capital	148,075	147,510	148,014	219,165
	Other				
7	Customer Advances For Construction	(141,023)	(158,505)	(162,006)	(149,031)
8	Deferred Revenue - ITCC	(52,355)	(54,300)	(60,942)	(70,113)
9	Repair Deductions Rate Base Adjustment (2016 - 2038)[2]	(11,050)	(10,400)	(9,750)	(9,100)
10	Total Other	(204,427)	(223,205)	(232,698)	(228,244)
	Deductions For Reserves				
11	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs Act Adj	494,944	485,029	474,991	465,065
12	Accumulated Depreciation Reserve	8,456,707	8,930,157	9,477,500	10,129,565
13	Accumulated Deferred Taxes - Plant	1,011,527	1,014,593	1,018,969	1,036,670
14	Accumulated Deferred Taxes - CIAC	(144,652)	(155,667)	(170,226)	(187,444)
15	Total Deductions For Reserves	9,818,527	10,274,112	10,801,234	11,443,855
16	Weighted Average Depreciated Rate Base	9,396,315	10,713,334	12,012,993	13,414,479

[1] 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

[2] D 16-06-054 p.192

SDG&E's requests a weighted average rate base for TY 2024, as contained in Update Testimony of $6.6 billion electric and $2.3 billion gas.[3889]

[3889] *Id.,* Attachment B at B-1 and B-5.

Table SDGE-SPD-1

San Diego Gas and Electric Company
WEIGHTED AVERAGE DEPRECIATED RATE BASE
Summary Total CPUC
(Thousands of Dollars)

Line No.	Account Description	Recorded Year 2021	Estimated Year 2022	Estimated Year 2023	Test Year 2024
	Fixed Capital				
1	Plant In Service	$ 13,745,524	$ 14,646,412	$ 15,659,709	$ 16,971,809
2	Total Fixed Capital	$ 13,745,524	$ 14,646,412	$ 15,659,709	$ 16,971,809
	Working Capital				
3	Fuel in Storage	$ 340	$ 339	$ 339	$ 339
4	Materials & Supplies	118,496	117,170	119,717	121,722
5	Working Cash*	109,204	109,204	109,204	307,326
6	Total Working Capital	$ 228,040	$ 226,713	$ 229,260	$ 429,388
	Other Deductions				
7	Repair Deductions Rate Base Adjustment (2016 - 2042	$ (34,314)	$ (32,680)	$ (31,046)	$ (29,412)
8	Customer Advances For Construction	(22,429)	(23,219)	(21,649)	(19,130)
9	Total Other	$ (56,744)	$ (55,900)	$ (52,695)	$ (48,543)
	Deductions For Reserves				
10	Accumulated Deferred Taxes - 2017 Tax Cuts & Jobs A	$ 273,410	$ 263,786	$ 253,738	$ 246,871
11	Accumulated Depreciation Reserve	5,586,887	5,935,807	6,349,975	6,785,336
12	Accumulated Amortization Reserve	635,053	666,090	780,240	913,679
13	Accumulated Deferred Taxes	523,582	517,846	502,376	486,632
14	Total Deductions For Reserves	$ 7,018,932	$ 7,383,530	$ 7,886,329	$ 8,432,517
15	Weighted Average Depreciated Rate Base	$ 6,897,888	$ 7,433,695	$ 7,949,944	$ 8,920,137

* 2021 to 2023 Working Cash based on TY 2019 GRC Decision (D.19-09-051)

Rate base is defined as the net investment of property, plant, equipment, and other assets that SoCalGas or SDG&E has acquired or constructed to provide utility services to its customers.[3890] The weighted average rate base is calculated using a 13-month average (the sum of the monthly balances from December of the prior year through December of the current year, less one-half of each December balance, divided by 12).[3891] The weighted average balance method has been an accepted industry practice for all California utilities and is a Commission approved methodology as adopted in prior rate-setting proceedings including SoCalGas's 2019 GRC proceeding.[3892] The four major components of rate base are Fixed Capital, Working Capital, Other Deductions, and Deductions for Reserves.[3893]

No party challenges SoCalGas and SDG&E's weighted average rate base calculation methodology. SDG&E and SCG thus request that it be adopted. Any revenue requirement

3890 Ex. SCG-31-2R (Moerson) at 2; Ex. SDG&E-35-R (Dais) at 2.

3891 *Id.*

3892 D.19-09-051.

3893 Ex. SCG-31-2R (Moerson) at 2; Ex. SDG&E-35-R (Dais) at 2.

adopted by the Commission in this proceeding will flow through this rate base calculation method. Similarly, no party challenged SoCalGas and SDG&E's capitalizing the implementation costs for cloud computing service contracts and amortizing the costs over the term of the associate arrangement based upon FERC guidance, or the capitalization of prepaid agreement costs associated with software and computer hardware such as Cloud Software as a Service license arrangements, reserved cloud capacity, and new software and hardware maintenance costs.[3894]

For hydro testing under Gas Transmission Safety Rules, no party opposed SoCalGas and SDG&E's implementation of FERC guidance. Under that guidance, if a utility is required to retest the pipeline so that its full capacities can be utilized, such first-time and one time retesting costs can be capitalized. And when such retesting costs are capitalized, all prior testing costs related to the specific property should be retired.[3895] These proposals should all be adopted.

On August 7, 2023, TURN, SoCalGas, and SDG&E jointly moved to enter Exhibit SCG-402/SDG&E-402 to describe the process SoCalGas and SDG&E used to update rate base to reflect the updated forecast of New Business Construction following D.22-09-026, including the changes to the impacted rate base elements and the resulting revenue requirements.[3896] In D.22-09-026, issued in Rulemaking 19-01-011 on September 20, 2022, the Commission eliminated gas line extension allowances, the 10-year refundable payment option, and the 50 percent discount option in SoCalGas Tariff Rules 20 and 21 and SDG&E Tariff Rules 15 and 16, for gas main and service extension applications received on or after July 1, 2023.[3897]

In response to that Decision, in rebuttal testimony, SoCalGas and SDG&E adjusted the classification of New Business Construction capital costs in their forecast to reflect D.22-09-026, which eliminated allowances for new services, unless they meet certain criteria per that Decision.[3898] This methodology can be applied to any forecast of Gas Distribution New Business construction ultimately authorized by the Commission in this proceeding. TURN does not dispute

3894 Ex. SCG-31-2R (Moerson) at 5; Ex. SDG&E-35-R (Dais) at 4 (citing FERC Letter Order, Docket No AI20-1-000 Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (Dec. 20, 2019).

3895 Ex. SCG-31-2R (Moerson) at 5; Ex. SDG&E-35-R (Dais) at 5.

3896 *See* Joint Motion of the Utility Reform Network, Southern California Gas Company, and San Diego Gas & Electric Company to Admit Supplemental Exhibit into Evidence (filed Aug. 7, 2023).

3897 D.22-09-026, Ordering Paragraph 1.

3898 Ex. SCG-402/SDG&E-402.

this process.[3899] SDG&E and SoCalGas thus request that this methodology be adopted. Exhibit SCG-402/SDG&E-402 does not address the merits of SoCalGas's and SDG&E's updated forecasts of Gas Distribution New Business construction costs in response to D.22-09-026, which are disputed by parties.

37. Depreciation

Dane Watson's depreciation recommendations based upon his comprehensive study should be adopted for SDG&E's gas assets and SoCalGas' assets. While Cal Advocates recommends not doing anything to increase rates from depreciation expenses based solely on a policy argument and TURN and IS recommend overly lengthening certain asset lives due to an overreliance on mathematical fitting, EDF recommends accelerating deprecation on SoCalGas and SDG&E's gas assets. Mr. Watson's proposals are the only one that strikes a reasonable balance between these positions.

To support affordability, SDG&E proposes to hold its electric and common plant depreciation rates constant, given the significant wildfire investments needed now that will pay dividends in the future, and the fact that SDG&E's common and electric assets will become even more utilized going forward with decarbonization. Cal Advocates supports this proposal.

As provided in update testimony, per the RO model, SoCalGas' 2024 requested depreciation and amortization expense is $975.7 million. For SDG&E it is $766.9 million.[3900]

37.1 The Commission Should Adopt SoCalGas and SDG&E's Proposed Gas Plant Deprecation Rates

"Depreciation" here means a system of accounting that distributes the cost of assets, less net salvage (if any), over the estimated useful life of the assets in a systematic and rational manner.[3901] Mr. Watson conducted a thorough study of the appropriate depreciation rates for SDG&E's common, electric and gas depreciable property, and SoCalGas' gas depreciable property.[3902]

3899 *See* Joint Motion of the Utility Reform Network, Southern California Gas Company, and San Diego Gas & Electric Company to Admit Supplemental Exhibit into Evidence (filed Aug. 7, 2023).

3900 Ex. SCG-401/SDG&E-401. These figures are derived from the updated flow through from update testimony.

3901 Ex. SDG&E-36-R (Watson) at 4; Ex. SCG-32-2R (Watson) at 2

3902 Ex. SCG-32-2R (Watson) at 3.

37.1.1 Dane Watson's Comprehensive Study of SoCalGas and SDG&E's Gas Plant Accounts Should be Adopted

A depreciation study is a comprehensive analysis of the property characteristics of a utility's assets. It is specific to each utility and that utility's assets to determine the appropriate annual depreciation accrual rate for each asset account. The primary factors that influence the depreciation rate are the remaining investment to be recovered in the account, the depreciable life of the account, and the net salvage for the account.[3903]

Mr. Watson undertook a four-phase depreciation study—data collection, analysis, evaluation, and calculation—consistent with *Depreciation Systems'* recommended approach.[3904] He first collected historical data through December 31, 2020. He next performed analyses to determine the lives and net salvage percentages for the different property groups being studied.[3905]

As part of this process, he conferred with field personnel, engineers, and managers responsible for the installation, operation, and removal of the assets to gain their input into the operation, maintenance, and salvage of the assets. He then evaluated the information obtained from those Company representatives, combined with the Depreciation Study results, to determine how the results of the historical asset activity analysis, in conjunction with the Company's expected future plans, should be applied.[3906]

In the final phase, he calculated depreciation rates and the theoretical reserve. A survivor curve represents the percentage of property remaining in service at various age intervals. Iowa Curves, the predominantly used survivor curve method in the utility industry, have become a descriptive standard for the life characteristics of industrial property. Most property groups can be closely fitted to one Iowa Curve with a unique average service life. When selecting an average service life, the analyst also selects a survivor curve.[3907]

Historical lives and net salvage data are not the only factors to consider in making life and net salvage recommendations. It is important to incorporate future trends, changes in equipment and Company-specific operational information before finally making life and net salvage

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[3903] *Id.*

[3904] Ex. SDG&E-36-R (Watson) at 5 (citing Fitch and Wolf, Depreciation Systems, at 289 (Iowa State Press 1994)).

[3905] Ex. SCG-32-2R (Watson) at 4.

[3906] *Id.*

[3907] *Id.*

recommendations.[3908] How SoCalGas and SDG&E use the assets—based on interviews with Company subject matter experts—provides important indicators as to the expected service life of those assets and reveals flaws in generic statistical assumptions.[3909]

By blending judgment concerning current conditions and, critically, future trends with the matching of historical data, Mr. Watson made an informed selection of an account's average service life and survivor curve.[3910] Mr. Watson calculated depreciation expense amounts for SoCalGas and SDG&E's depreciable accounts. Mr. Watson used the straight-line (method), ALG (procedure), remaining-life (technique) depreciation method for this Depreciation Study, consistent with CPUC Standard Practice U-4.[3911] For each plant account life, the difference between the surviving investment, adjusted for estimated net salvage, and the allocated book depreciation reserve, was divided by the average remaining life to yield the annual depreciation expense.[3912]

For net salvage rates, after calculating the net salvage rate warranted by his study, Mr. Watson applied the Commission's "gradualism" principle to limit any proposed change in negative net salvage to, at most, a 25% change.[3913] Specifically, in D.14-08-032, the Commission limited any increase in negative net salvage to "no more than 25% of the estimated net [salvage] increase from current [net salvage] rates."[3914] Mr. Watson applied this 25% principle to limit the change for SoCalGas and SDG&E's depreciable and amortized assets—even if the study indicated that a bigger change was necessary.[3915]

After following the applicable steps, Mr. Watson reasonably concluded that the depreciation rates developed for SDG&E and SoCalGas' Utility Plant accounts as set forth in Mr. Watson's Depreciation Studies encompassed the best and most recent information for calculating SDG&E and SoCalGas' depreciation and amortization expenses. Mr. Watson's depreciation study

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3908 *Id.* at 6-7.

3909 *Id.* at 7.

3910 Ex. SDG&E-36-R (Watson) at 9 (referring to NARUC's admonition against strict reliance on historical data and curve fitting) (citing NARUC, *Public Utility Depreciation Practices* (1996) at 126).

3911 Ex. SCG-32-2R (Watson) at 5.

3912 *Id.* at 10.

3913 *Id.* at 14.

3914 D.14-08-032 at 600; *accord* D.15-11-021.

3915 Ex. SCG-32-2R (Watson) at 14.

is a balanced review of SoCalGas and SDG&E's life and net salvage characteristics and is the only source in the record that accurately reflects the Company's current facts and circumstances.[3916]

Beginning in TY 2024, the requested expense is calculated using new depreciation rates resulting from an updated depreciation study as reflected in SoCalGas and SDG&E's update testimony.[3917] The proposed depreciation rates for all SoCalGas depreciable property are shown in Appendix A of Mr. Watson's Depreciation Rate Study (Depreciation Study) report, which is attached to his testimony as Attachment C.[3918]

Southern California Gas Company[3919]
Summary of Depreciation Expense and Amortization
(Thousands of Dollars)

Line No.	Description	2021 Recorded (2021$)	2024 Test Year (2024$)
	Depreciation Expense		
1	Underground Storage	$ 56,875	$ 88,392
2	Transmission	99,339	158,237
3	Distribution	334,446	458,193
4	General Plant	212,297	270,917
5	Total Depreciation & Amortization Expense	$ 702,956	$ 975,739

The proposed depreciation rates for all SDG&E gas depreciable property are shown in Appendix A of Mr. Watson's Depreciation Rate Study (Depreciation Study) report, which is attached to his testimony as Attachment C.[3920]

3916 Ex. SCG-232 (Watson) at 4.

3917 Ex. SCG-401/SDG&E-401.

3918 Ex. SCG-32-2R (Watson) at 1.

3919 These depreciation figures result from SoCalGas' proposals as updated by the Update Testimony. SCG-401/SDG&E-401.

3920 Ex. SDG&E-36-R (Watson).

San Diego Gas & Electric Company[3921]
Test Year 2024
Gas Depreciation & Amortization Expense
(Thousands of Dollars)

Line No.	Description	2021 Recorded (2021$)	2024 Test Year (2024$)
	Depreciation Expense		
1	Underground Storage	95	105
2	Transmission	10,937	9,057
3	Distribution & General Plant	55,839	85,211
4	TOTAL DEPRECIATION	66,871	94,373
	Amortization Expense		
5	Land Rights	186	360
6	TOTAL AMORTIZATION	186	360
7	TOTAL GAS DEPR. & AMORT. (EXCLUDING COMMON)	67,057	94,733

As the factors leading SDG&E to propose keeping electric and common depreciation rates constant—namely significant wildfire mitigation and other expenditures and increased electrification—apply only to SDG&E's electric business, SDG&E recommends updating the Company's gas depreciation rates as proposed by Mr. Watson resulting from his study.[3922]

It is critical that depreciation expense match an account's life and circumstances. Yet SoCalGas and SDG&E have retained the same life parameters over two GRC cycles despite numerous factors changing since those depreciation rates were last adjusted. For example, both companies' Integrity Management Programs (IMP) have impacted numerous aspects of their—Storage, Facilities, Transmission, and Distribution.[3923]

[3921] These depreciation figures result from SDG&E's proposals as updated by the Update Testimony. SCG-401/SDG&E-401.

[3922] Ex. SDG&E-01-R (Folkmann) at 18-19.

[3923] Ex. SCG-232 (Watson) at 2; Ex. SDG&E-236-E (Watson) at 3.

SoCalGas Account 352, Wells, provides an apt example of how far an account can become out of synch with its needed capital recovery if depreciation rates are not set properly and periodically updated.[3924]

Current Life	Proposed life	Current Net Salvage %	Proposed Net Salvage %
49 R2.5	49 R2.5	-70%	-90%

Although SoCalGas has retained the same life parameter over two GRC cycles, the cost to abandon wells has increased significantly due to new regulations and some past abandonment work must be redone to meet current regulation compliance, increasing removal cost.[3925] The plant balance for this account as of December 31, 2021, is $599 million and accumulated depreciation is negative $107 million.

One benchmark that depreciation analysts use to measure how close an account's accumulated depreciation is to where it should be is to compare it to the theoretical depreciation reserve. For this account, the reserve ratio (Accumulated depreciation reserve/ Plant balance) is -19.71%. The ratio using the theoretical reserve and proposed depreciation parameters is 34.90%.[3926]

SDG&E's Account G376, Transmission Mains, SDG&E's largest gas account, has a similar situation.

Current Life	Proposed life	Current Net Salvage %	Proposed Net Salvage %
69 R3	69 R3	-55%	-80%

The three-year, five year, and 10 year moving averages show negative 345, negative 324, and negative 242 percent, respectively.[3927] The plant balance as of December 31, 2021, is $1.5 billion and accumulated depreciation is $465 million. The Company has not recovered the retirement of plant or the ongoing cost of removal.

The theoretical reserve for this account is $491 million, with a reserve ratio (Accumulated depreciation reserve/ Plant balance) of 30.9%. The ratio using the theoretical reserve and proposed

3924 Ex. SCG-232 (Watson) at 4.

3925 *Id.* at 5.

3926 *Id.*

3927 Ex. SDG&E-236-E (Watson) at 6.

depreciation parameters is 32.6%. That differential is $25.5 million that the reserve should contain to mirror the Company's proposed depreciation parameters. Based on judgment and Company experience, Mr. Watson recommends moving to negative 80 percent net salvage, consistent with the CPUC's gradualism precedent.[3928]

This situation applies for most of SoCalGas and SDG&E's large asset classes—depreciation parameters are out of alignment and require adjustment.[3929]

In its 2019 GRC, SoCalGas was ordered to retain all depreciation rates and parameters from the 2016 GRC. Because of this, the Company is behind in the recovery of the removal cost for its investment in property, plant, and equipment. The gradualism principle only exacerbates this issue. The tables below show the change in lives from 2012 to 2019 GRC for the Company's largest accounts, as measured by plant investment at December 31, 2020.

SoCal Gas Changes in Life Largest Accounts

Acct	2012 GRC Life	2019 GRC Life	Change
G352- Wells	29	49	20
G354 Compressor Station Equipment	45	41	-4
G367 Transmission Mains	57	64	7
G376 Distribution Mains	55	68	13
G380 Services	51	67	14

SoCal Gas Changes in Net Salvage Largest Accounts

Acct	2012 GRC Net Salvage	2019 GRC Net Salvage	Change
G352- Wells	-45	-70	25
G354 Compressor Station Equipment	-5	-15	10
G367 Transmission Mains	-30	-60	30
G376 Distribution Mains	-55	-80	25
G380 Services	-95	-115	20

[3928] *Id.*at 6-7

[3929] Ex. SCG-232 (Watson) at 5; Ex. SDG&E-236-E (Watson) at 7.

SDG&E Changes in Life Largest Accounts

Acct	D.13-05-010 Approved Life	D.16-06-054 & D.19-09-051 Approved Life	Current Study Proposed Life
G376.00-Mains	60	69	69

SDG&E Changes in Net Salvage Largest Accounts

Acct	D.13-05-010 Net Salvage	D.16-06-054 & D.19-09-051 Net Salvage	Current Study Proposed Net Salvage
G376.00-Mains	-45	-55	-80

37.1.2 The Intervenors' Depreciation Proposals Regarding SoCalGas and SDG&E's Gas Assets Should be Rejected

The difference between SoCalGas and the intervenors' proposals are below.[3930]

Summary of Differences

TOTAL DEPRECIATION EXPENSE - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Difference**
SOCALGAS	**796,028**	975,739	**179,711**
CAL ADVOCATES	**796,028**	**865,177**	**69,149**
TURN	**707,743**	**Not provided**	
INDICATED SHIPPERS	**759,368**	**927,436**	**168,068**
ENVIRONMENTAL DEFENSE FUND	**NA**	**NA**	**NA**

Similarly, the difference between SDG&E's gas depreciation proposals and the intervenors' are below.[3931]

Summary of Differences - Gas Depreciation

GAS DEPRECIATION EXPENSE - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Difference**
SDG&E	107,821	155,289	47,468
CAL ADVOCATES	107,821	140,413	32,592
TURN	91,269	Not provided	
EDF	NA	NA	NA

3930 Ex. SCG-232 (Watson) at 1 (citations omitted).

3931 Ex. SDG&E-236-E (Watson) at 2 (citations omitted).

37.1.2.1 The Intervenors' Position Regarding the Life of Assets Should be Rejected

Cal Advocates rejects any increase in depreciation expense out of hand.[3932] In so doing, it fails to any to provide any actuarial analysis that shows how actuarial company data compares to Cal Advocates' competing proposals.[3933] Instead, Cal Advocates cherry picks data, adopting Mr. Watson's recommendation when his study indicates that the life for an account should be lengthened (which decreases depreciation expense), while rejecting the results of Mr. Watson's study when it indicates that a life for an asset should be shortened (which increases depreciation expense).[3934]

Again, Cal Advocates' position is not based upon depreciation analysis. It reflects Cal Advocates' apparent policy argument that "rates are currently high and increasing,"[3935] and that the "country is again facing economic uncertainty, inflation and high energy costs."[3936] By ignoring depreciation analysis, Cal Advocates does not follow Commission standard practice U4 or the basic depreciation principle of allowing the recovery of the cost of the assets (and their removal cost) over the life of the assets.[3937] It should thus be rejected.

Cal Advocates more broadly argues that SDG&E's maintenance of common and electric depreciation levels should be applied to SDG&E's gas assets.[3938] But, as noted, SDG&E's differing proposals are based on the differing status between its common and electric and natural gas assets.[3939] The difference in recommendations are based upon the fact that the parties and the Commission universally recognize that SDG&E's common and electric assets will be fully used for a long time moving forward—and will become even more important with electrification and the inevitable additional volume of energy transmitted through SDG&E infrastructure.[3940]

[3932] *See* Ex. CA-17 (Ayanrouh) at 1.

[3933] Ex. SCG-232 (Watson) at 5; SDG&E-236-E (Watson) at 5.

[3934] *See* CA-17 (Ayanruoh) at 3 ("Cal Advocates agrees with SDG&E's requested depreciation parameters for longer service lives for certain assets but recommends that proposals to shorten the service life for other assets be denied. Instead, Cal Advocates recommends that the service lives for those assets be retained at the current levels.").

[3935] *Id.* at 14.

[3936] *Id.* at 29.

[3937] Ex. SCG-232 (Watson) at 6; Ex. SDG&E-236-E (Watson) at 7-8.

[3938] *See* Ex. CA-17 (Ayanruoh) at 30.

[3939] Ex. SDG&E-201 (Folkmann) at 4-5.

[3940] *Id*.

TURN's gas plant depreciation life analysis ignores a basic principle of actuarial analysis by only using one placement and experience band (the full band), thereby failing to analyze any changes that would naturally occur over time.[3941] TURN seems to rely solely on overall placement and experience bands, rather than looking at the best fit from multiple bands.[3942] This results in recommendations that are overly reliant on mathematical curve-fitting, which results in unreasonable recommendations for certain accounts, especially when considering the variety of assets in an account and how they are operated.[3943]

In so doing, TURN ignored both Company-specific operational information and reasonable engineering expectations for the life of assets. The treatise *Depreciation Systems* cautions that "blind acceptance of mechanical fitting processes will occasionally but consistently result in poor choices"[3944] and that the "results of mathematical fitting should be checked visually and the final determination of best fit made by the analyst."[3945] Sound depreciation practice and authoritative guidance advise that a recommended life curve needs to drop to take into account at least 50% of the life cycle *(i.e.,* 50% of the historical experience) of the assets.[3946]

TURN also fails to incorporate any information from Company experts related to the actual operations of the assets in his life recommendations—which, as noted, is of critical importance in the depreciation study process. Contrary to TURN's suggestion that Mr. Watson was "privy to pertinent information shared by Company personnel that was not made available to TURN,"[3947] Mr. Watson's interview notes were provided in workpapers.[3948]

For SoCalGas, Indicated Shippers (IS) similarly relies on mathematical fitting more than is justified, often used only one placement and experience band in its analysis, and provided life recommendations that rely too much on the older portion of the curve, which does not contain sufficient activity to be meaningful.[3949] The infirmaries with TURN and IS' life recommendations can be seen regarding certain individual accounts below. As noted, Cal Advocates' blunt rejection

3941 Ex. SDG&E-236-E (Watson) at 9) (citing Ex. TURN-12 (Garrett) at 10).

3942 Ex. TURN-12 (Garrett) at Exhibit DJG-6, Exhibit DJG-7, Exhibit DJG-8, and Exhibit DJG-9.

3943 SDG&E-236-E (Watson) at 10.

3944 *Id.* (quoting *Depreciation Systems*, Drs. F.K. Wolf and W.C. Fitch, Iowa State Press, 1994, p. 47).

3945 *Id.* (quoting Depreciation Systems at 48).

3946 *Id.* (citation omitted).

3947 Ex. TURN-12 (Garrett) at 21.

3948 Ex. SCG-232 (Watson) at 9; Ex. SDG&E-236-E (Watson) at 12

3949 Ex. SCG-232 (Watson) at 11.

of any lengthening of service lives, regardless of the underlying facts, should also be rejected for the accounts where TURN and/or IS adopt Mr. Watson's recommendations.[3950]

SoCalGas

SCG Account 354 Compressor Station Equipment—This account consists of approximately $457.2 million of investment in compressor station equipment used in the underground storage operations. While TURN adopts SoCalGas' recommendation, IS proposes lengthening the life based upon its review the life of assets over 40 years old. But those vintages make up 5.23% of the plant in this account. Given that the average age of survivors is 8.21 years, basing the recommendation for life in this account on a small proportion of the plant is not reasonable.[3951]

Account 354 Compressor Station Equipment Life Proposals

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/ Life	41 L0.5	41 L0.5	41 L0.5	45 L0	45 L0	NA

SCG Account 367 Transmission Mains— This account includes the cost of transmission mains, primarily coated and wrapped steel. The average age of survivors in this account is 13.64 years. Given the young age of the investment and the effects of the TIMP program forcing some retirements, SoCalGas recommends a 70-year life and an R2 dispersion. Cal Advocates adopts this proposal.[3952] TURN and IS' proposals are based upon insufficient retirement experience to base a life prediction for an account that contains 15.3 percent of SoCalGas's depreciable plant. Instead SoCalGas's proposed curve is a better model for current assets and future additions to this account.[3953]

Account 367 Transmission Mains Life Parameter Proposals

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/ Life	64 R3	70 R2	75 R2	74 R3	70 R2	NA

3950 *See id.* at 12-33 (For accounts 351.2, 353, 366.2, 371, 371.1, 375, and 375.2, TURN and IS adopt Mr. Watson's life recommendation, but Cal Advocates proposes retaining the current life, merely because SoCalGas' proposal would shorten the life); Ex. SDG&E-236-E (Watson) at 14-26 (G381; G394.1 and G394.2 ,TURN adopts Mr. Watson's life recommendations, but Cal Advocates proposes retaining the current life merely because SDG&E's proposal would shorten the life).

3951 Ex. SCG-236 (Watson) at 14-15.

3952 *Id.* at 17.

3953 *Id.* at 21.

SCG Account 368—This account includes the cost of compressor station equipment used in connection with transmission operations, with an average survivor age of 16.27 years. TURN and IS' recommendation is improperly based on mathematical fitting citing a single placement and experience band, ignores field personnel input, and is not as good of a match as Mr. Watson's for assets through age 40.[3954]

Account 368 Compressor Station Equipment Life Proposals

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/Life	50 R1	48 R1	52 R1	54 R1	50 R1	NA

SCG Account 369—This account includes the cost of measuring and regulating station equipment used in connection with transmission operations, with an average survivor age of 7.84 years. While TURN and Cal Advocates support SoCalGas' proposal, IS proposes a two year longer life. But Mr. Watson's proposed curve better matches through age 40, while IS relies on older data that may not be representative of future retirements.[3955]

Account 369 Measuring and Regulating Equipment Life Parameters

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/Life	46 S0	48 R0.5	48 R0.5	50 R0.5	48 R0.5	NA

SCG Account 376—This account includes the cost of mains used in connection with distribution operations. The average age of survivors in this account is 17.35 years, with an average retirement age of 28.63 years, and features significant replacements due to the integrity management program. SoCalGas proposes maintaining the current life, based upon recommendations from operations personnel.[3956] Cal Advocates likewise supports that approach. TURN and IS' recommendations improperly rely upon one band that contains insufficient data upon which to base their recommendations.[3957] SoCalGas' recommendation better reflects the experience with current assets and expectations for future additions.[3958]

3954 *Id.* at 21-24.

3955 *Id.* at 24-25.

3956 *Id.* at 30.

3957 *Id.* at 31-32.

3958 *Id.* at 33.

Account 376 Distribution Mains Life Proposals

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/ Life	68 R2.5	68 R2.5	75 R2.5	74 R3	68 R2.5	NA

SCG Account 380—SoCalGas recommends retaining the life for this account which consists of services used in distribution operations. Cal Advocates supports that recommendation. TURN and IS' proposed lengthening of the life for this account is again based upon improperly relying upon one band, being overly dependent on mathematical fitting, and ignoring input from operations personnel.[3959] As above, SoCalGas' proposal is a better fit for more recent assets in this account and future expectations.[3960]

Account 380 Services Life Proposals

Party	Company Current	Company Proposed	TURN	IS	Cal Advocates	EDF
Curve/ Life	67 R2	67 R2	72 R2	74 R2.5	67 R2	NA

SDG&E

SDG&E Account G367—This account includes the cost of transmission mains, primarily coated and wrapped steel. Cal Advocates accepts SDG&E's position. While TURN proposes a longer life, it is again improperly based upon one poor fitting band and ignoring operational input.[3961]

Account G367 Transmission Mains

Party	Company Current	Company Proposed	Cal Advocates	TURN	EDF
Curve/ Life	45 S4	69 R3	69 R3	75 R3	NA

SDG&E Account G368— This account includes the cost of compressor station equipment used in connection with transmission operations, with an average age of survivors of 19.58 years. While Cal Advocates adopts SDG&E's proposal, TURN improperly proposes a longer life by again ignoring important input from Company personnel related to the assets in this account, relying on one band, and being overly dependent on mathematical fitting.[3962]

3959 *Id.* at 33-37.

3960 *Id.* at 37.

3961 Ex. SDG&E-236-E (Watson) at 15-17.

3962 *Id.* at 17-18.

Account G368 Compressor Equipment

Party	Company Current	Company Proposed	Cal Advocates	TURN	EDF
Curve/ Life	35 S3	40 S3	40 S3	46 S3	NA

SDG&E Account G376—This account includes the cost of mains used in connection with distribution operations, with an average survivor age of 13.58 years. TURN again only uses one band. And given that the average age of survivors is 13.58 years, TURN basing its recommendation for life in this account on a single band encompassing data as far back as 1915 does not provide pertinent information.[3963]

Account G376 Distribution Mains

Party	Company Current	Company Proposed	Cal Advocates	TURN	EDF
Curve/ Life	69 R3	69 R3	69 R3	75 R3	NA

SDG&E Account G380—This account consists of services used in gas distribution operations, with an average survivor age of 19.04 years.[3964] Cal Advocates adopts SDG&E's recommendation. TURN by contrast, again only examines only one band, the 1915-2020 placement band and the 1961-2020 experience band.[3965] Given that the average age of survivors is 19.04 years, basing the recommendation for life in this account on a single band encompassing experience as far back as 1915 does not provide an accurate representation of all investment in this account, and should be rejected.

Account G380 Distribution Services

Party	Company Current	Company Proposed	Cal Advocates	TURN	EDF
Curve/ Life	65 R2.5	65 R2.5	65 R2.5	72 R2.5	NA

Conversely, Environmental Defense Fund (EDF) proposes accelerating deprecation on SoCalGas and SDG&E's gas assets.[3966] As Mr. Watson describes, EDF's alternative ratemaking approaches do not follow the Commission's precedent for addressing depreciation.[3967] More

3963 *Id.* at 19-21.

3964 *Id.* at 21.

3965 *Id.* at 21-24.

3966 Ex. EDF-01 (McCann/Seong) at 54-60.

3967 Ex. SDG&E-236-E (Watson) at 14.

importantly, EDF's proposal to alter how gas assets are depreciated considering the state's electrification goals is not appropriately addressed in a single utility's GRC. It should instead be considered in a rulemaking addressing all utility gas assets in the state.[3968] In fact, the Commission has already identified accelerated and alternative depreciation methods within the scope of R.20-01-007, which is the appropriate forum for the consideration of this issue. Given these competing and conflicting intervenor proposals to lengthen or shorten lives, SoCalGas and SDG&E's depreciation life recommendations strike a reasonable balance.

37.1.2.2 Cal Advocates and TURN's net salvage proposals should be Rejected

As with its depreciation life analysis, Cal Advocates similarly rejects any increase in negative net salvage.[3969] This again is not based upon any analysis but upon Cal Advocates' policy argument that nothing should be changed in depreciation that would increase rates. But under its gradualism precedent, the Commission has increased negative net salvage rates where depreciation analysis indicates that it is warranted, such as in Southern California Edison's 2021 GRC.[3970] Notably, Cal Advocates itself recommended net salvage changes in that proceeding.[3971] Because Cal Advocates' position is inconsistent with depreciation principles and the Commission's gradualism precedent to gradually increase negative net salvage rates where appropriate, it should be rejected.

TURN's net salvage proposals misapply the gradualism concept as prescribed by the Commission. TURN proposes increasing negative net salvage rates by 25% of the change recommended by Mr. Watson.[3972] But in so doing, TURN misconstrues Mr. Watson's study and Commission precedent. Since PG&E's 2014 GRC Decision, the Commission has applied a "gradualism" principle that limits a change in net salvage to "no more than 25% of the estimated net increase from *current* [net salvage] rates."[3973] In other words, if the net salvage rate for an account was negative 75 percent, and a depreciation study showed that it should increase to

[3968] Ex. SDG&E-201 (Folkmann) at 5.
[3969] *See* Ex. CA-17 (Ayanruoh) at 1.
[3970] D.21-08-036 at 510.
[3971] *Id*.
[3972] Ex. TURN-12 (Garrett) at 52.
[3973] D.14-08-032 at 600 (emphasis added).

negative 150 percent, the Commission would, under its gradualism concept, only allow a movement to a negative 100 percent net salvage, or 25 basis points.[3974]

Mr. Watson applied that gradualism concept to his own net salvage recommendations to limit any change in net salvage to 25 basis points.[3975] For example, Mr. Watson found that the nine-year average net salvage rate for account 369.1 is negative 370 percent. But the account's current net salvage rate is only negative 110 percent. So Mr. Watson's recommendation was to move only 25 basis points to negative 135.[3976]

Yet TURN proposes setting net salvage at 25% of *Mr. Watson's recommendation*.[3977] In other words, Mr. Garrett's proposal would mean that there could only be, at most, a six percent change in net salvage at any one time—25% of 25% if the Company is seeking to abide by the Commission's gradualism precedent in its recommendations—undermining the Commission's gradualism precedent.[3978] TURN's novel approach would result in a double counting of the gradualism concept.[3979] Or it would have the perverse effect of incentivizing a utility to propose the actual net salvage level indicated by a depreciation study—even though the Commission would never adopt it under its gradualism precedent—just so the Commission or other parties could apply the 25% limit.[3980] TURN's net salvage recommendations should thus be rejected as inconsistent with the Commission's gradualism principle.

[3974] SDG&E-236-E (Watson) at 13; Tr. V12:2096:19-22 ("Your Honor, my interpretation of the Commission's guidance would be that at maximum, we could move 25 basis points toward the actual exhibited net salvage percentage.").

[3975] SDG&E-236-E (Watson) at 13; Tr. V12:2097:7-10 (Watson) ("Only for [those accounts] where the experienced net salvage was significantly higher than the approved, and in those cases—in other words, more negative than approved, we would step up only 25 basis points."); *id.* at 2110:6-14 ("Q: Mr. Watson, if the Commission's gradualism precedent, as you understand it, did not exist, would you have recommended different net salvage rates in your study for certain accounts? A: Yes, in all likelihood.").

[3976] Tr. V12:2098:10-14 (Watson)

[3977] *See* Ex. TURN-12 (Garrett) at 52.

[3978] SDG&E-236-E (Watson) at 13.

[3979] *Id.*; *see* Tr. V12: 2108:5-9 (Watson) ("It doesn't' make sense for a utility to apply a 25 percent movement when they've already applied a 25-basis point change because that will give you a maximum only six basis point difference.").

[3980] SDG&E-236-E (Watson) at 28.

In its rebuttal testimony, IS incorporated TURN's net salvage adjustments into its depreciation recommendations.[3981] IS's adoption of TURN's net salvage positions should be rejected for the same reasons as discussed above.

37.2 The Commission Should Adopt SDG&E's Proposal to Hold its Electric and Common Depreciation Rates Constant to Support Affordability

SDG&E believes that Mr. Watson's study reflects the appropriate depreciation rates for SDG&E's common, electric and gas depreciable property. But for policy considerations, SDG&E proposes a one-time, non-precedential proposal to hold the Company's electric and common depreciation rates constant throughout the GRC cycle.[3982] As noted, SDG&E proposes the adoption of Mr. Watson's recommendations regarding the applicable depreciable rates for SDG&E's natural gas property.

San Diego Gas & Electric Company[3983]
Test Year 2024
Electric Depreciation & Amortization Expense
(Thousands of Dollars)

Line No.	Description	2021 Recorded (2021$)	2024 Test Year (2024$)
	Depreciation Expense		
1	Generation	52,024	59,901
2	Distribution	290,867	361,720
3	General Plant relating to Electric Distribution	17,322	21,163
4	Depr. of Common Plant related to Distribution	45,119	61,655
5	TOTAL DEPRECIATION	405,333	504,440
	Amortization Expense		
6	Land Rights	2,069	2,305
7	Software	67,399	104,849
7	TOTAL AMORTIZATION	69,468	107,154
8	TOTAL ELEC. DEPR. & AMORT.	474,801	611,594

3981 Ex. IS-03 (Andrews) at 2-5.

3982 SDG&E-01-R (Folkmann) at 18; Tr. V 4:901:6-8 (Folkmann).

3983 These depreciation figures result from SDG&E's proposals as updated by the Update Testimony. SCG-401/SDG&E-401.

Although SDG&E would not normally suggest overriding the reasonable depreciation rates necessary to ensure the appropriate recovery of the Company's assets, SDG&E considers this such a unique period that a one-time approach of holding these depreciation rates constant is warranted for two reasons. First, given the significant, critical, investments in wildfire mitigation that SDG&E is undertaking, holding electric and common depreciation rates constant now is appropriate for today's circumstances.[3984] These crucial efforts now will pay dividends in the future—such that wildfire mitigation may constitute a less significant portion of future SDG&E costs.

Second, decarbonization will lead to expanded electric end uses, resulting in an increase in electric volumes sold and electric revenues.[3985] The parties and the Commission universally recognize that SDG&E's common and electric assets will be fully used for a long time moving forward—and will become even more important with electrification and the inevitable additional volume of energy transmitted through our infrastructure.[3986] This unique combination of circumstances provides a future opportunity to recover depreciating assets when they are providing even more benefits than they do today.[3987]

To support affordability, SDG&E thus believes that the most reasonable approach is holding the depreciation levels for electric and common depreciation rates constant. Throughout this GRC cycle, the overall electric depreciation rate will remain 4.08 percent compared to 4.44 percent. The overall common depreciation rate will remain 7.04 percent compared to 7.19 percent.[3988] This would result in an overall saving for ratepayers of $42.9 million based on 2021 accumulated reserve balances.[3989]

Notably, Cal Advocates supports SDG&E's proposal to maintain SDG&E's common and electric plant depreciation levels.[3990] In testimony, TURN seemingly misunderstood SDG&E's

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3984 SDG&E-01-R (Folkmann) at 18: SDG&E-201 (Folkmann) at 3-4.

3985 *Id*.

3986 Ex. SDG&E-201 (Folkmann) at 4.

3987 Ex. SDG&E-01-R (Folkmann) at 18.

3988 *Id*.

3989 Tr. V4:902:1-2 (Folkmann).

3990 Ex. CA-17 (Ayanruoh) at 15 ("Cal Advocates takes no issue with SDG&E's proposals to maintain depreciation rates for electric and common plant at the current rates.").

proposal to hold common and electric plant rates constant for this GRC cycle.[3991] Although it is not clear what TURN's depreciation approach was, TURN likewise seemingly cherry-picks Mr. Watson's study—suggesting further depreciation reductions where Mr. Watson's study recommended longer common and electric plant service lives for SDG&E's assets compared to current levels, while accepting keeping lives current for common and electric plant accounts when Mr. Watson's study recommended shortening those lives.[3992]

Mr. Watson's rebuttal describes the infirmaries with TURN's approach regarding electric plant account E365 where TURN proposes a 60-year life, as opposed to the current 45-year life that SDG&E proposes maintaining in its comprehensive effort to freeze all electric and common depreciation levels to lower rates.[3993] TURN examines only one band, the 1915-2020 placement band and experience band of 1961-2020, and ignored operations personnel input.[3994] Given that the average age of survivors is 10.97 years, basing the recommendation for life in this account on a single band encompassing experience as far back as 1915 provides a poor representation for all investment in this account.[3995]

TURN similarly misapplies the Commission's gradualism precedent to TURN's net salvage recommendations for SDG&E's common and electric assets. TURN's approach should be rejected. It must be noted, however, that, in this instance, TURN proposes increases in negative net salvage for certain SDG&E common and electric plant accounts compared to SDG&E's proposal, given that SDG&E proposing holding its common and electric plant levels constant.[3996] In sum, SoCalGas and SDG&E's proposals here represent a reasonable, balanced approach to depreciation.

[3991] Ex. TURN-12 (Garrett) at 4. TURN is seemingly confused based on the accrual amount outlined in Mr. Watson's testimony. *Id.* at n.3. Although Mr. Watson's testimony shows the math of applying the rates from his study, SDG&E's proposal to hold current common and electric plant depreciation levels constant is contained in Bruce Folkmann's testimony. Ex. SDG&E-01-R (Folkmann) at -19.

[3992] *See* Ex. TURN-12 (Garrett) at 10; Ex. SDG&E-201 (Folkmann) at 4.

[3993] Ex. SDG&E-236-E (Watson) at 38.

[3994] Ex. TURN-12 (Garrett) at 33.

[3995] SDG&E-236-E (Watson) at 38.

[3996] *Id.* at 13; *see* TURN-12 (Garrett) at 10, Table 6 (comparing SDG&E's current net salvage rates to TURN's proposed rates).

38. Tax

SoCalGas' and SDG&E's estimated tax expense for Test Year (TY) 2024 include payroll taxes, ad valorem taxes, and income taxes.[3997] As provided in update testimony, SoCalGas forecasts a TY 2024 payroll tax expense of $59.4 million, ad valorem tax expense of $172.8 million, and income tax expense of $188.9 million.[3998] SDG&E forecasts a TY 2024 payroll tax expense of $23.0 million, ad valorem tax expense of $149.2 million, and income tax expense of $153.1 million.[3999]

The Tax Cuts and Jobs Act (TCJA) enacted on December 22, 2017 (Pub. L. No. 115-97), impacted SoCalGas and SDG&E by: (1) reducing the federal corporate tax rate from 35% to 21%, effective 2018; (2) eliminating the bonus depreciation deduction for regulated utilities; (3) eliminating the deduction for transportation fringe benefits provided to employees beginning in 2018; (4) requiring to return plant-related excess deferred taxes created by the reduction in the corporate tax rate to ratepayers ratably using the Adjusted Rate Assumption Method (ARAM) as described in the TCJA; and (5) changing the tax treatment of self-developed software costs from being fully deductible in the year the costs are incurred to, beginning in 2022, a five-year amortization period for deducting such costs.[4000]

As established in D.16-06-054, and continued in D.19-09-051, SoCalGas and SDG&E have maintained a Tax Memorandum Account (TMA) to "track[] differences arising from changes in tax law, tax accounting changes, tax policy changes, or procedural changes."[4001] SoCalGas and SDG&E propose to continue the TMA for the 2024 TY GRC cycle, including the post-test-year period, under the rules and scope set forth in D.19-09-051 and Advice Letters 5546 and 3462-E/2820-G.[4002]

[3997] *See* Ex. SCG-33-2R (Reeves); SDG&E-37-R (Reeves).

[3998] Ex. SCG-401/SDG&E-401.

[3999] Ex. SCG-401/SDG&E-401.

[4000] Ex. SCG-401/SDG&E-401.

[4001] D.19-09-051 at 639-640, 648.

[4002] Ex. SCG-33-2R (Reeves) at 24-25; Ex. SDG&E-37-R (Reeves) at 31-32. On April 14, 2023, the IRS released Revenue Procedure 2023-15, which is effective for taxable years ending after May 1, 2023. It provides a safe harbor method of accounting that taxpayers may use to determine whether expenditures to maintain, replace, or improve Gas T&D property must be capitalized under IRC §263(a) or § 263A, or treated as deductible under § 162. SoCalGas and SDG&E are still assessing whether to elect as an optional accounting method change. Should the election occur, the impact will be tracked in the TMA.

SoCalGas's and SDG&E's tax expense forecasts have been accepted by all parties without challenge. SoCalGas and SDG&E thus request that the Commission adopt their requested tax expense for TY 2024 as proposed. The revenue requirement set in this proceeding by the Commission will flow through SoCalGas's and SDG&E's tax expenses.

39. Working Cash

SoCalGas's and SDG&E's Working Cash testimony and workpapers, supported by witnesses Alexandra N. Hornbeck and Jack M. Guidi, describe and justify the utilities' Test Year (TY) 2024 working cash requirements. Working cash is a component of rate base under SP U-16-W, and its purpose is to compensate investors for providing funds committed to operating expenses in advance of receiving associated revenues from the utility's customers.[4003] Overall, SoCalGas requests a net working cash requirement of $168.8 million[4004] and SDG&E requests a net working cash requirement of $307.3 million.[4005]

The Joint Comparison Exhibits (JCE) for SoCalGas and SDG&E summarize each utility's request and corresponding Intervenor proposals in this area.[4006] This section focuses on working cash principles and calculations directly disputed by Cal Advocates, TURN, FEA and the Indicated Shippers in their working cash testimony. Any working cash items not addressed in this section are fully supported in the direct and rebuttal testimony and workpapers and should be adopted by the Commission.[4007]

[4003] Ex. SCG-34-2R-E (Hornbeck) at 1-2; Ex. SDG&E-38-R-E (Guidi) at 2, n.3 (*citing* Determination of Working Cash Allowance, SP U-16-W (March, 2006) at Chapter 1, Section D, Paragraph 6 ("Its purpose is to compensate investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers and in order to maintain minimum bank balances.")).

[4004] Ex. SCG-401/Ex. SDG&E-401 at A-14.

[4005] *Id.* at B-57.

[4006] Ex. JCE-SCG-01 at 87-88 (comparison between SoCalGas and Cal Advocates), 198-199 (comparison between SoCalGas and IS), 283-284 (comparison between SoCalGas and TURN); SDG&E JCE at 149-152 (comparison between SDG&E and Cal Advocates), 382-383 (comparison between SDG&E and TURN), 267-268 (comparison between SDG&E and FEA).

[4007] The working cash calculation is derivative of certain other forecasts in the GRC; thus, to the extent that Intervenors contest such forecasts, and the Commission adopts revised forecasts, the working cash requirement would need to be recalculated pursuant to the methodology described in Ms. Hornbeck's and Mr. Guidi's testimony.

39.1 Common Issues

39.1.1 SoCalGas's and SDG&E's General Methodology Rebuttal

Certain parties propose tailored changes to SoCalGas's and SDG&E's Working Cash proposals that deviate from the utilities' holistic and long-standing methodology of determining working cash from an unbiased position. SoCalGas and SDG&E use 2021 recorded data as their base year and as a proxy for Test-Year 2024.[4008] And while SoCalGas and SDG&E recognize that 2024 revenue and expense lags may be different from those of 2021 (some shorter, some longer) they maintain that a uniform approach consistently using data from a single-year results in an impartial, neutral result. The intervenors' approach, in contrast, adjust only certain elements, such as revenue lag, for the apparent purpose of generating lower working cash requirements for SoCalGas and SDG&E. Cherry-picking adjustments to the working cash study can result in parties only making adjustments that will favorably impact their party's end goal. Because SoCalGas and SDG&E evaluate all revenues and expenses using the same approach, their methodology is more reasonable and impartial than those proposed by other parties.

39.1.2 Cal Advocates' Proposal to Reduce Revenue Lag Based on an Increase in Electronic Payments Should Be Denied

SoCalGas's and SDG&E's working cash requests include two main elements—balance sheet accounts (or operational cash requirements) and income statement accounts (or lead-lag working cash requirements). Cal Advocates contends that the utilities' proposed revenue lag—part of their lead-lag working cash requirements—should be reduced to account for "the increasing utilization of technology to receive mail and send payments."[4009] Reducing revenue lag as suggested would result in a reduction of $49 million to SoCalGas's working cash request and a reduction of $31 million to SDG&E's working cash request.[4010]

The utilities disagree with Cal Advocates' conclusion regarding the calculation of revenue lag days for multiple reasons. First, as described above, the utilities take the position that the working cash study should be consistent in its use of data and that cherry picking data to serve Cal Advocates' apparent goal of lowering the utilities' working cash requests is inappropriate. Here, Cal Advocates agrees with the utilities' methodology of relying on 2021 data for calculating their

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4008 Ex. SCG-34-2R-E (Hornbeck) at 1-3; Ex. SDG&E-38-R-E (Guidi) at 3-4.

4009 Ex. SCG-234 (Hornbeck) at 5; Ex. SDG&E-238 (Guidi) at 4.

4010 Ex. CA-16 (Benitez) at 7 and 15.

lead-lag working cash requirements for certain revenue lag components such as meter reading lag and collection lag, but disagrees with using the same, consistent methodology for other revenue lag components such as billing lag and bank lag. The utilities contend that the use of an inconsistent methodology between the revenue lag components is inappropriate.

Moreover, Cal Advocates' proposal should be denied because, in addition to being methodologically problematic, their mathematical execution of that methodology is also flawed. For one, Cal Advocates' proposal uses an unrealistic linear trajectory that predicts 100% electronic payments will be realized in the near future.[4011] SoCalGas and SDG&E contend that 100% customer uptake of electronic payments over a relatively short period of time is unlikely.[4012] Additionally, Cal Advocates argues that the billing and bank lag portions of SoCalGas's and SDG&E's revenue lags should be reduced by the *full* 2024 electronic payment rate projected by Cal Advocates, rather than the *change* in the electronic payment rate from 2021 to 2024.[4013] Their proposed methodology results in an 83% and 73% reduction in the billing lag and bank lag portions of SoCalGas's and SDG&E's revenue lag days, respectively.[4014] Even if Cal Advocates' flawed methodology is adopted, the relevant decreases are 11% for SoCalGas[4015] and 7% for SDG&E.[4016]

Finally, Cal Advocates' proposal should be denied because it is founded on a misunderstanding of billing and bank lag. Cal Advocates argues that billing lag should be reduced because customers will increasingly be using technology to receive their bills, and bank lag should be reduced because customers will be using technology to pay their bills.[4017] However, billing lag is unaffected by the percentage of electronic customer billing as it reflects the time it takes between when the meter is read and the bill is physically or electronically mailed. Billing lag is not the time it takes for the bill to reach a customer after it is sent, as Cal Advocates contends.

Cal Advocates also misunderstands bank lag, but for different reasons. Although Cal Advocates seems to understand that bank lag is the number of days between customer payment and

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4011 Ex. SCG-234 (Hornbeck) at 6; Ex. SDG&E-238 (Guidi) at 5.

4012 Ex. SCG-234 (Hornbeck) at 6; Ex. SDG&E-238 (Guidi) at 5.

4013 Ex. CA-16 (Benitez) at 17.

4014 Ex. SCG-234 (Hornbeck) at 6; Ex. SDG&E-238 (Guidi) at 5-6.

4015 Ex. SCG-234 (Hornbeck) at 6 (11% reflects the change from 72% electronic payments in 2021 to 83% projected by Cal Advocates in 2024).

4016 Ex. SDG&E-238 (Guidi) at 5-6.

4017 Ex. CA-16 (Benitez) at 17.

when funds become available to the utility, Cal Advocates incorrectly assumes that an increase in electronic payments will reduce bank lag.[4018] This may seem like a logical conclusion, but it is not borne out by the data. In fact, bank lag often *increases* with more electronic payments because the system processing lag between the time electronic payment is made and when the bank actually transfers the payment for utility use is often longer than non-electronic payment methods.[4019] For instance, the bank lag for electronic payment via SoCalGas's "My Account" online payment system is one day, whereas the bank lag for payment in-person at a SoCalGas branch office is zero days.[4020] Thus, although the bank lag days for electronic payment types vary, an increase in electronic payments would likely lead to an increase in bank lag, rather than a decrease as Cal Advocates contends.[4021]

In its rebuttal testimony IS incorporates Cal Advocates adjustment for revenue lag into its working cash recommendation; however, IS corrects Cal Advocate's calculation of the adjustment.[4022] IS's adjustment for revenue lag should be rejected for the same reasons described above for Cal Advocates.

39.1.3 TURN's and FEA's Proposal to Reduce Revenue Lag Due to COVID Impacts is Flawed

Again, as described above, SoCalGas and SDG&E contend that the working cash study should be consistent in its lead/lag methodology and that cherry picking methodologies is inappropriate and creates biased results. Here, TURN proposes a "base-year adjusted" methodology that would reduce revenue lag days in an apparent effort to exclude the impacts of "both the unprecedented COVID pandemic lockdown and the CPUC disconnection moratorium,"[4023] which TURN argues led to historically high customer arrearages. TURN proposes averaging the revenue lag days in the base years from the last three GRCs to "normalize" data for the 2024 Test Year.[4024] However, SoCalGas and SDG&E contend that adjusting the entire revenue lag to account for historically high arrearages is unreasonable. Arrearages impact only

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[4018] Ex. SCG-234 (Hornbeck) at 7; Ex. SDG&E-238 (Guidi) at 6.
[4019] Ex. SCG-234 (Hornbeck) at 7-8; Ex. SDG&E-238 (Guidi) at 7-8.
[4020] Ex. SCG-234 (Hornbeck) at 8; Ex. SDG&E-238 (Guidi) at 7-8.
[4021] Ex. SCG-234 (Hornbeck) at 8; Ex. SDG&E-238 (Guidi) at 8.
[4022] Ex. IS-04 (Gorman) at 2-3.
[4023] Ex. TURN-13-R (Dowdell) at 3-6.
[4024] *Id.* at 5.

collection lag, which is one of four components for revenue lag. Thus, adjusting revenue lag as a whole would be inappropriate, as would adjusting the methodology for one component. SoCalGas's and SDG&E's consistent methodology of using 2021 data as a proxy for TY 2024 revenue lag is unbiased and consistent with long-standing historical treatment.

Moreover, SoCalGas and SDG&E contend that TURN's proposal is flawed for numerous reasons. First, the suggested data set is from an unreasonably wide and out-of-date timeframe. The base years to average, as suggested by TURN, would be 2013, 2016 and 2021.[4025] Proposing that data from 10 years ago should influence a forecast for TY 2024 is unreasonable. Second, TURN makes the assumption that arrearage levels for SoCalGas's and SDG&E's base year forecasts are an outlier due to the COVID pandemic lockdowns and disconnection moratorium, representing historical highs that are unlikely to continue.[4026] SoCalGas and SDG&E do not disagree that those factors likely contributed to high arrearage levels, but contend that these factors do not lead to TURN's conclusion that arrearage levels seen in 2021 are outliers and will "normalize" (*i.e.*, be reduced to previous levels) going forward. In fact, 2022 arrearage levels were even higher than 2021 arrearage levels despite the lifting of many COVID lockdown protocols in 2022.[4027] Moreover, despite lifting of the disconnections moratorium, there are other Commission proceedings and utility programs that may impact the levels of customer arrearages and contribute to the continuation of higher than historic arrearages going forward.[4028]

Similarly, FEA proposes to use pre-pandemic data to adjust downward SDG&E's requested revenue lag days, arguing that they are overstated as a result of the effects of COVID-19.[4029] FEA provides no rationale to support this proposed deviation from SP U-16-W practice, aside from their assumption that "[t]he revenue lag *should* return to more normal levels in the TY 2024 and the Post Test Years (PTYs)."[4030] FEA provides no evidence to support this assumption and the Commission should disregard FEA's revenue lag days proposal for reasons similar to those discussed for TURN above and adopt SDG&E's unbiased methodology based on SP U-16-W for purposes of determining TY 2024 working cash requirements.

4025 *Id*.

4026 *Id.* at 3-5.

4027 Ex. SCG-234 (Hornbeck) at 11; Ex. SDG&E-238 (Guidi) at 9.

4028 *Id*.

4029 Ex. FEA-01 (Smith) at 12.

4030 *Id*.

39.2 SoCalGas Issues

39.2.1 Indicated Shippers' Argument Regarding Exclusion of Depreciation Expense from SoCalGas's Working Cash Was Addressed and Rejected in the Last GRC

SoCalGas followed SP U-16-W and the 2019 GRC Decision in including depreciation in its working cash study.[4031] Nevertheless, IS argues depreciation should be removed from working cash because they claim that there is no cash involved in those transactions.[4032] IS's recommendation ignores precedent, is based on an incomplete understanding of accrual accounting and utility rate making in California and should be denied.

As stated in SoCalGas's rebuttal testimony,

> "[t]he 2019 GRC Decision clearly rules that depreciation expense is allowed to be included in working cash under the California Public Utilities Commission's Standard Practice (SP) U-16-W.
>
> TURN proposes to exclude depreciation and deferred income taxes from working cash. While TURN presents good reasons to support its arguments, TURN does not dispute that depreciation and deferred income taxes are allowed to be included in working cash under the principles set forth in SP U-16. We find that this GRC is not the proper venue to challenge the general applicability of this principle in SP U-16 as this principle is applicable to all utilities and TURN does not cite specific reasons why this principle should not apply to SoCalGas specifically. Based on the above, we find it reasonable to deny TURN's request to exclude depreciation and deferred income taxes from working cash.
>
> Pursuant to this precedent and its reasoning, the Commission should again reject the argument to exclude depreciation from working cash. The circumstances are the same and IS has not proposed any new or different arguments from those of TURN in the 2019 GRC."[4033]

39.3 SDG&E Issues

39.3.1 TURN's Proposal Regarding SDG&E's Goods and Services Expense Lag Should be Rejected

TURN argues that SDG&E's Goods and Services expense lag request should be reduced by approximately $63 million due to inefficient cash management practices related to the early payment of certain invoices.[4034] SDG&E has a small business program whereby, for qualifying

[4031] Ex. SCG-234 (Hornbeck) at 12-13; D.19-09-051 at 655-656.

[4032] Ex. IS-02 (Gorman) at 4-6.

[4033] D.19-09-051 at 655-656.

[4034] Ex. TURN-13-R (Dowdell) at 7-8.

small businesses (less than 25 employees and less than $5 million in annual revenue), SDG&E will pay invoices on a net-15 basis (rather than the typical net-30 or net-45) in exchange for a discount on the invoice.[4035] This program is reasonable, prudent and supports small business and customer goodwill in SDG&E's service territory. Accordingly, TURN's proposed adjustment should be disregarded.

39.3.2 Cal Advocates' Proposals for SDG&E California Corporate Franchise Tax (CCFT) and Federal Income Tax (FIT) Expense Lags Should be Rejected

SDG&E properly based its state and federal income tax lags on 2021 recorded information.[4036] Cal Advocates recommends calculating expense lag based on quarterly payment due dates of SDG&E's 2021 state and federal taxes, asserting that lead days based on 2021 recorded information is not reflective of TY 2024 conditions.[4037] Cal Advocate's approach is unrealistic, assuming that SDG&E will be able to perfectly forecast its tax payments upon each due date.[4038] Even Cal Advocates acknowledges that a plethora of factors can impact tax payments, including the potential occurrence of refunds, extensions, true-ups, net operating losses, or other irregularities.[4039] Thus, the exact amount of total taxes due is not known until the fiscal year is complete.[4040]

Moreover, it is not uncommon for SDG&E to have tax refunds, generating a historic trend of *lead* days for state and federal tax expense.[4041] As a prudent operator, with a strong desire to comply with tax regulations, SDG&E adopts a conservative approach to pay its estimated taxes, often paying more than required to avoid penalties—resulting in refunds that generate lead days.[4042] SDG&E's working cash requests for federal and state income expense comply with SP U-16-W[4043] and should be adopted.

4035 Ex. SDG&E-238 (Guidi) at 12.
4036 Ex. SDG&E-38-R-E (Guidi) at 19.
4037 Ex. CA-16 (Benitez) at 19-20.
4038 Ex. SDG&E-238 (Guidi) at 13.
4039 Ex. CA-16 (Benitez) at 19-20.
4040 SDG&E-238 (Guidi) at 13.
4041 *Id.*
4042 *Id.*
4043 *Id.*

40. Customer Forecasts

SoCalGas's and SDG&E's Gas Customer Forecast testimonies and workpapers, supported by witness Eduardo Martinez,[4044] describe and justify each utility's gas customer growth forecasts.[4045] SDG&E's Electric Customer Forecast testimonies and workpapers, supported by witness Kenneth Schiermeyer, describe and justify the electric customer growth forecasts for SDG&E only.[4046] The gas customer forecasts for both utilities were prepared similarly and will be discussed together in subsection 40.1. The electric customer forecasts for SDG&E will be discussed separately in subsection 40.2. These forecasts focus on the number of customers in the respective categories and not the volumes of gas or electricity delivered.

40.1 Gas Customer Forecasts (SoCalGas and SDG&E)

SoCalGas and SDG&E request adoption of their respective TY 2024 forecasts for gas customers. Annual average active gas customers for SoCalGas are forecasted to increase from 5.87 million in 2021 to 6.00 million in 2024.[4047] SoCalGas gas customer growth is forecasted to be 0.73%, 0.72%, and 0.69% in 2022, 2023, and 2024, respectively.[4048] Annual average total gas customers for SDG&E are forecasted to increase from 903,649 in 2021 to 927,597 in 2024.[4049] SDG&E gas customer growth is forecasted to be 0.80%, 0.92%, and 0.90% in 2022, 2023, and 2024, respectively.[4050] The utilities' overall forecasts are broken down by customer class (*e.g.*, commercial, industrial, *etc*.) in the utilities' opening testimonies.[4051]

Mr. Wilder's direct testimonies and workpapers, adopted by Mr. Martinez, detail the methodology SoCalGas and SDG&E utilized to develop these forecasts.[4052] For the residential market segment, SoCalGas and SDG&E use housing starts as the basis for their forecasts because,

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4044 The prepared rebuttal testimonies of Mr. Martinez adopt the prepared direct testimonies of SoCalGas and SDG&E witness Mr. Scott Wilder. *See* Exs. SCG-235 at 1; SDG&E-239-E at 1.

4045 *See generally* Exs. SCG-35 (Wilder); SCG-35-WP; SCG-235 (Martinez); SDG&E-39 (Wilder); SDG&E-39-WP; SDG&E-239-E (Martinez).

4046 *See generally* Exs. SDG&E-40 (Schiermeyer); SDG&E-40-WP; SDG&E-240 (Schiermeyer).

4047 Ex. SCG-35 (Wilder) at ii.

4048 *Id*.

4049 Ex. SDG&E-39 (Wilder) at i. Note that the customer data SDG&E used for its gas customer forecast does not differentiate between connected and active customers.

4050 Ex. SDG&E-39 (Wilder) at i.

4051 Exs. SCG-35 (Wilder) at 5, Table SW-3; SDG&E-39 at 4, Table SW-2.

4052 Exs. SCG-35 (Wilder); SCG-35-WP; SDG&E-39 (Wilder); SDG&E-39-WP.

in the witness' view, a housing start is likely to lead to a new gas meter hookup.[4053] Recorded and forecasted housing start assumptions underlying the residential customer forecast came from IHS Global Insight's November 2021 Regional Forecast.[4054] Employment assumptions underlying the non-residential customer forecasts were based on recorded data from the California Employment Development Department.[4055] Both utilities use econometric and statistical techniques to develop quarterly-data forecasts of residential, commercial, and industrial customers, using linear econometric models.[4056] After historical data and predicted values are compared for the most recent observed historical period, the model forecasts are calibrated to match up with the last recorded actuals so that historical trends are consistent.[4057] The forecast methodology used by SoCalGas and SDG&E in this TY 2024 GRC is the same as approved by the Commission in the utilities' TY 2019 GRC.[4058]

Opposition to the utilities' proposed forecasts presents a mixed bag. EDF and SBUA argue generally that the SoCalGas and SDG&E forecasts are overstated because of declining gas demand and decarbonization policy.[4059] UCAN makes a similar argument with respect to SDG&E's gas customer forecasts but not SoCalGas's.[4060] Notably, however, none of these intervenors offer any quantitative analysis purporting to substantiate the extent to which the utilities' forecasts are allegedly overstated, as Mr. Martinez's rebuttal testimonies note as to each intervenor,[4061] let alone do they actually propose alternative customer forecasts. They are wrong on the substance regardless. As explained in Mr. Martinez's rebuttal testimonies, gas demand and customer counts are not the same thing; in fact, both utilities have experienced declining gas demand and positive customer growth since 2001.[4062] In other words, the utilities have consistently experienced growth

4053 Exs. SCG-35 (Wilder) at 2; SDG&E-39 (Wilder) at 2.

4054 Exs. SCG-35 (Wilder) at 2; SDG&E-39 (Wilder) at 2.

4055 Exs. SCG-35 (Wilder) at 2; SDG&E-39 (Wilder) at 2.

4056 Exs. SCG-35 (Wilder) at 3; SDG&E-39 (Wilder) at 3.

4057 Exs. SCG-35 (Wilder) at 3; SDG&E-39 (Wilder) at 3.

4058 *See generally* D.19-09-051 at 664-668.

4059 Exs. EDF-01 (McCann/Seong) at 9; SBUA (McCann/Moss) at 5-6.

4060 Ex. UCAN-01 (Woychik) at 20.

4061 *See* Exs. SCG-235 (Martinez) at 6 (observing that "EDF fails to provide any analysis to support its predictions of declining customers…" and that "SBUA fails to provide any analytical basis or evidence to support its assertion."); SDG&E-239-E at 6 (same).

4062 Exs. SCG-235 (Martinez) at 5; SDG&E-239-E (Martinez) at 5. *See also* D.19-09-051 at 644 ("Only the number of customers is considered in the GRC and not gas volumes.").

in customer counts, even as aggregate demand for natural gas commodity has declined. One reason for this positive customer growth is that consumers like the benefits of having natural gas service.[4063] Given this longstanding historical trend, it is not reasonably foreseeable that SoCalGas and SDG&E will experience declining customer growth through the 2024 Test Year due to declining demand for natural gas commodity.[4064]

In contrast to the EDF/SBUA/UCAN approach of offering generalized (and factually ahistorical) critiques unsupported by any analysis or alternative forecast proposals, the testimonies of Cal Advocates and TURN attempt to demonstrate that the utilities' customer forecasts are overstated. Cal Advocates and TURN also propose alternative customer forecasts. As discussed below, SoCalGas and SDG&E believe Cal Advocates' and TURN's critiques lack merit and their alternative forecast methodologies have multiple fundamental flaws that render them unreasonable and inappropriate for adoption in this GRC. Before addressing those issues, however, it is important to point out that Cal Advocates and TURN only challenge SoCalGas's and SDG&E's forecasts and propose alternative forecasts for specific residential gas customer classes; they do not challenge the forecasts for the SoCalGas residential master meter class or any SoCalGas or SDG&E non-residential customer class.[4065] Thus, these gas customer forecasts are uncontested and, as such, should be approved without modification.

As for the three residential gas customer forecasts that Cal Advocates and TURN do contest (*i.e.*, SoCalGas Single-Family Residential, SoCalGas Multi-Family Residential, and SDG&E Gas Residential), the result—approval without modification—should be the same. Cal Advocates and TURN's criticisms of these three residential gas customer forecasts bottom out to an argument that actual growth has come in lower than was predicted by prior utility forecasts that, as here, were developed based on economic vendor forecasts. Cal Advocates and TURN try to

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4063 *See generally* Exs. SCG-235 (Martinez) at Appendix C; SDG&E-239-E at Appendix C.

4064 Exs. SCG-235 (Martinez) at 6; SDG&E-239-E (Martinez) at 6.

4065 *See* Exs. SCG-307/SDG&E-307 at pdf p. 9, TURN response to data request SCG-SDGE-TURN-011, question 11 (admitting that SDG&E Gas Residential, SoCalGas Single Family Residential, and SoCalGas Multi-Family Residential are the only gas customer classes for which TURN proposes alternative forecasts); SCG-308/SDG&E-307 at pdf p. 18, Cal Advocates response to data request SCG-SDGE-PAO-012, question 13 (admitting that SDG&E Gas Residential, SoCalGas Single Family Residential, and SoCalGas Multi-Family Residential are the only gas customer classes for which Cal Advocates proposes alternative forecasts). *See also* Ex. CA-18-2E (Sierra) at 2:14-16, 21-23 (identifying utility gas customer forecasts Cal Advocates does not oppose).

argue that given this over-forecasting, the utilities' forecasting method is unreliable. There are several problems with this line of argument.

First, as Mr. Martinez explained, the commercial gas customer forecasts for each utility, like the residential forecasts, rely on economic vendor forecasts.[4066] But Cal Advocates and TURN say nothing to challenge those forecasts. Indeed, as noted above, Cal Advocates and TURN have admitted that they do not oppose any of the utilities' proposed non-residential gas customer forecasts.[4067] While they have not provided a rationale for selective opposition to customer forecasts based on economic vendor data, it appears to be results-oriented rather than principled. This can be inferred because the utilities forecast only nominal growth in the commercial gas sector.[4068] The fact that Cal Advocates and TURN expressly do not contest the SoCalGas or SDG&E commercial gas customer forecasts therefore undercuts their primary argument against the residential gas customer forecasts.

Moreover, the task of forecasting inherently involves uncertainty because it involves making predictions about future events. To set aside a utility's proposed forecast methodology, the Commission requires "show[ing] through evidence that [the] forecasts are frequently incorrect by large margins for other periods or that their methodology is intrinsically flawed. Forecasting is not an exact science and there will be times that a forecast will be incorrect."[4069] Notwithstanding the inherent uncertainty, therefore, the Commission has long accepted forecasts based on commercial vendor data as a reasonable method for determining costs and ultimately rates that will apply to a future period.[4070] The standard is not of clairvoyance but rather of reasonableness. Mr.

4066 Exs. SCG-235 (Martinez) at 7; SDG&E-239-E (Martinez) at 7.

4067 *See* Exs. SCG-307/SDG&E-307 at pdf p. 9, TURN response to data request SCG-SDGE-TURN-011, question 11 (admitting that SDG&E Gas Residential, SoCalGas Single Family Residential, and SoCalGas Multi-Family Residential are the only gas customer classes for which TURN proposes alternative forecasts); SCG-308/SDG&E-307 at pdf p. 18, Cal Advocates response to data request SCG-SDGE-PAO-012, question 13 (admitting that SDG&E Gas Residential, SoCalGas Single Family Residential, and SoCalGas Multi-Family Residential are the only gas customer classes for which Cal Advocates proposes alternative forecasts).

4068 *See* Exs. SCG-35 (Wilder) at 5, Table SW-3 (+0.6% total change from 2021 to 2024 for Commercial class, compared to +1.9% and +2.9% total change from 2021 to 2024 for Residential single-family and Residential multi-family, respectively); SDG&E-39 (Wilder) at 4, Table SW-2 (+0.9% total change from 2021 to 2024 for Noncore C&I class, compared to +2.7% total change from 2021 to 2024 for Residential).

4069 D.19-09-051 at 667.

4070 *See generally* D.19-09-051 at 664-668 (accepting forecast methodology relying on vendor data).

Martinez's rebuttal testimonies dispose of any suggestion that the vendor housing data relied upon by SoCalGas and SDG&E produce unreasonable over-forecasting compared to experienced reality.

As Mr. Martinez explains, the attempts to show the requisite "large margins" of inaccuracy depend on flawed comparisons to stale data, fail to account for the addition of two attrition years to the TY 2019 GRC cycle, and ignore the effects of the COVID-19 pandemic.[4071] The result is an inflated baseline for the comparison, which materially overstates the extent of forecast variances.[4072] Indeed, because SoCalGas tracks "connected" versus "active" customers, we can see that the actual trend reflects modest variances across both single-family and multi-family residential forecasts, including more instances of *under*- rather than over-forecasting.[4073] The picture is similar for the SDG&E residential forecast, which shows remarkable accuracy over virtually the entire period presented.[4074] For both utilities, therefore, the facts belie the existence of persistent and large scale over-forecasting as alleged by Cal Advocates and TURN.

Standing alone, the failure of Cal Advocates and TURN to demonstrate that reliance on vendor forecasts is unreasonable provides ample basis to reject their proposals to abandon the use of vendor data in developing customer forecasts and replacing it with an approach based on historical data. Examination of their strikingly similar proposals also makes clear that they are unreasonable.

A key feature that both Cal Advocates and TURN have landed on in their testimonies is the use of some form of moving average covering ten years, which they use instead of an econometric model using explanatory variables (*i.e.*, housing starts) to forecast residential customer additions through the 2024 test year.[4075] The precise contours of this feature of their respective forecast

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4071 Exs. SCG-235 (Martinez) at 7-8; SDG&E-239-E (Martinez) at 7-8. In 2020, the CPUC granted SoCalGas and SDG&E's request to extend their GRC cycles from three to four years with two attrition years added to their TY 2019 cycles. *See generally* D.20-01-002. As a result, SoCalGas and SDG&E did not sponsor GRC quality customer forecasts for 2020 or 2021 based on then-current economic forecasts between their respective 2019 and 2024 GRC filings. As Mr. Martinez explains, what Cal Advocates and TURN misrepresent as official customer and housing starts forecasts for 2020 and 2021 in the TY 2019 GRC workpapers were actually prepared in 2017. SoCalGas and SDG&E both subsequently produced customer forecasts in 2020 based on updated economic forecasts for the 2020 California Gas Report. *See* Exs. SCG-235 at 8 (discussing failure of Cal Advocates and TURN to reflect extension of TY 2019 GRC and addition of two attrition years); SDG&E-239-E at 8-9 (same).

4072 Exs. SCG-235 (Martinez) at 7-8; SDG&E-239-E (Martinez) at 7-8

4073 Ex. SCG-235 (Martinez) at 11, Table EM-5.

4074 Ex. SDG&E-239-E (Martinez) at 10, Table EM-3.

4075 Ex. CA-18-2E (Sierra) at 12-13; Ex. TURN-14-R (McGovern) at 4.

methodologies have been something of a moving target.[4076] But neither offered anything particularly illuminating by way of rationale for why they chose ten years as opposed to, say, five, or fifteen, or some other number. At best, the ten years idea is arbitrary.

In a classic case of circular logic, for instance, in response to a discovery request seeking an explanation of the choice to use ten years, TURN cited its analysis of actual and forecasted housing starts over the previous ten years, as if the fact of looking at ten years explains the choice of ten years in the first place.[4077] It does not. TURN then refused to answer fully whether it or its witness had previously sponsored a 10-year rolling average methodology for gas customer forecasts, other than to admit that it had not done so in the past four GRCs.[4078] For its part, Cal Advocates admitted that it had never before proposed a 10-year rolling average forecast methodology, noting the following identical rationales in the context of both the SDG&E gas and electric customer forecasts: "The most recent decade is more stable than 20-30 years ago. In addition, the relationship of customer connections and housing patterns is changing. A 10-year average captures the most recent changes in the economy."[4079]

SoCalGas and SDG&E believe the notion that the past ten years can be called "stable" is absurd. As Mr. Martinez explains, the practical effect of Cal Advocates' and TURN's 10-year approaches is to introduce unreasonable downward bias into the forecasting process by overweighing periods of weakness for housing construction and discounting more recent, comparatively robust growth driven by factors such as Millennial homebuying.[4080] In addition, the logic of Mr. Schiermeyer's discussion about the impropriety of using historical averages to

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[4076] *See*, *e.g.*, Exs. CA-18-2E (Sierra) at 3, n.6 and n.7 (discussing Cal Advocates error in prior version of testimony); SCG-308/SDG&E-308 at pdf p. 5, Cal Advocates response to data request SCG-SDGE-PAO-014, question 1 (making admissions regarding change from "10-year moving average" to "10-year quarterly moving average"); *see also* SCG-307/SDG&E-308 at pdf p. 6, TURN response to data request SCG-SDGE-TURN-011, question 3 (responding to question regarding witness McGovern's phrases "ten-year average" and "10-year historical average").

[4077] Ex. SCG-307/SDG&E-307 at pdf p. 2, response to question 1.a.i (citing Ex. TURN-14 (McGovern) at 15-18 "for a discussion of actual and forecasted housing starts over the previous 10 years").

[4078] Ex. SCG-307/SDG&E-307 at pdf p. 3, response to question 2.b ("A TURN witness has not sponsored a 10-year rolling average methodology for gas customer forecast in at least the past four GRCs (PG&E TY 2023 A.21-06-021, SCE TY 2021 A.19-08-013, Sempra TY 2019 A.17-10-007, SCE TY 2018 A.16-09-001).").

[4079] Ex. SDG&E-240 (Schiermeyer) at Appendix C, KES-C-3, responses 2b and 3b.

[4080] Exs. SCG-235 (Martinez) at 12-14; SDG&E-239-E (Martinez) at 11-13.

develop forecasts in SDG&E's large, open rate Residential Electric customer class applies equally in the context of each utility's large, open residential gas customer classes.[4081]

Another curious coincidence between the Cal Advocates and TURN forecast methodologies is that once they have calculated values for their respective ten-year periods, both testimonies propose to discount the resulting values by 50% (*i.e.*, cutting in half the growth resulting from their own historical average calculations).[4082] And not only that. They both offer, effectively, the same rationales, such as they are, for the *idea* of a discount to the historical data (namely, the Commission's recent gas line extension decision, D.22-09-026, and local policies regarding gas use and electrification), but neither justifies the *level* of the discount.[4083] The only difference between Cal Advocates and TURN on this discount issue are that Cal Advocates applies the 50% discount as of July 2023,[4084] whereas for TURN it is in 2024.[4085] Mr. Martinez analyzes these arguments and demonstrates why they lack merit.[4086]

It bears mention that in the SDG&E residential gas customer forecast, Cal Advocates' "moving average" differs from TURN's in the notable respect that Cal Advocates—evidently not content with the already-unreasonably low values produced by cutting in half the results of its cherry picked historical data—attempts "to further lower SDG&E's residential customers forecast by rewriting the history of housing starts. Cal Advocates attempts to accomplish this by replacing actual quarterly starts with a ten-month moving average of starts."[4087] Whether this is motivated by a desire to put some daylight between the Cal Advocates and TURN residential gas customer forecast methodologies is unclear. In any case, as Mr. Martinez explains, the use of a moving average for residential housing starts history while keeping actual quarterly residential customers does not reflect reality but rather distorts the relationship between housing starts and residential customers.[4088] Accordingly, Cal Advocates' rewriting of history should be rejected.

4081 Ex. SDG&E-240 (Schiermeyer) at 4.

4082 Exs. CA-18-2E (Sierra) at 13; TURN-14-R (McGovern) at 4.

4083 Exs. CA-18-2E (Sierra) at 11-12; TURN-14-R (McGovern) at 4, 20-22.

4084 *See* Ex. CA-18-2E (Sierra) at 13:1-3 (explaining that Cal Advocates applied 50% discount as of July 2023).

4085 *See* Ex. TURN-14-R (McGovern) at 4:3-5 ("In 2024, the TURN recommendation adjusts the rate of gas customer growth downward by 50% in 2024 to account for the Commission's decision to disallow gas line extensions effective July 1, 2023.").

4086 Exs. SCG-235 (Martinez) at 14-15; SDG&E-239-E (Martinez) at 14-15.

4087 Ex. SDG&E-239-E (Martinez) at 13.

4088 *Id.*

As demonstrated, the key aspects of the Cal Advocates and TURN forecast methodologies—*i.e.*, moving averages over ten years and applying a 50% discount to gas customer growth—are unreasonable and should not be adopted.[4089] Apart from the substance of the proposals, however, there is the curiosity as to how two organizations with no apparent history of proposing the use of historical averages over a ten-year period (let alone moving averages, a specific kind of historical average) both decided to do so in testimony submitted concurrently in this TY 2024 GRC. This is even more curious given that they also decided to apply 'off the top' cuts to growth forecasts of precisely the same level (50%), for effectively the same reason. Discovery revealed that these appear not to be mere coincidences. In fact, between February and June 2023, Cal Advocates witness Sierra and TURN witness McGovern communicated approximately two dozen times regarding the customer forecasts subject areas prior to and after submission of their testimonies.[4090] It appears these communications included exchanges of draft testimonies and analyses.[4091] On another occasion, TURN witness McGovern sent Cal Advocates witness Sierra an email with two attachments. The email explained an error made in witness McGovern's testimony and requested witness Sierra's review of errata to correct it.[4092] That evening, witness McGovern sent witness Sierra a TEAMS invitation with the subject "forecast discussion."[4093]

Copies of emails and other documents provided to SoCalGas and SDG&E in discovery reveals a level of coordination and even coziness that calls into question whether the submitted testimonies truly represent the independent work product and professional judgment of the Cal

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4089 Multiple places in the testimony of witness McGovern refer to an "average" or "averages" without specifying the type of average proposed. Examples can be found at Ex. TURN-14-R (McGovern) at 22 ("recent historical averages"); *id*. at 25 ("historical averages"); and *id.* at 26 ("10-year historical average"). It is not until the Conclusion section of witness McGovern's testimony that TURN clarifies that it is referring to moving averages. *See id.* at 29 ("TURN recommends that the Commission adopt a 10-year *moving average* to forecast both electric and gas customer count.") (emphasis added).

4090 Ex. SCG-307/SDG&E-307 at pdf p. 7, response to question 6.a. *See also* Ex. SCG-308/SDG&E-308 at pdf p. 11, response to question 7 (admitting only to "several discussions regarding customer forecast testimony areas" in this case).

4091 Exs. SCG-311/SDG&E-311 at 23-24 (email from Jaime McGovern to Maricela P. Mayer, Mar. 17, 2023); SCG-312/SDG&E-312 at 50-60 (emails between Jaime McGovern and Maricela P. Mayer, Mar. 22-23, 2023).

4092 Ex. SCG-312/SDG&E-312 at 37 (email from Jaime McGovern to Maricela P. Mayer, Apr. 24, 2023).

4093 *Id.* at 36.

Advocates and TURN witnesses in the customer forecasts areas.[4094] Indeed, even when SoCalGas and SDG&E sent Cal Advocates and TURN discovery requests that included questions about their possible coordination, Cal Advocates and TURN coordinated about *that*.[4095] With this context, the differences between the Cal Advocates and TURN testimony proposals take on the appearance of window dressing for the core positions it appears they agreed to take in complementary testimony.

Finally, apart from the issues discussed above, in testimony Cal Advocates and TURN raise a variety of other, more peripheral issues. These issues include: (1) a proposal by TURN to establish a one-way balancing account to address the possibility of customer growth being lower than forecast;[4096] (2) critiques by Cal Advocates and TURN of the econometric software used in developing the utilities' forecasts;[4097] and, (3) an attack by Cal Advocates on SDG&E's use of so-called "add-factors" in the forecasting process. SoCalGas and SDG&E oppose the balancing account proposal for reasons including that it is ill-defined, would be administratively burdensome, and would penalize a utility that experiences customer growth that exceeds forecasts.[4098] As to the software issue, SoCalGas and SDG&E have expressed an openness to exploring the use of different software in the future.[4099] But as Mr. Martinez highlights, "neither Cal Advocates nor TURN suggest that the calculations actually performed by the software itself are anything other than accurate based on the source data and instructions."[4100] And finally, Mr. Martinez notes that SDG&E's use of add factors "is not unprecedented in econometric modeling like SDG&E's customer forecast model. In fact, the Commission has approved SDG&E's use of add factors in prior GRCs."[4101]

[4094] *See*, *e.g.*, Ex. SCG-312/SDG&E-312 at 14-21 (regarding Cal Advocates' 10 quarters vs 10 years error); 31 ("OMG…Ummm [*sic*] what did I recommend in the GRC"); 32 ("Thanks friend!"). Materials exchanged between Cal Advocates and TURN regarding the customer forecasts subject areas can be found in Exs. SCG-307/SDG&E-307, SCG-308/SDG&E-308, SCG-310/SDG&E-310, SCG-311/SDG&E-311, and SCG-312/SDG&E-312.

[4095] *See* Ex. SCG-312/SDG&E-312 at 1-5. These materials are a TEAMS meeting invitation from Jaime McGovern at 6:52 PM on June 9, 2023, preceded by emails at 6:40 PM (Maricela P. Mayer to Jaime McGovern) and 6:41 PM (Jaime McGovern to Maricela P. Mayer) that same day.

[4096] Ex. TURN-14-R (McGovern) at 4.

[4097] Exs. CA-18-2E (Sierra) at 4-7; TURN-14-R (McGovern) at 27-28.

[4098] Exs. SCG-235 (Martinez) at 15-16; SDG&E-239-E (Martinez) at 15.

[4099] Exs. SCG-235 (Martinez) at 16; SDG&E-239-E (Martinez) at 16.

[4100] Exs. SCG-235 (Martinez) at 16; SDG&E-239-E (Martinez) at 16.

[4101] Ex. SDG&E-239-E (Martinez) at 16-17, In sum, not only are the criticisms of the SoCalGas and SDG&E residential gas customer methodologies misguided, but the alternative forecasts proposed by Cal Advocates and TURN are also unreasonable. For the reasons discussed, therefore, all of SoCalGas's and SDG&E's proposed gas customer forecasts should be adopted without modification.

40.2 Electric Customer Forecasts (SDG&E)

SDG&E requests adoption of its TY 2024 forecasts for electric customers. The annual average total electric customers are forecasted to increase from 1,489,949 in 2021 to 1,531,337 in 2024.[4102] Included within those totals are residential electric customers, which are forecasted to increase from 1,329,156 in 2021 to 1,369,484 in 2024.[4103] Total electric customer growth is forecasted to be 0.83%, 0.93% and 0.99% in, 2022, 2023 and 2024, respectively.[4104]

Mr. Schiermeyer's direct testimony and workpapers detail the methodology SDG&E utilized to develop its electric customer forecasts.[4105] As a general matter, SDG&E developed its electric customer forecasts using statistical models based on economic and demographic data, seasonal patterns, and other inputs that influence customer growth.[4106] Economic and demographic data for the forecasts are based on December 2021 information released from IHS Global Insight's Regional Economic Service (IHS) and December 2021 information released from Moody's Regional Economic Service (Moody's).[4107]

Mr. Schiermeyer's testimony explains how the forecasts for residential and commercial/industrial customers were developed. Specifically, the residential forecast was developed using an econometric model based on the service area's projected level of housing completions, seasonal factors, and other inputs that influence customer growth.[4108] Mr. Schiermeyer's forecasts use a 50/50 blend of the IHS and Moody's forecasts, which allows SDG&E to reflect the different views of each economic forecasting service.[4109] As Mr. Schiermeyer explains, the Commission has accepted the use of a 50/50 blend of IHS and Moody's

4102 Ex. SDG&E-40 (Schiermeyer) at ii.

4103 *Id*. at 1.

4104 *Id*. at ii.

4105 *Id*. at 2; SDG&E-40-WP.

4106 Ex. SDG&E-40 at 2.

4107 *Id*.

4108 *Id*.

4109 *Id*.

forecasts for developing electric customer forecasts in the Phase 1 Decision in SDG&E's TY 2019 GRC.[4110] That Decision stated the following with respect to Mr. Schiermeyer's proposed 50/50 blend of IHS and Moody's forecasts:

> It is not established that Moody's forecast is certain to be accurate or that Global Insight's forecast is certain to be inaccurate. We find it more prudent to rely on both forecasts to minimize the impact of a vastly incorrect forecast from either company. Therefore, we find that relying on both sets of data is reasonable and that the forecast of 1,468,391 electric customers for TY2019 should be adopted.[4111]

Additionally, Mr. Schiermeyer's direct testimony explains that the commercial/industrial electric customer forecast was developed using a statistical analysis based on the growth in residential customers relative to the growth of commercial/industrial customers.[4112] Both the residential and industrial/commercial customer forecasts are based on respective quarterly historical data from 1990 through 2021.[4113] Agricultural and street lighting forecasts are based on trend analyses.[4114]

SDG&E's proposed forecasts for all non-residential electric customer classes are uncontested.[4115] As such, all of SDG&E's proposed non-residential electric customer forecasts should be adopted without modification. Cal Advocates and TURN contest SDG&E's forecasts for the Residential Electric customer class and each proposes alternative forecasts for that category. But as explained in Mr. Schiermeyer's rebuttal testimony, those alternative forecasts are based on flawed methodologies.[4116] As such, the alternative Residential Electric customer forecasts developed by Cal Advocates and TURN should not be adopted. As with the uncontested non-residential electric customer forecasts developed by SDG&E, the utility's residential electric customer forecasts should also be adopted without modification.

4110 *Id*. (citing D.19-09-051).

4111 *Id.*, n.1 (citing D.19-09-051 at 669-670).

4112 *Id.* at 2.

4113 *Id*.

4114 *Id*.

4115 *See* Exs. SCG-307/SDG&E-307 at pdf p. 9, TURN response to data request SCG-SDGE-TURN-011, question 11 (admitting that SDG&E Electric Residential is the only electric customer class for which TURN proposes alternative forecasts); SCG-308/SDG&E-307 at pdf p. 18, Cal Advocates response to data request SCG-SDGE-PAO-012, question 13 (admitting that SDG&E Electric Residential is the only electric customer class for which Cal Advocates proposes alternative forecasts).

4116 Ex. SDG&E-240 (Schiermeyer) at 7-11.

As a threshold matter, just as they did with the gas forecasts, both Cal Advocates and TURN dismiss SDG&E's reliance on commercial vendor forecasts on grounds of upward bias.[4117] And just as with the gas forecasts, Cal Advocates and TURN propose to base their proposed Residential Electric customer forecasts on moving averages of historical data. But the Commission has long accepted the use of commercial vendor forecasts in the development of utility customer forecasts, including in SDG&E's most recent GRC.[4118] Indeed, in that GRC Cal Advocates did not oppose the utility's proposal, while TURN argued unsuccessfully that the Commission should only use the lower of the two sets of vendor data blended in SDG&E's forecasts rather than the blend of both.[4119]

Moreover, even apart from the vendor data question, as Mr. Schiermeyer explains, Cal Advocates' and TURN's proposed use of historical averaging as the purported remedy is inappropriate for several reasons. First, the Residential Electric customer class does not exhibit the characteristics for which historical averaging may be appropriate.[4120] The Residential Electric customer class—SDG&E's largest—is not a closed, diminishing class that lacks available cyclical economic forecasts. It is quite the opposite. As a general matter, therefore, in Mr. Schiermeyer's opinion averaging of historical data is not an appropriate basis for establishing the Residential Electric customer forecast.[4121]

Additionally, the results of historical averages are sensitive to the period of the average and whatever events, however anomalous, happened to occur in the covered period. This is made abundantly clear when the actual periods chosen by Cal Advocates and TURN – ten years – are examined. Given COVID and financial and housing crisis impacts, in Mr. Schiermeyer's view the Cal Advocates and TURN methodologies assume conditions that "cannot fairly be described as reasonably representative of the going forward period in which the forecasts to be adopted in this proceeding will cover."[4122] Neither Cal Advocates nor TURN provided a reasoned explanation of why they chose to use ten year periods of time in the first place, let alone why they contend doing

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4117 *See* Ex. CA-18-2E (Sierra) at 14 and TURN-14-R (McGovern) at 10 (both alleging that SDG&E's housing forecast is "inflated").

4118 *See generally* D.19-09-051 at 668-670 (approving SDG&E's proposed electric customer forecasts and methodology).

4119 *Id*.

4120 Ex. SDG&E-240 (Schiermeyer) at 4.

4121 *Id*.

4122 *Id*. at 5.

so is appropriate under the circumstances present in this case and given the events that occurred during those ten years. In response to discovery asking about this issue, TURN offered only a generalized statement that "[c]hanging economic, technological and environmental conditions render recent history more relevant that prior decades" without any supporting analysis, and a citation back to the portion of its testimony that already did not explain the choice of ten years.[4123] The entirety of Cal Advocates' testimony on the electric customer forecast issue consists of less than three pages including figures, with no rationale whatsoever for the use of ten years.[4124]

Now, SDG&E is not opposed to the use of historical data for developing customer forecasts in every context. Indeed, UCAN's criticism of SDG&E's electric customer forecasts is instructive. UCAN criticizes SDG&E for relying on historical data, but evidently misunderstood how SDG&E did so. As Mr. Schiermeyer explained, "SDG&E used data from 1990 through 2021 as the estimation time period for the development of the residential electric customer forecast regression model and used housing completion projections from Moody's and [IHS] to drive the forecast."[4125] In Mr. Schiermeyer's view, this sweep of more than thirty years provides a robust data set from which to develop the *regression* model; but the forecasts themselves were developed, as noted above, using vendor data, as the Commission has previously approved, rather than time periods impacted by financial shocks and a worldwide pandemic.

Additional considerations weigh against adoption of either the Cal Advocates or TURN forecasts for Residential Electric customers. For one thing, as noted by Mr. Schiermeyer, both Cal Advocates and TURN had obvious difficulty implementing their own forecast methodologies as described in prepared testimony.[4126] For example, while each initially described approaches based on 10-year moving averages, in workpapers each actually calculated 10-quarter moving averages.[4127] Multiple errata later, Cal Advocates landed on what it terms a 10-year quarterly moving average.[4128] And for its part, TURN described its revised forecast as a 10-year moving

4123 Ex. SCG-307/SDG&E-307 at pdf p. 4, response to data request SCG-SDGE-TURN-002, question 3.c.

4124 *See generally* Ex. CA-18-2E (Sierra) at 14-16.

4125 Ex. SDG&E-240 (Schiermeyer) at 12.

4126 *Id.* at 8 ("Cal Advocates had difficulties implementing their own methodology as the historical basis does not match their testimony and there is a mix of historical and forecasted data included in the proposed averages."); *id*. at 9-10 (noting that TURN provided errata workpapers via discovery response, representing a second attempt to reflect a 10-year historical moving average).

4127 *Id.* at 8-10.

4128 *See generally* Exs. CA-18-2E (Sierra); SCG-308/SDG&E-308 at pdf p. 6.

average, although as Mr. Schiermeyer revealed, that is not true because part of TURN's ostensibly "historical" data includes blended forecast data.[4129] TURN's reliance on forecast data to complete its purportedly historical data set belies TURN's criticism of forecast data as unreliable.

Finally, as discussed above with respect to the SoCalGas and SDG&E gas customer forecasts, discovery appears to confirm what seemed relatively clear on review of the Cal Advocates and TURN initial testimonies and the material similarities of their proposals. The forecast methodologies proposed by Cal Advocates and TURN do not appear to be the product of each of the two witnesses' professional judgment being brought to bear independently to provide their organization's unique perspectives on the approach proposed by the utility. Rather, their testimonies appear to be the product of a coordinated effort to develop methodologies to produce lower Residential Electric forecast results than SDG&E proposed. It would strain credulity to suggest that the witnesses both proposed such similar methodologies with features neither had proposed before by mere coincidence.[4130] Thus, even apart from the multiple substantive flaws of their actual proposals, this provides yet another basis for rejecting the alternative forecast methodologies proposed by Cal Advocates and TURN.

In sum, not only are the criticisms of the SDG&E residential electric customer methodology misguided, but the alternative forecasts proposed by Cal Advocates and TURN are also unreasonable. Accordingly, all of SDG&E's proposed electric customer customers should be adopted without modification.

40.3 Conclusion

SoCalGas and SDG&E have shown that their gas and electric customer forecasts are reasonable and based on sound, Commission-approved methodologies. Most of the forecasts proposed by SoCalGas and SDG&E are uncontested. For those that are contested, Cal Advocates and TURN have failed to make the requisite showings to set aside the utilities' proposed forecasts. Moreover, the alternative forecast methodologies proposed by Cal Advocates and TURN for select customer classes are flawed in multiple respects, including that they: (1) depend on unexplained or

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[4129] Ex. SDG&E-240 (Schiermeyer) at 9-10.

[4130] *See* Ex. SCG-307/SDG&E-307 at pdf p. 4, TURN response to data request SCG-SDGE-TURN-002, question 3.b (admitting that a "TURN witness has not sponsored a 10-year rolling average methodology for electric customer forecast in at least the past four GRCs (PG&E TY 2023 A.21-06-021, SCE TY 2021 A.19-08-013, Sempra TY 2019 A.17-10-007, SCE TY 2018 A.16-09-001)"). *See also* Ex. SCG-312/SDG&E-312 at 59-60, email from Jaime McGovern to Maricela P. Mayer (Mar. 22, 2023) (asking "why would *we* be including [AG] in the modeled residential?") (emphasis added).

otherwise arbitrary factors; (2) proved exceedingly difficult to implement even for the proponents themselves; and, apparently, (3) were the result of a coordinated effort to produce "lowball" forecasts, rather than reflecting the independent professional judgment of the sponsoring witnesses. Accordingly, SoCalGas and SDG&E respectfully request the adoption for all customer classes of SoCalGas's proposed Gas Customer Forecasts, SDG&E's proposed Gas Customer Forecasts, and SDG&E's proposed Electric Customer Forecasts.

41. Cost Escalation

SoCalGas and SDG&E's Cost Escalation testimonies and workpapers, supported by witness Scott Wilder, present the cost escalation factors used to reflect the effect of external inflation in SoCalGas and SDG&E's labor O&M, non-labor O&M, and capital related costs in their respective TY 2024 revenue requirements and annual post-test-year (PTY) adjustments.[4131] On July 7, 2023, SoCalGas and SDG&E served their update testimony, which included updates to Cost Escalation.[4132] The updated cost escalations were developed using indexes from the First Quarter 2023 S&P Global's Utility Cost Information Service, published in April 2023.[4133] The parties have not disputed the cost escalation factors presented by the utilities, nor the updated cost escalations. The escalations are reasonable forecasts that should be adopted by the Commission for use in determining the utilities' TY 2024 revenue requirement and annual PTY adjustments.[4134]

42. Miscellaneous Revenues

42.1 General Explanation

Miscellaneous Revenues are comprised of fees and revenues collected by SoCalGas and SDG&E from non-rate sources for the provision of specific products or services.[4135] They include

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4131 Ex. SCG-36 (Wilder); Ex. SCG-36-WP (Wilder); Ex. SDGE-41 (Wilder); Ex. SDG&E 41-WP (Wilder). Cost escalators are used to adjust for inflation the utility's labor, materials, and service costs from BY 2021 nominal dollars into TY 2024 nominal dollars. To aggregate escalators, inputs are weighted based on the utility's actual BY 2021 expenses. Ex. SCG-36 (Wilder) at ii; Ex. SDG&E-41 (Wilder) at ii.

4132 As per the Commission's prior Rate Case Plan decision, D.07-07-004, the escalation factors are to be updated after hearings and before implementation, based on the same indexes used in the original presentation during hearings. Ex. SCG-401/SDG&E-401 at 1.

4133 Ex. SCG-401/SDG&E-401 (Martinez) at 7. Table EJM-1 updates and replaces the escalations previously shown in Table SRW-2 of Ex. SDG&E-41 (Wilder).

4134 *See* D.19-09-051 at 671 (approving Applicants' cost escalation indices, noting that they "are based on Global Insight cost indexes which have been relied on in past GRCs.").

4135 Ex. SCG-37-R (Roberts) at 2; Ex. SDG&E-42-R (Fischer, adopted by Dela Paz) at 2.

such revenues as collection fees, rents, and charges.[4136] Miscellaneous revenues are incorporated into rates as a reduction to base margin revenue requirements charged to customers for utility service, thereby lowering rates.[4137]

For purposes of forecasting TY 2024 miscellaneous revenues, SoCalGas and SDG&E performed an item-by-item analysis of miscellaneous revenue accounts, including a review of historical recorded results as well as the factors that could impact future results.[4138] The forecasts were developed using methodologies that reflect the drivers for each miscellaneous revenue item.[4139] For many items, where SoCalGas and SDG&E have multiple years of recorded activity, the forecast was developed using a multi-year recorded average adjusted by estimated customer or sales growth factors, where applicable.[4140] In circumstances where the charge is based on a per customer basis, a customer growth factor was applied to adjust historical results to develop the 2024 forecast.[4141] In instances where recent factors have caused the multi-year results to no longer reflect a reasonable expectation of the future, the most recent recorded year(s) were used to develop the forecast.[4142] In other cases, such as rents from property, the forecast is based on executed lease agreements adjusted for applicable escalation clauses.[4143] Finally, for other miscellaneous revenue items not reflected in the categories described above, a forecasting methodology was applied to reflect the unique circumstances of the activity.[4144]

No party opposes SoCalGas's or SDG&E's TY 2024 forecast for miscellaneous revenues.

SoCalGas

SoCalGas's Miscellaneous Revenue testimony and workpapers, supported by witness Jackie L. Roberts, as well as update testimony, describes and justifies SoCalGas's forecasted miscellaneous revenues for TY 2024.[4145] SoCalGas forecasts TY 2024 miscellaneous revenues of

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4136 *Id.*

4137 *Id.*

4138 *Id.*

4139 *Id.*

4140 *Id*

4141 *Id.*

4142 *Id*

4143 *Id*

4144 *Id.*

4145 *See generally* Ex. SCG-37-R (Roberts); SCG-237 (Roberts); Ex. SCG-37-WP-R; Ex. SCG-401/SDG&E-401.

$116.290 million.[4146] The following tables provide a summary and description of miscellaneous revenue items recorded in BY 2021, and estimated for TY 2024.

SoCalGas Test Year 2024 Summary of Miscellaneous Revenues[4147]

FERC Acct. – Description ($ in 000's)	2021 Recorded ($ in 000's)	2024 Test Year ($ in 000's)	Net Change ($ in 000's)
488 –Customer Service Revenues	25,385	25,696	311
493 – Rent from Gas Property	411	531	120
495 – Other Gas Revenues	74,086	90,063	15,977
Total[4148]	99,882	116,290[4149]	16,408

Cal Advocates

Cal Advocates did not oppose or recommend any adjustments to SoCalGas's TY 2024 forecast of Miscellaneous Revenues.[4150] However, Cal Advocates' report used the total miscellaneous revenues proposed in a previous version of SoCalGas' direct testimony.[4151] The TY 2024 forecast was revised due to changes made to other direct/indirect costs in SoCalGas's rate case, which resulted in a flow-through impact to miscellaneous revenue from shared assets.[4152] SoCalGas presented the information and adjusted revenue amount in the Revised Direct Testimony of Jackie L. Roberts.[4153]

SDG&E

SDG&E's Miscellaneous Revenue testimony and workpapers, supported by witnesses Maria Dela Paz, as well as update testimony, describes and justifies SDG&E's forecasted

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4146 Ex. SCG-401/SDG&E-401, Attachment A at 1. On July 7, 2023, SoCalGas update testimony, which included updates to miscellaneous revenues. The updated TY 2024 forecast was revised due to changes made to other direct/indirect costs in SoCalGas's rate case, which resulted in a flow-through impact to miscellaneous revenues from shared assets.

4147 Ex. SCG-37-R (Roberts) at 1.

4148 Totals may include rounding differences.

4149 Ex. SCG-401/SDG&E-401, Attachment A at 1.

4150 Ex. CA-19 (Chia/Lee) at 21.

4151 Ex. SCG-237 (Roberts) at 2.

4152 *Id.*

4153 *Id.*; Ex. SCG-37-R (Roberts).

miscellaneous revenues for TY 2024.[4154] SDG&E forecasts a TY 2024 miscellaneous revenues forecast of $36.762 million.[4155] The following tables provide a summary and description of miscellaneous revenue items recorded in BY 2021, and estimated for TY 2024.

SDG&E Test Year 2024 Summary of Miscellaneous Revenues

Department ($ in 000's)	2021 Recorded	2024 Test Year	Net Change
Electric	20,230	30,385	10,155
Gas	4,179	6,377	2,198
Total[4156]	24,409	36,762[4157]	12,353

Cal Advocates

Cal Advocates did not oppose or recommend any adjustments to SDG&E's TY 2024 forecast of Miscellaneous Revenues.[4158] However, Cal Advocates' report used the total miscellaneous revenues proposed in a previous version of SDG&E's direct testimony.[4159] The TY 2024 forecast was revised primarily to include Net Energy Metering Fees and was offset by adjustments to other Electric Miscellaneous Revenues in SDG&E's rate case.[4160] SDG&E presented the information and adjusted revenue amount in its Revised Direct Testimony, Ex. SDG&E-42-R.[4161]

43. Regulatory Accounts

SoCalGas and SDG&E's Regulatory Accounts testimonies, supported by witnesses Rae Marie Yu and Jason Kupfersmid, respectively, explain the ratemaking treatment of the costs

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4154 *See generally* Ex. SDG&E-42-R (Fischer/Dela Paz); Ex. SDG&E-42-WP-R; Ex. SDG&E-242; and Ex. SCG-401/SDG&E-401.

4155 Ex. SCG-401/SDG&E-401, Attachment B at 1. On July 7, 2023, SDG&E served its update testimony, which included updates to miscellaneous revenues. The updated TY 2024 forecast was revised due to changes made to other direct/indirect costs in SDG&E's rate case, which resulted in a flow-through impact to miscellaneous revenues from shared assets.

4156 Totals may include rounding differences.

4157 SCG-401/SDG&E-401, Attachment B at 1.

4158 Ex. CA-19 (Chia/Lee) at 22.

4159 Ex. SDG&E-242 (Dela Paz) at 2.

4160 *Id.* at 2.

4161 *Id.*; Ex. SDG&E-42-R (Fischer/Dela Paz).

associated with the Companies' present and proposed regulatory accounts.[4162] The scope of these testimonies is limited to explaining the ratemaking mechanisms for regulatory accounts, and does not encompass the purpose, or costs and proposals related to the accounts, which are discussed by various witnesses.[4163] Appendix B of Ms. Yu and Mr. Kupfersmid's testimonies identifies each witness who sponsors testimony concerning these issues for the account indicated.[4164]

SoCalGas and SDG&E's requests include the disposition of balances, closure, continuation, and modification of existing regulatory accounts, and the creation of new regulatory accounts. Many of these proposals have already been addressed as part of the underlying project for which the regulatory account applies.

43.1 Undisputed Regulatory Accounts

The following accounts, listed by company, have not been disputed or opposed by any party:

43.1.1 SoCalGas

<u>SoCalGas Undisputed Disposition & Continuation of Regulatory Accounts</u>

- California Consumer Privacy Act Memorandum Account (CCPAMA)
- Emergency Customer Protections Memorandum Account (ECPMA)
- Research, Development, and Demonstration Expense Account (RDDEA)
- Residential Disconnection Protections Memorandum Account (RDPMA)
- Safety Enhancement Capital Cost Balancing Account (SECCBA)
- Safety Enhancement Expense Balancing Account (SEEBA)
- Avoided Cost Calculator Update Memorandum Account (ACCUMA)
- Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA)
- Dairy Biomethane Program Memorandum Account (DBPMA)

<u>SoCalGas Undisputed Closure of Regulatory Accounts</u>

- Core Gas Balancing Memorandum Account (CGBMA)
- Dairy Biomethane Solicitation Development Memorandum Account (DBSDMA)
- Injection Enhancement Cost Memorandum Account (IECMA)

4162 *See generally* Ex. SCG-38-R-E (Yu); Ex. SCG-238 (Yu); Ex. SDGE-43-R-E (Kupfersmid); Ex. SDG&E-243 (Kupfersmid).

4163 Ex. SCG-38-R-E (Yu) at 1; Ex. SDGE-43-R-E (Kupfersmid) at 1.

4164 Ex. SCG-38-R-E (Yu) at B-1-3; Ex. SDGE-43-R-E (Kupfersmid) at B-1-4

- Pipeline Safety Enhancement Plan-Phase 2 Memorandum Account (PSEPP2MA)
- Residential Disconnect Memorandum Account (RDMA)
- Wildfire Customer Protections Memorandum Account (WCPMA)
- Assembly Bill 802 Memorandum Account (AB802MA)
- Advanced Metering Infrastructure Balancing Account (AMIBA)
- Line 1600 Records Audit Memorandum Account (L1600RAMA)

SoCalGas Undisputed Continuation of Existing Regulatory Accounts

- Pension Balancing Account (PBA) and Post-Retirement Benefits Other than Pension Balancing Account (PBOPBA)
- Research Royalties Memorandum Account (RRMA)
- New Environmental Regulation Balancing Account (NERBA)

SoCalGas Undisputed Modification of Existing Regulatory Accounts

- PSEP Memorandum Account (PSEPMA) - Continue the PSEP-GRC Subaccount through the TY 2024 GRC cycle and amortize and eliminate the Line 44 Subaccount

43.1.2 SDG&E

SDG&E Undisputed Closure of Regulatory Accounts

- Clean Transportation Balancing Account (CTBA)
- Community Choice Aggregation Procurement Memorandum Account (CCAPMA)
- Core Gas Balancing Memorandum Account (CGBMA)
- Dairy Biomethane Solicitation Development Memorandum Account (DBSDMA)
- Direct Access Cost Responsibility Surcharge Memorandum Account (DACRSMA)
- Distributed Generation Statistics Memorandum Account (DGSMA)
- Distribution Interconnection Memorandum Account (DIMA)
- El Dorado Transition Cost Memorandum Account (EDTCMA)
- Electric Vehicle Infrastructure Memorandum Account (EVIMA)
- Fire Hazard Prevention Memorandum Account (FHPMA)
- Line 1600 Records Audit Memorandum Account (L1600RAMA)
- Net Energy Metering Memorandum Account (NEMMA)
- Pipeline Safety and Reliability Memorandum Account (PSRMA)

- Rate Reform Memorandum Account (RRMA)
- Tax Equity Investment Balancing Account (TEIBA)
- Transition, Stabilization, and Organizational Change Management Balancing Account (TSOBA)
- Vehicle Grid Integration Memorandum Account (VGIMA)
- Wildfire Consumer Protections Memorandum Account (WCPMA)
- Working Group Facilitator Memorandum Account (WGFMA)

SDG&E Undisputed Continuation of Existing Regulatory Accounts

- Avoided Cost Calculator Update Memorandum Account (ACCUMA)
- California Consumer Privacy Act Memorandum Account (CCPAMA)
- Emergency Customer Protections Memorandum Account (ECPMA)
- Fire Risk Mitigation Memorandum Account (FRMMA)
- Higher-Power Interim Rate Waiver Balancing Account (HPWBA)
- Integration Capacity Analysis and Locational Net Benefit Memorandum Account (ICLNBMA)
- Natural Gas Leak Abatement Program Memorandum Account (NGLAPMA)
- Pension Balancing Account (PBA)
- Post Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)
- Residential Disconnect Protections Memorandum Account (RDPMA)
- Rule 20 Balancing Account (R20BA)
- Safety Enhancement Capital Cost Balancing Account (SECCBA)
- Safety Enhancement Expense Balancing Account (SEEBA)
- Third-Party Claims Memorandum Account (TCPMA)
- Wildfire Mitigation Plan Memorandum Account (WMPMA)

SDG&E Undisputed Creation of New Regulatory Accounts

- Research, Development, and Demonstration Balancing Account (RDDBA)

43.2 Common Issues

43.2.1 Proposed Modification of Integrity Management Program (IMP) Balancing Accounts and Gas Safety Enhancement Plan Balancing Account

SoCalGas & SDG&E propose to continue the TIMPBA and DIMPBA two-way balancing accounts, and SoCalGas proposes to continue SIMPBA two-way balancing accounts (Transmission, Distribution, and Storage, respectively).[4165] Cal Advocates agrees that the two-way balancing account mechanisms for the Companies' TIMPBA, DIMPBA, SIMPBA should be reauthorized and that two-way balancing account mechanisms should be created for the newly proposed Facilities IMPs FIMPBA and the Gas Safety Enhancement Programs Balancing Accounts (GSEPBA), but proposes a lower threshold for undercollections (110% of authorized expenses as opposed to 135%) and a change in the recovery mechanism for undercollections of up to 110% of authorized expenses (to a tier 2 from a tier 3).[4166] SoCalGas and SDG&E find these changes to be reasonable.[4167]

In D.19-09-051, the Commission authorized recovery of any TIMPBA, DIMPBA, and SIMPBA undercollections associated with overspending of up to 35 percent of the total GRC authorized O&M and capital expenditures for the Integrity Management Programs through a tier 3 AL.[4168] Undercollections related to spending greater than or equal to 35 percent of total GRC authorized O&M and capital expenses are subject to a separate application procedure.[4169] Cal Advocates proposes that the cost recovery threshold to file an advice letter be reduced from 135% of total GRC cycle authorized O&M and capital expenses to 110% of total GRC cycle authorized O&M and capital expenses.[4170] Further, pursuant to Cal Advocates' proposal, SoCalGas and SDG&E would file a tier 2 advice letter, as opposed to a tier 3 AL to seek recovery of any undercollected revenue requirement up to 110% of total GRC cycle authorized expenses.[4171] Revenue requirement associated with expenses greater than or equal to 110% of total GRC cycle

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4165 Ex. SCG-38-R-E (Yu) at 17; Ex. SDG&E-43-R at 20.

4166 Ex. CA-20 (Hunter) at 20.

4167 *See* Ex. SCG-238 (Yu) at 6. SDG&E argued against these changes to its accounts in rebuttal testimony, but has reconsidered and is amenable to the modifications.

4168 D.19-09-051 at 694-695.

4169 *Id.*

4170 Ex. CA-20 (Hunter) at 20.

4171 *Id.*

authorized expenses would be subject to an application.[4172] SoCalGas and SDG&E believe this proposal is reasonable and amends its proposal accordingly. Similarly, SoCalGas and SDG&E are amendable to this treatment for the FIMPBA and GSEPBA.

43.2.2 Liability Insurance Premium Balancing Account (LIPBA)

The Companies have requested the continuation of the electric and gas LIPBAs as two-way interest-bearing balancing accounts.[4173] The purpose of this account is to balance the difference between the authorized revenue requirement related to liability insurance premiums (LIP) charged to the relevant utility from Corporate Center and the actual expenses incurred and charged to that utility.[4174] LIPBA costs are discussed in the Corporate Center – Insurance testimony of Dennis Gaughan.[4175]

SoCalGas proposes to continue ratemaking treatment of LIP costs for the TY 2024 GRC cycle as follows: (1) the LIPBA balance associated with LIP costs forecasted in Ex. SCG-24 is incorporated into customer rates in connection with SoCalGas's annual regulatory accounts update advice letter filing, and (2) the LIP costs for additional liability insurance coverage not requested in this GRC will be requested for recovery via a separate Tier 2 advice letter.[4176]

For SDG&E, when the TY 2024 GRC proceeding concludes, SDG&E proposes to transfer the December 31, 2023 LIPBA electric undercollected balance to the EDFCA and LIPBA gas undercollected balance to CFCA and NFCA for inclusion in the next available rate change.[4177] The Q1 2022 undercollected balances are $104.734 million for electric and $3.203 million for gas.[4178]

Cal Advocates argues that the LIPBA should be modified to a one-way balancing account requiring Tier 2 AL approval for annual amounts between $250M and $333M and a Tier 3 AL for

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4172 *Id.*

4173 Ex. SCG-38-R-E (Yu) at 16; Ex. SDG&E-43-R (Kupfersmid) at 12.

4174 *Id.*

4175 Ex. SCG-24/SDG&E-28 (Gaughan) at 21-25.

4176 Ex. SCG-38-R-E (Yu) at 16.

4177 Ex. SDG&E-43-R (Kupfersmid) at 13.

4178 *Id.*

amounts over $333M annually.[4179] SoCalGas and SDG&E disagree with this approach and provide justification in the insurance rebuttal testimony of Dennis Gaughan.[4180]

TURN argues that that the LIPBA be modified such that recovery of above-authorized costs occur in an application process or a Tier 3 advice letter, with the exception that SDG&E continue with its Tier 2 AL process when there have been no wildfire claims.[4181] SoCalGas and SDG&E disagree with this approach for the reasons stated above and provides further justification in the insurance rebuttal testimony of Dennis Gaughan.[4182]

43.2.3 SoCalGas and SDG&E's Response to TURN's Proposed Elimination of Two-Way Balancing Accounts

TURN recommends that the Commission eliminate long-standing precedent allowing for and approving two-way balancing accounts, alleging that they do not allow for adequate review of the reasonableness of above-authorized expenses.[4183] TURN argues that such accounts should instead be replaced with one-way balancing accounts and complemented with a memorandum account should expenses exceed authorized levels, requiring that applications be filed for recovery of any undercollections.[4184] This proposal should be rejected. Eliminating all two-way balancing accounts would (1) increase administrative costs due to the proliferation of overall accounts; (2) fails to recognize the variability of regulations and requirements associated with certain work; and (3) could potentially increase applications at the Commission and associated ratepayer costs.

Throughout the prepared Direct Testimony of Robert Finkelstein, TURN argues that the advice letter process does not provide adequate review of balancing accounts and above-authorized expenses.[4185] However, in both instances—an application or an Advice Letter—cost recovery is

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4179 Ex. CA-12-E (Chumack) at 11.

4180 *See also* Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 9 ("The Companies remain concerned that any additional delays tied to adding layers of regulatory review would inhibit the quick decision-making that is necessary to make insurance purchases and allocate capital efficiently").

4181 Ex. TURN-11-E (Finkelstein/Ellis) at 12-14.

4182 Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 10 (There is no basis for TURN's recommendation, and, as stated above, the Commission previously addressed Cal Advocates' and UCAN's similar concern for additional regulatory review in the last GRC and ultimately determined that the Tier 2 advice letter process balanced these concerns.").

4183 Ex. TURN-15 (Finkelstein) at 11-18.

4184 *See generally id.*

4185 *Id.* at 17-18 and 23-25.

subject to reasonableness reviews by the Commission.[4186] TURN seems to portray the advice letter process, as a check-the-box procedure whereby undercollections receive little to no review by the Commission and are directly added into rates. This is not the case. Indeed, parties have the opportunity to protest SoCalGas's and SDG&E's respective ALs[4187] and the Commission can, and often does, seek additional information on balancing account expenses before making a determination as to whether the proposed expenses are properly recoverable by the utilities.[4188] The Commission has previously held that "the AL process will ensure that costs in excess of what has been authorized will be subject to review."[4189]

Further, the Commission has previously held that advice letter treatment is appropriate for specific reasons not addressed by TURN. For example, with respect to its approval of the Utilities' requests for advice letter treatment for the two-way Liability Insurance Premium Balancing Account (LIPBA) and IMP balancing accounts in the 2019 GRC, the Commission stated that "recognize[s] Applicants' concern about being exposed to increased risk for a significant period while waiting for approval of an application in cases where it finds a need to purchase other and additional liability insurance coverage . . . [t]his approach balances the concerns raised by [Cal Advocates] and UCAN about greater Commission review and Applicants' concern about exposure to additional risk for a significant period."[4190]

Similarly, during SoCalGas's 2012 GRC, the Commission reasoned that a two-way balancing account for the TIMP is appropriate to account for "possible changes in pipeline inspection requirements in the future. A two-way balancing account will ensure that SoCalGas has sufficient funds to carry out all the necessary TIMP-related work to ensure that its gas transmission

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4186 *See* D.13-05-010 at 422.

4187 General Order 96-B, Energy Industry Rule 7.4.

4188 *See, e.g.,* Resolution G-3517 (May 12, 2016) at 4-6 (approving certain undercollections recorded in the TIMPBA for recovery in rates, while disapproving others after review by Energy Division of a selective sampling of invoices); Resolution G-3499 (June 11, 2015) at 11 (describing additional information provided to Energy Division for their determination of the reasonableness of requested undercollections in the TIMPBA); Tr. V19:3461-3463:11.

4189 D.13-05-010 at 422.

4190 D.19-09-051 at 535; *see also id* at 154-156 (regarding the discussion of why a two-way balancing account for the SIMPBA is appropriate as opposed to a one-way account) and *id.,* COL 30 ("Continued two-way balancing account treatment of the SIMPBA should be authorized to allow sufficient flexibility to address possible variances in costs and at the same time allow unspent funds to be returned to ratepayers").

system remains safe and reliable."[4191] Further, in that same Decision, the Commission supported the closure of the one-way balancing account for DIMP for pre-2012 DIMP expenses and authorized creation of a two-way balancing account with recovery of any costs in excess of the authorized O&M and capital expenses subject to a Tier 3 advice letter process.[4192] The Commission understood future incremental requirements could require SoCalGas to incur expenses above authorized levels in order to maintain safety and reliability of its gas system.

A two-way balancing account allows the utility to comply with new regulations and other unforeseen circumstances that may cause financial uncertainty between rate cases and provides it the opportunity to focus on providing safe and reliable service at a reasonable cost. The Commission has previously found, and should find here, that they are able to adequately review the reasonableness of expenses through the more expedient, but still thorough, advice letter process, in order to balance the needs and impacts to all stakeholders.

43.3 SoCalGas Issues

43.3.1 Disputed Regulatory Accounts

43.3.1.1 Aliso Canyon Memorandum Account (ACMA)

SoCalGas proposed for the amortization and closure of the ACMA.[4193] Cal Advocates argues that the Commission should limit ACMA recovery to $9.5 million and disallow approximately $4 million of the $21 million of Aliso Canyon Turbine Replacement (ACTR) capital expenditures.[4194] The $9.5 million is the amount in the ACMA as of March 2022, when SoCalGas filed its 2024 GRC application.[4195] This argument misunderstands what is recorded in the ACMA and how those expenses are incurred. SoCalGas records capital revenue requirement (*e.g.*, depreciation, return, and taxes) associated with capital expenses for the ACTR project to the ACMA and SoCalGas continues to incur on-going revenue requirement associated with ACTR capital expenses through December 31, 2023.[4196] For instance, as of March 2023, the balance in the ACMA is $12.1 million.[4197] If the Commission were to approve recovery of only $9.5 million,

4191 D.13-05-010 at 422.

4192 *Id.* at 430-431.

4193 Ex. SCG-38-R-E (Yu) at 10.

4194 Ex. CA-03 (Phan) at 28 – 29.

4195 *See* Ex. CA-03 (Phan) at 27-30; Ex. SCG-38-R-E (Yu) at 10.

4196 Ex. SCG-38-R-E (Yu) at 10; Ex. SCG-10-R (Bittleston/Hruby) at 36.

4197 Ex. SCG-238 (Yu) at 6.

SoCalGas would be unfairly and wrongly disadvantaged by not being allowed to recover on-going revenue requirement (depreciation, return, taxes) associated with any reasonably incurred ACTR capital expenses. SoCalGas should be authorized to recalculate revenue requirement based on the final approved amount of reasonably incurred capital expenses for the ACTR project to determine the appropriate ACMA balance to amortize and recover in customers' transportation rates.

43.3.1.2 Morongo Right-of-Way Memorandum Account (MROWMA)

SoCalGas proposed the disposition and continuation of the MROWMA balance.[4198] TURN-SCGC disputes $4.6 million incurred for renewal efforts of the Morongo right of way, claiming that SoCalGas inappropriately included this amount in its revenue requirement recorded to the MROWMA.[4199] However, the Commission authorized the memorandum account in SoCalGas's last GRC, for revenue requirement associated with capital expenses for renewal efforts in the MROWMA.[4200] As D.19-09-051 clarifies, the TY 2019 GRC authorized revenue requirement did not include any capital expenses related to Morongo right of way renewal efforts and that these costs should be recorded in the MROWMA.[4201] And, as discussed in the Gas Engineering rebuttal testimony (Ex. SCG-207) of Maria T. Martinez, SoCalGas did just that—it recorded $4.6 million in capital expenses associated with its Morongo right-of-way renewal efforts in the MROWMA.[4202] In fact, Cal Advocates performed a financial examination of the costs recorded to the MROWMA and agreed with SoCalGas. Thus, the revenue requirement balance recorded in the MROWMA as of December 31, 2023, associated with the capital expenses reviewed in this GRC should be approved for recovery in customers' transportation rates and the memorandum account continued as proposed by SoCalGas.

43.3.1.3 LPCMA, HRSBA, LMBA, FIMPBA

SoCalGas proposed the creation of the Litigated Project Costs Memorandum Account (LPCMA), Hydrogen Re-fueling Station Balancing Account (HRSBA), the Locate and Mark Balancing Account (LMBA), and the Facilities Integrity Management Program Balancing Account

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4198 Ex. SCG-38-R-E (Yu) at 8.

4199 Ex. TURN-SCGC-02 (Yap) at 4.

4200 D.19-09-051 at 140-141.

4201 *Id*.

4202 Ex. SCG-207 (Martinez) at 4 and 9.

(FIMPBA). Cal Advocates and/or TURN opposed the creation of these accounts. The need for these accounts is addressed in the following Sections of this brief:

- LPCMA – Section 10 and Section 12 (Gas Distribution and Gas Transmission Operations and Construction);
- HRSBA – Section 18 (Clean Energy Innovations);
- LMBA – Section 10 (Gas Distribution); and
- FIMPBA – Section 15 (Gas Integrity Management Programs).

43.4 SDG&E Issues

43.4.1 Proposed Modification to SDG&E's New Hydrogen Build-Ready Balancing Account (HBRBA)

SDG&E proposed to create the electric HBRBA as a two-way interest-bearing balancing account, with amortization of the balance in the annual regulatory account update AL, to record the difference between the authorized revenue requirement to be adopted in this TY 2024 GRC and actual expenses associated with the Hydrogen Build Ready Infrastructure program, as discussed in the Clean Energy Innovations testimony of Fernando Valero (Ex. SDG&E-15 and SDG&E-215).[4203] SDG&E has conceded to change its request, as proposed by Cal Advocates, to a one-way balancing account.[4204]

43.4.2 Disputed Regulatory Accounts

43.4.2.1 Customer Information System Balancing Account (CISBA)

The CISBA account is closed to new charges in SDG&E's financial records and ongoing O&M costs for the CIS are not currently charged to the CISBA.[4205] Accordingly, SDG&E requests that the CISBA accounts be closed effective December 31, 2023, and any remaining balance be transferred to the Electric Distribution Fixed Cost Account (EDFCA) for electric and the Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) for gas.[4206]

Cal Advocates argues that the CISBA should remain open because SDG&E did not provide 2022 actual costs.[4207] However, because SDG&E did not record any 2022 actual costs in the

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[4203] Ex. SDGG&E-43-R (Kupfersmid) at 22.

[4204] *See* Ex. CA-09 (Younes) at 52. Note that, given this concession, TURN's argument requesting an application for undercollections is moot. *See* Ex. TURN-15 (Finkelstein) at 24-25.

[4205] Ex. SDG&E-243 (Kupfersmid) at 9.

[4206] *Id.*

[4207] Ex. CA-11 (Waterworth) at 59.

CISBA and because the account is closed to new charges in SDG&E's financial records,[4208] there is no need to keep the account open as proposed by Cal Advocates.

43.4.2.2 Overhead Pools Balancing Account (OPBA)

SDG&E proposes to close the OPBA when the TY 2024 GRC proceeding concludes.[4209] Cal Advocates opposes closure of the OPBA because it will not be directly involved in SDG&E's final calculations for the Overhead Pools forecasts.[4210] However, because the OPBA was established in the 2019 general rate case to evaluate the account for ratemaking purposes over the entire cycle covered by the Test-Year (TY) 2019 GRC,[4211] SDG&E contends it should be closed at the conclusion of the 2019 GRC cycle.

43.4.2.3 Vehicle Grid Integration Balancing Account (VGIBA)

The electric VGIBA is a one-way interest-bearing balancing account authorized to record the revenue requirement and incremental costs associated with implementation of the 2016 VGI Pilot Program.[4212] When the TY 2024 GRC proceeding concludes, SDG&E proposes to transfer the December 31, 2023 VGIBA balance to the EDFCA for inclusion in the next available rate change, and to close the VGIBA thereafter.[4213]

Cal Advocates opposes closure of the VGIBA and recommends an audit of the account and the reasonableness of including $3.5 million in costs recorded to the account, arguing that such costs are above the amount authorized by the Commission.[4214] Cal Advocates misunderstands the relevant Commission decision. Decision 16-01-045 regarding the VGI application states as follows: '"The alternative VGI program terms authorizes and approves a $45 million start-up budget, *plus* cost recovery through future general rate case proceedings for justified capital and operations and maintenance expenses, for San Diego Gas & Electric Company (SDG&E) to implement the '2016 Vehicle VGI Pilot Program'. . . ."'[4215] SDG&E's position is that the additional $3.5 it is seeking to recover, as justified in the testimony of Jennifer L. Reynolds (Ex.

4208 Ex. SDG&E-243 (Kupfersmid) at 8.

4209 Ex. SDG&E-43-R (Kupfersmid) at 6.

4210 Ex. CA-06 (Wilson) at 20.

4211 D.19-09-051 at OP 17.

4212 Ex. SDG&E-43-R (Kupfersmid) at 8.

4213 *Id.*

4214 Ex. SDG&E-243 (Kupfersmid) at 10.

4215 *Id.* (citing D.16-01-045 at 181, OP 3(a) (emphasis added)).

SDG&E-21), is what the Commission was referencing as "justified capital and operations and maintenance expenses." Cal Advocates position—that the Commission capped recovery at $45M—is contrary to the reasonable interpretation of D.16-01-045 and should be denied.

43.4.2.4 Locate and Mark Balancing Accounts

SDG&E requests the creation of electric and gas LMBAs as a two-way balancing accounts.[4216] The purpose of the LMBAs is to record the difference between the authorized revenue requirement to be adopted in this TY 2024 GRC and actual expenses incurred as discussed in the Gas Distribution testimony of L. Patrick Kinsella.[4217] SDG&E proposes to amortize the balance in the LMBA in customer rates in connection with the annual regulatory account update advice letter filing.[4218]

Cal Advocates does not oppose the requested amount for Locate and Mark activities, but opposes the creation of the LMBAs,[4219] arguing that the GRC forecasts should provide adequate funding. As SDG&E argued in its opening testimony, the LMBA is for the purpose of recording any difference between authorized and actual expenses.[4220] Thus, while SDG&E agrees that its forecast *should* cover all expenses related to Locate and Mark activities, SDG&E should be entitled to recovery reasonable expenses associated with such activities to the extent there are undercollections and to return overcollections to the ratepayers in a timely manner.

TURN opposes the LMBA to the extent that the proposal is for a two-way rather than a one-way balancing account paired with a memorandum account.[4221] FEA proposes a memorandum account only.[4222] SDG&E disagrees for the reasons described on this point above.

43.4.2.5 LPCMA, RDDBA, WMPBA, and FIMPBA

SDG&E proposes the creation of the Litigated Project Costs Memorandum Account (LPCMA), the Research, Development, and Demonstration Balancing Account (RDDBA), and the Facilities Integrity Management Program Balancing Account (FIMPBA) to record costs associated

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4216 Ex. SDG&E-43-R (Kupfersmid) at 23.

4217 Ex. SDG&E-04-R (Kinsella) at 33-35.

4218 Ex. SDG&E-43-R (Kupfersmid) at 23.

4219 Ex. CA-04 (Quam) at 11 (citing to explanation in Ex. CA-02 (Sierra) at 9).

4220 Ex. SDG&E-43-R (Kupfersmid) at 23.

4221 Ex. TURN-15 (Finkelstein) at 24-25.

4222 Ex. FEA-01 (Smith) at 54.

with SDG&E projects and activities.[4223] Cal Advocates and/or TURN oppose their creation.[4224] The need for these accounts are addressed in the following Sections of this brief:

- LPCMA – Section 10
- FIMPBA – Section 15

43.4.2.6 Wildfire Mitigation Plan Balancing Account (WMPBA)

SDG&E proposes to create an electric and gas WMPBA as a two-way interesting-bearing balancing account to record costs incurred to implement SDG&E's Commission-approved Wildfire Mitigation Plan.[4225] Its balance reflects those costs net of revenue requirement authorized in this TY 2024 GRC as discussed in the Wildfire Mitigation and Vegetation Management testimony of Jonathan T. Woldemariam (EX. SDG&E-13-2R).[4226] SDG&E proposes to amortize the balance in the WMPBA in customer rates in connection with the annual regulatory account update advice letter filing.[4227] Cal Advocates proposes similar balancing account treatment and TURN supports retaining the current memorandum account. These issues are addressed at Section 20.3 regarding Wildfire Mitigation and Vegetation Management.

43.4.2.7 New Environmental Regulation Balancing Account (NERBA excluding NGLAP subaccount)

The electric and gas NERBA are two-way, interest-bearing balancing accounts, with subaccounts, for purposes of recording environmental-related costs, the balance of which are disposed of through Tier 3 ALs.[4228] SDG&E requests their continuation without modification.[4229] TURN recommends that the accounts be modified to require an application to recover above-authorized costs recorded in these accounts.[4230] As argued in the Common Issues section above, the advice letter process facilitates timely resolution of Commission review without requiring the time, expense, or administrative burden of a full application. This process facilitates adequate

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[4223] *See* Ex. SDG&E-43-R (Kupfersmid) at 21-24.

[4224] Ex. TURN-15 (Finkelstein) at 22 (FIMBA); Ex. CA-19 (Chia/Lee) at 32 (RDDBA); Ex. CA-07 (Kaur) at 26 (WMPBA); Ex. CA-06 (Wilson) at 14 (LPCMA).

[4225] Ex. SDG&E-43-R (Kupfersmid) at 25.

[4226] *Id.*

[4227] *Id.*

[4228] Ex. SDG&E-43-R (Kupfersmid) at 25-26.

[4229] *Id.*

[4230] Ex. TURN-15 (Finkelstein) at 24-25.

review by the Commission of reasonably requested amounts and balances that need with the need for timely recovery of funds.

43.4.2.8 Track 2 Costs Memorandum Account (T2CMA)

SDG&E proposed to create the electric T2CMA to record SDG&E's compliance costs for 2022-2023 related to the Cross Function Work Management Enhancement program.[4231] Any costs recorded to the T2CMA will be subject to a reasonableness review in a future GRC application or other applicable proceeding.[4232] TURN recommends an application to recover above-authorized costs recorded in these accounts.[4233] SDG&E notes that its proposal will allow for costs to considered as part of an application, but that a separate application for recovery, to the extent that is TURN's proposal, is unnecessary for the reasons stated above.

43.4.2.9 Tree Trimming Balancing Account (TTBA)/Vegetation Management Balancing Account (VMBA)

The electric TTBA is an interest-bearing two-way balancing account, effective January 1, 2019, for the purpose of recording certain actual tree trimming costs and associated authorized revenues.[4234] SDG&E proposes to continue the TTBA for TY 2024 GRC cycle as well as modify the title to "Vegetation Management Balancing Account" to be consistent with other IOUs.[4235] SDG&E also proposes to include costs related to pole brushing in the balancing account which are currently being captured in WMPMA.[4236]

Cal Advocates recommends that the Wildfire Mitigation Program be subject to two-way balancing account treatment, along with the requirement that the utility file an application for reasonableness review of any recorded costs in excess of 110% of the capital expenditure amounts authorized in this decision.[4237] SDG&E disagrees that this change in the recovery methodology and threshold are necessary. The current methodology allows for a 135% threshold, which was

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4231 Ex. SDG&E-43-R (Kupfersmid) at 24. For more details, please refer Ex. SDG&E-12 (Swetek).

4232 Ex. SDG&E-43-R (Kupfersmid) at 25. Note that in the Revised Direct Testimony of Jason Kupfersmid at 25, SDG&E seeks to amortize the balance of the T2CMA in the annual regulatory account update advice letter. This is in error. SDG&E's proposal is for review of costs in a future GRC application or other applicable proceeding.

4233 Ex. TURN-15 (Finkelstein) at 24-25.

4234 Ex. SDG&E-243 (Kupfersmid) at 21.

4235 *Id.*

4236 *Id.*

4237 Ex. CA-20 (Hunter) at 20.

approved in D.19-09-051,[4238] and has been administered in accordance with that decision.[4239] Costs in excess of 135% are subject to a Tier 3 AL.[4240] Cal Advocates fails to provide support or any rationale for why a lower threshold for the two-way balancing account and an application requirements for costs over 100% is required. Cal Advocates request for an application could potentially and unnecessarily increase administrative costs, fails to balance the utility's needs and suggests that the Commission's review process for Tier 3 ALs is insufficient. SDG&E disagrees. Not only do intervenors have the opportunity to protest the Tier 3 AL, as they do with any AL, but the AL is only effective after Commission approval.[4241] This is sufficient process and maintains the balance between accountability and timely recovery of funds for the utility. For further details on modifications to the TTBA, please refer to the Wildfire Mitigation and Vegetation Management revised direct testimony of Jonathan T. Woldemariam.[4242]

TURN makes the same argument for the TTBA/VMBA as for other proposed two-way balancing accounts—that they be approved as one-way balancing accounts with a companion memorandum account for amounts over those approved in this GRC.[4243] SDG&E disagrees and its position on this argument is above.

43.4.2.10 Electric Vehicle Infrastructure Balancing Account (EVIBA)

SDG&E proposes to create the electric EVIBA as a two-way interest-bearing balancing account to record the difference between the authorized revenue requirement to be adopted in this TY 2024 GRC and actual expenses incurred associated with implementing the new EV Infrastructure Rule as discussed in the Clean Transportation testimony of Jennifer L. Reynolds (Ex. SDG&E-21).[4244] SDG&E proposes to amortize the balance in the EVIBA in customer rates in connection with the annual regulatory account update advice letter filing.[4245] TURN argues for an one-way balancing account with an application requirement for any undercollections and FEA recommends a memorandum account.[4246] SDG&E believes that a balancing account most

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4238 D.19-09-051 at 700-701.

4239 Ex. SDG&E-243 (Kupfersmid) at 20.

4240 D.19-09-051 at 700-701.

4241 General Order 98-B, Energy Industry Rule 5.3.

4242 Ex. SDG&E-13-2-R (Woldemariam).

4243 Ex. TURN-15 (Finkelstein) at 19.

4244 Ex. SDG&E-43-R (Kupfersmid) at 21.

4245 *Id.*

4246 Ex. TURN-15 (Finkelstein) at 24-25; Ex. FEA-01 (Smith) at 48.

appropriately addresses SDG&E's needs for this account and disagrees that an application is necessary for the reasons discussed above. Such a requirement will add unnecessary administrative costs, fails to balance the needs of the utility, and suggests that the Commission fails to review requested costs for reasonableness.

44. Summary of Earnings/Results of Operations Model

SoCalGas and SDG&E's Summary of Earnings testimonies, supported by witness Ryan Hom, provide the utilities' summary of earnings tables and discuss the Results of Operation (RO) model, through which all of the cost estimates put before the Commission in this proceeding are compiled into an income statement format to estimate the amount of revenue needed for the utilities to earn an authorized rate of return on their investments.[4247] In Mr. Hom's Second Revised direct testimony, SoCalGas proposed $4,398,305,000 for its TY 2024 revenue requirement.[4248] SDG&E proposed $3,007,108,000 for its TY 2024 revenue requirement.[4249] On July 7, 2023, SoCalGas and SDG&E served their update testimony, which included updates to the Summary of Earnings. The updated proposed revenue requirement for SoCalGas is $4,434,287,000.[4250] The updated proposed revenue requirement for SDG&E is $3,007,163,000, on a combined basis and $2,348,431,000 and $658,732,000 for electric and gas departments, respectively.[4251]

The Companies' RO model has been accepted by all parties without challenge or indication that any redesign is necessary to more accurately calculate a revenue requirement. Cal Advocates explains that it was provided the RO model and that the tables included in Cal Advocates' exhibits were extracted from the same RO model with different inputs.[4252]

SoCalGas and SDG&E request that the Commission adopt their requested revenue requirements for TY 2024 as proposed.

4247 Ex. SCG-39-2R (Hom); Ex. SDG&E-44-R (Hom). Note: Accumulated balances for regulatory accounts (balancing, tracking, or memorandum) addressed in Exs. SCG-38 (Yu) and SCG-238 (Yu) for SoCalGas and Exs. SDG&E-43 (Kupfersmid) and SDG&E-243 (Kupfersmid) for SDG&E are not included in the TY 2024 revenue requirement described herein.

4248 Ex. SCG-39-2R (Hom) at ii. Pursuant to the Administrative Law Judge's Ruling issued on October 28, 2022, the revenue requirement excludes the Ventura Compressor Modernization (VCM) Project. *Id*. at 1.

4249 Ex. SDG&E-44-R (Hom) at ii.

4250 Ex. SCG-401/SDG&E-401 (Hom) at 23.

4251 *Id.*

4252 Ex. CA-15 (Oh) at 17.

45. Post Test Year Ratemaking

SoCalGas and SDG&E's post-test year ratemaking proposals are set forth in the following record exhibits:

SoCalGas and SDG&E Post-Test Year Exhibits	
Exhibit SCG-40-2R-E	The Prepared Direct Testimony of Khai Nguyen
Exhibit SCG-40-WP-2R-E	Workpapers to Prepared Direct Testimony of Khai Nguyen
Exhibit SCG-240-E	Rebuttal Testimony of Khai Nguyen
Exhibit SDG&E-45-R-E	The Prepared Direct Testimony of Melanie Hancock
Exhibit SDG&E-45-WP-R-E	Workpapers to Prepared Direct Testimony of Melanie Hancock
Exhibit SDG&E-245	Rebuttal Testimony of Melanie Hancock
SCG-40-S/SDG&E-45-S	Supplemental Testimony of Khai Nguyen and Melanie E. Hancock
SCG-401/SDG&E-401, Section IV (Debbie S. Robinson)	Update Testimony of SoCalGas and SDG&E on Compensation and Benefits
SCG-401/SDG&E-401, Section VIII (Ryan Hom)	Update Testimony of SoCalGas and SDG&E on Results of Operations

SoCalGas's and SDG&E's post-test-year (PTY) ratemaking testimony chapters, sponsored by Khai Nguyen and Melanie Hancock, respectively, offer proposals designed: (1) to align PTY revenue requirements to account for unique cost escalation issues, such as the expected higher growth medical costs, and (2) to account for SoCalGas's and SDG&E's capital investments that mitigate risk and improve safety and reliability of the utility infrastructure.[4253] These proposals do not cover all anticipated expenses and capital-related investments but provide a reasonable level of funding necessary to maintain operational and financial stability and support important safety, reliability, and technology projects, while promoting productivity and efficiencies during the next GRC cycle. The proposals are summarized as follows:

- A four-year term (2024-2027) for this GRC cycle, consistent with D.20-01-002;
- A PTY ratemaking mechanism to adjust authorized revenue requirements for:
    - Labor and non-labor costs based on IHS Markit Global Insight's (Global Insight or GI) forecast;

[4253] *See generally,* Ex. SCG-40-2R-E (Nguyen), *passim*; Ex. SDG&E-45-R-E (Hancock), *passim*.

- Medical costs based on Willis Towers Watson's forecast shown in July 2023 Update Testimony;[4254] and Medical costs based on Willis Towers Watson's forecast shown in July 2023 Update Testimony;[4255] and
- Calculating PTY capital-related revenue requirements using:[4256]
- an escalated 5-year average level of capital additions;
- For SoCalGas capital additions beyond TY 2024, forecasts for:
    - The Honor Rancho Compressor Modernization project capital additions;
    - The Customer Information System (CIS) project capital additions; and
    - SoCalGas's Gas Integrity Management Program (TIMP, DIMP, SIMP, FIMP, GSEP) capital additions;
- For SDG&E capital additions beyond TY 2024, forecasts for:
    - Wildfire Mitigation Plan (WMP) capital additions;
    - Moreno Compressor Upgrade capital additions;
    - Smart Meter 2.0 capital additions; and
    - SDG&E's Gas Integrity Management Program (DIMP, TIMP, FIMP, GSEP) capital additions.
    - Continuation of the currently authorized Z-factor mechanism and the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements.

Adoption of SoCalGas's proposal is forecasted to yield attrition-year revenue increases of $292 million (6.58%) in 2025, $261 million (5.52%) in 2026 and $381 million (7.63%) in 2027. Adopting SDG&E's proposal is forecasted to yield attrition-year revenue increases of $345.6 million (11.49%) in 2025, $332.2 million (9.91%) in 2026 and $303.2 million (8.23%) in 2027.[4257]

The Companies propose to continue updating their PTY revenue requirements as authorized in D.19-09-051 (at 713), to adjust the authorized revenue requirement per the adopted PTY ratemaking mechanism through an annual advice letter process to be filed on or before

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4254 Ex. SCG-401/SDG&E-401 (Robinson) at 14.

4255 Ex. SCG-401/SDG&E-401 (Robinson) at 14.

4256 Ex. SCG-40-2R-E (Nguyen) at ii; Ex. SDG&E-45-R-E (Hancock) at ii.

4257 Ex. SCG 401/SDG&E-401 (Hom) at 25.

November 1 (beginning November 1, 2024).[4258] The resulting customer rate adjustments to recover the updated revenue requirement would be effective the following January 1. The advice letter will contain all calculations necessary to update the revenue requirement for the subsequent year.

The Companies filed rebuttal testimony addressing the direct testimony of Cal Advocates.[4259] SoCalGas also responded to the joint testimony of SCGC and TURN;[4260] and SDG&E also responded to testimony of FEA.[4261] A comparison of the parties' positions regarding SoCalGas' PTY proposal is provided in Tables 45.1 and 45.2 below:[4262]

Table 45.1 – Comparison of Proposals

($ in millions) Revenue Requirement Increase	2025		2026		2027	
SoCalGas[4263]	6.58%	$292	5.52%	$261	7.63%	$381
Cal Advocates	4.7%	$188	5.1%	$215	5.1%	$225
TURN/SCGC	5.56%	$244	4.34%	$201	4.21%	$204

Table 45.2 – Comparison of Proposals

<table>
<tr><th colspan="2">Issue</th><th>SoCalGas</th><th>Cal Advocates</th><th>TURN/SCGC</th></tr>
<tr><td colspan="2">General Rate Case (GRC) Term</td><td>4 years</td><td>4 years</td><td>Not addressed</td></tr>
<tr><td rowspan="3">Escalation Rates</td><td>O&M (excluding medical)</td><td>IHS Global Insight</td><td>3.0%</td><td>CPI-U or Alternative of CPI-U + up to 50 basis points</td></tr>
<tr><td>O&M - Medical</td><td>Willis Towers Watson</td><td>3.0%</td><td>CPI-U or Alternative of CPI-U + up to 50 basis points</td></tr>
<tr><td>Capital</td><td>IHS Global Insight</td><td>3.0%</td><td>CPI-U or Alternative of CPI-U + up to 50 basis points</td></tr>
<tr><td colspan="2">Capital Additions Adjustment</td><td>5-year average (2020-2021 actual, 2022-2024 forecast)</td><td>None</td><td rowspan="2">7-year average (2015-2021 actual)

No capital exceptions</td></tr>
<tr><td colspan="2">Post-Test Year Capital Exceptions</td><td>Separate PTY revenue requirement</td><td>For IMPs*, establish a 2-way balancing account with costs, in excess of 110% of authorized subject to reasonableness review; exclude CIS* and HRCM*</td></tr>
<tr><td colspan="2">Z-factor mechanism</td><td>Test Year (TY) and PTYs with $5 million deductible per event</td><td>TY and PTYs with $5 million deductible per event</td><td>Not addressed</td></tr>
</table>

*Integrity Management Programs (IMPs), Customer Information System (CIS), Honor Rancho Compressor Modernization (HRCM)

4258 Ex. SCG-40-2R-E (Nguyen) at 11; Ex. SDG&E-45-R-E (Hancock) at 11.

4259 Ex. SCG-240-E (Nguyen); Ex. SDG&E-245 (Hancock), addressing Ex. CA-20 (Hunter).

4260 Ex. SCG-240-E (Nguyen), addressing Ex. TURN-SCGC-07 (Yap).

4261 Ex. SDG&E-245 (Hancock), addressing Ex. FEA-01 (Smith).

4262 Ex. SCG-240-E (Nguyen), Tables KN-1 and KN-2.

4263 Updated to reflect the July 2023 Update Testimony, Ex. SCG-401/SDG&E-401, Section VIII (Ryan Hom).

A comparison of the parties' direct testimony positions regarding SDG&E's PTY proposal[4264] is provided in Table 45.3 below:

Table 45.3 – Comparison of Proposals,[4265]

($ in millions) Revenue Requirement Increase	2025		2026		2027	
SDG&E[4266],	11.49%	$345.6	9.91%	$332.2	8.23%	$303.2
Cal Advocates[4267]	7.90%	$222.0	7.90%	$239.0	7.50%	$247.0
FEA[4268]	N/A	N/A	N/A	N/A	N/A	N/A

Table 45.4 – Comparison of Proposals

Issue		SDG&E	Cal Advocates	FEA
General Rate Case (GRC) Term		4 years	4 years	4 years
Escalation Rates	O&M (excluding medical)	IHS Global Insight	3.0%	Not addressed
	O&M - Medical	Willis Towers Watson	3.0%	IHS Global Insight
	Capital	IHS Global Insight	3.0%	Not addressed
Capital Additions Adjustment		5-year average (2020-2021 actual, 2022-2024 forecast)	None	7-year average (2015-2021 actual)
Post-Test Year Capital Exceptions		Separate PTY revenue requirement	For IMPs*, establish a 2-way balancing account with costs, in excess of 110% of authorized subject to reasonableness review; exclude Moreno, reductions to Smart Meter 2.0 and WMP*	Not addressed
Z-factor		Test Year (TY) and PTYs with $5 million deductible per event	TY and PTYs with $5 million deductible per event	Not addressed

* Integrity Management Programs (IMPs), Wildfire Mitigation Plan (WMP)

4264 Ex. SDG&E-245 (Hancock), Tables MEH-1 and MEH-2.

4265 TURN and UCAN's are excluded from comparison here, as there are no specific proposals to the post-test year ratemaking mechanism or revenue requirement.

4266 Ex. SDG&E-45-R (Hancock) at 2, Table MEH-1, updated to reflect the July 2023 Update Testimony, SCG-401/SDG&E-401, Section VIII (Ryan Hom).

4267 Ex. CA-20 (Hunter) at 2.

4268 Proposed annual post-test year attrition and annual revenue requirement increases were not included in Ex. FEA-01 (Smith).

Further details regarding the various parties' proposals are outlined below.

45.1 Parties' PTY Escalation Proposals

45.1.1 O&M and Medical Cost Escalation

Cal Advocates' proposes PTY increases of 3.0% per year for 2025, 2026, and 2027, with no differing escalation for medical costs or O&M and capital.[4269] For SoCalGas, TURN/SCGC recommends escalating PTY O&M revenue increase using CPI-U or alternatively adjust CPI-U by an arbitrary maximum of 50 basis points, also without acknowledging the need to treat medical cost escalation differently.[4270] For SDG&E, FEA recommends using the same GI utility escalation factors used to calculate SDG&E's PTY O&M to determine PTY medical costs - 1.7% for 2025, 2.1% for 2026, and 2.3% for 2027. The Companies strongly disagree with these proposals.

As explained in Exhibits SCG-40-2R-E, SCG-240-E, Exhibit SDG&E-45-R-E, and SDG&E-245, CPI is an inappropriate basis for forecasting utility-specific costs, and it is not supported by numerical analysis. CPI is not intended to and does not gauge price changes of goods and services purchased by businesses, or more specifically, utilities. CPI measures changes in the price of a representative basket of goods and services purchased by a typical U.S. household including food and beverages, housing, apparel, transportation, medical care, recreation, education and communication and other goods and services (tobacco and smoking products, haircuts and other personal services, funeral expenses).[4271] Global Insight (GI) is weighted to incorporate "Utility Service Works," "Managers and Administrators," and "Professional and Technical Workers" and is therefore more appropriate as an industry-specific source for escalation.[4272] As shown in direct testimony and in multiple recent GRC decisions, the Commission concluded that CPI does not reflect how utilities incur costs and has adopted Global Insight as the preferred index to use in escalating attrition year revenue requirement.[4273]

4269 Ex. SCG-240-E (Nguyen) at 4, SDG&E-245 (Hancock) at 5, citing Ex. CA-20 (Hunter) at 18.

4270 Ex. SCG-240-E (Nguyen) at 5, citing TURN/SCGC-07 (Yap) at 7-8.

4271 Ex. SCG-240-E (Nguyen) at 5-6 and SDG&E-245 (Hancock) at 5-6, citing U.S. Bureau of Labor Statistics, Handbook of Methods, Consumer Price Index: Concepts (as of April 6, 2023), available at https://www.bls.gov/opub/hom/cpi/concepts.htm; *see also* Exhibit SCG-40-2R-E at 4-6; Exhibit SDG&E-45-R-E at 5-6.

4272 Ex. SCG-240-E (Nguyen) at 5 (citing Ex. SCG-36 (Wilder, adopted by Martinez) at 2.) and SDG&E-245 (Hancock) at 6 (citing Ex. SDG&E-41 (Wilder, adopted by Martinez) at 2).

4273 Ex. SCG-40-2R-E (Nguyen) at 5 and SDG&E-45-R (Hancock) at 5, citing D.19-09-051 at 708 ("We find that Global Insight escalation rates are specific to the utility industry and more accurately reflects

Additionally, Willis Towers Watson's medical escalation rate is more appropriate for use in the post-test years because it takes into account demographic factors specific to SoCalGas and SDG&E that are key drivers of medical plan costs, as more fully set forth in Debbie Robinson's compensation and benefits testimony.[4274] An updated forecast prepared by Willis Towers Watson projects post-test year medical escalation at 6.5% for 2025 and 2026 and 5.5% for 2027.[4275] The Companies note that this forecasted rate is similar to the post-test year medical expense escalation rate mechanism that was adopted in SCE's TY 2018 and TY 2021 GRCs.[4276] In SCE's TY 2018 GRC decision, the Commission emphasized their preference for using escalation rates based on SCE's actual population demographics, stating that they "deferred to SCE's reliance on medical program cost escalation rates provided by its plan administrators, rather than relying on a broader public study as proposed by ORA."[4277] Consistent with prior Commission decisions, Willis Towers Watson's demographic-specific medical escalation rate should be utilized for the PTY mechanism.

45.1.2 Capital-related PTY Revenue Requirement

PTY Ratemaking Mechanism

SoCalGas and SDG&E have stated their continued intent to focus on capital investments necessary to build and maintain safe and reliable infrastructure and to mitigate safety risks identified in their RAMP presentations.[4278] This commitment is emphasized throughout the testimony of SoCalGas and SDG&E witnesses sponsoring TY 2024 cost forecasts and aligns with SoCalGas's and SDG&E's respective missions to maintain and enhance their safety-focused culture. In line with investing in safety and reliability, SoCalGas and SDG&E have also presented

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SDG&E's and SoCalGas' inflationary cost increases."); D.21-05-003 at 15 (affirming and adopting D.19-09-051's rationale and result for attrition years 2022 and 2023); and D.21-08-036 at 547 ("[W]e approve use of the utility-specific indices … because they more accurately reflect how utilities incur costs. Both Cal Advocates and TURN offer proposals which are based on CPI-U or CPI-U plus a premium. As we have previously explained, the CPI reflects consumer retail price changes and does not reflect how utilities incur costs.").

4274 Ex. SCG-240-E (Nguyen) at 6 and SDG&E-245 (Hancock) at 6, citing Ex. SCG-25-R/SDG&E-29-R (Robinson). .

4275 Ex. SCG-401/SDG&E-401 (Robinson) at 14.

4276 D.19-05-020 at 418 (COL 114) and D.21-08-036 at 668 (COL 184). *See also* D.19-09-051 at 551 (authorizing the use of a separate escalation factor for SoCalGas and SDG&E's TY 2019 O&M medical costs).

4277 D.19-05-020, FOF 138 and COL 114.

4278 Ex. SCG-40-2R-E (Nguyen) at 3; Ex. SDG&E-45-R-E (Hancock) at 3.

sustainability and resiliency objectives in this GRC.[4279] Consequently, the level of estimated capital expenditures leading up to and including TY 2024 are part of an ongoing investment effort, which will continue beyond the 2024 test year period. The Companies' proposed PTY attrition mechanism is designed to account for the anticipated growth in capital additions in excess of depreciation in the PTY period, as more fully set forth in Exhibit SCG-240-E and Exhibit SDG&E-245.

In contrast, Cal Advocates' proposed methodology of escalating the test year revenue requirement using a flat 3% informed by CPI does not reasonably account for anticipated capital beyond 2024.[4280] Instead of using of an escalated multi-year average of capital additions as a proxy for post-test year capital additions, Cal Advocates simply escalates the capital revenue requirement for the previous year. TURN/SCGC's methodology (proposed for SoCalGas) is similarly insufficient, proposing the use of a 7-year average (2015-2021) recorded capital additions escalated using the CPI-U. TURN/SCGC also recommends no additional revenue requirement related to post-test year capital exceptions, stating, "The trended seven-year average of capital additions will provide an increasing level of capital additions throughout the PTY period, which will provide increased capital-related revenue requirement."[4281] FEA recommends (for SDG&E) the use of a 7-year average of capital additions based on 2015-2021 recorded results. SoCalGas and SDG&E strongly disagree with these proposals.

The Companies' proposal to use an escalated 5-year average (2020-2021 recorded and 2022-2024 forecasted) for capital additions is more reliable than escalating the test year, as it takes into account a broader range of data and can provide a more accurate representation of historical and long-term trends. Further, as explained in section 41.1.1 *supra* and in testimony, CPI is an inappropriate basis for forecasting utility-specific costs, and it is not supported by numerical analysis. CPI is not intended to and does not gauge price changes of goods and services purchased by businesses, or more specifically, utilities. Furthermore, regarding capital-related costs, an attrition adjustment based on CPI will not reflect revenue requirement increases from plant additions in excess of depreciation (rate base growth) and cost escalation SoCalGas and SDG&E

4279 Ex. SCG-40-2R-E (Nguyen) at 3 (citing Ex. SCG-02, Chapters 1 (Peress/Niehaus) and 2 (Sim/Arazi)); Ex. SDG&E-45-R-E (Hancock) at 3 (citing Ex. SDG&E-02 (de Llanos)).

4280 *See* Ex. SCG-240-E (Nguyen) at 5-8 and SDG&E-245 (Hancock) at 5-8, rebutting Ex. CA-20 (Hunter).

4281 Ex. TURN-SCGC-07 (Yap) at 11.

will face in the attrition years. Changes in capital revenue requirement components (authorized returns on rate base, depreciation expense, and taxes) are determined almost entirely by the relationship between capital additions and depreciation. When capital additions exceed depreciation, rate base increases and the related capital revenue requirement components also increase. These increases are unrelated to inflation, and rate base growth has no correlation to CPI.[4282]

For SoCalGas, TURN/SCGC appears to recognize the shortcomings of CPI as a basis for escalating utility costs and proposes adding 50 basis point to CPI-U as an alternative.[4283] However, adding an arbitrary 50 basis points (bps) to CPI-U does not make the index any more reflective of utility costs. TURN/SCGC also inconsistently applies their use of escalation factors throughout their post-test year calculations, which demonstrates a flawed approach that should be rejected.[4284] SoCalGas also disagrees with TURN/SCGC's proposal to use a 7-year average escalated using the CPI-U and excluding any capital related exceptions, as explained in Exhibit SCG-240-E.

SoCalGas's testimony demonstrates that its capital program is continuing to evolve with a greater focus on increasing investment in utility safety, reliability, and sustainability, which directly support California's clean energy and environmental initiatives; and therefore, a 5-year average mechanism should be adopted instead of TURN/SCGC's proposed 7-year average.[4285] To illustrate the recent changes in SoCalGas's capital program, the average escalated capital additions in 2015 and 2016 was approximately \$1.221 billion compared to approximately \$1.671 billion average in 2020 and 2021, which resulted in a compound annual growth rate of ~8% over the four-years.[4286] Utilizing a 5-year average (2020-2021 recorded and 2022-2024 forecasted) best captures the utility investment profile and operating initiatives of the current utility environment, which has evolved in the past few years with the risk-informed GRC framework and "SoCalGas's strong commitment to the State's climate policy goals."[4287] This methodology captures a balance of current and forward-looking spending which is more in line with the operational needs of the company and more recent regulatory requirements. Adopting a capital PTY component that does

4282 Exs. SCG-240-E (Nguyen) at 7-8, SDG&E-245 (Hancock) at 7.

4283 Ex. SCG-240-E (Nguyen) at 7, addressing Ex. TURN-SCGC-07 (Yap).

4284 Ex. SCG-240-E (Nguyen) at 8.

4285 *See* Ex. SCG-240-E (Nguyen) at 8-10.

4286 Ex. SCG-240-E (Nguyen) at 8-9.

4287 *See* Ex. SCG-01-2R (Brown) at 3.

not adequately account for necessary rate base growth runs the risk that the Companies will not have sufficient revenue to continue to implement needed investments in safety, reliability, resiliency, and sustainability of its operations.

Similarly, FEA's recommended use (for SDG&E) of a 7-year average of capital additions based on 2015-2021 recorded results is insufficient. SDG&E strongly disagrees with this proposal. Utilizing a 5-year average (2020-2021 recorded and 2022-2024 forecasted) best captures the utility investment profile and operating initiatives of the current utility environment, which has changed in the past few years. The Companies' proposed five-year average has been widely used and adopted as a relevant and reasonable basis for the forecast of future costs in past and current rate cases. As shown in testimony,[4288] SDG&E's capital program continues to evolve, with a primary focus on increasing investment in utility safety, reliability, and sustainability, by supporting California's clean energy and environmental initiatives. The five-year average includes recorded and forecasted capital additions, which incorporates the company's recent historical capital trend but is also forward looking – focusing on the critical improvements within SDG&E's service territory that are aimed at mitigating safety risk and providing clean and reliable energy.

In addition, FEA incorrectly claims that SDG&E's capital additions have been declining from 2018 to 2021.[4289] FEA references SDG&E's response to request FEA-SDGE-001, Question 78 to support its claim that capital additions are declining, however, FEA fails to note that only SDG&E's Electric Distribution segment is reflected in the response, and FEA did not include capital additions pertaining to Gas, Generation, or other aspects of the business.[4290] Also, the capital additions noted in the data request excluded SDG&E's significant wildfire mitigation related spending. To illustrate the recent changes in SDG&E's capital program, the average escalated total capital additions in the 2018-2019 period was ~$961 million compared to ~$1,226 million average of the 2020-2021 period, which represents a ~28% increase over that short timeframe.[4291] The demonstrated increase in capital additions over this time frame reflects SDG&E's evolving priorities in the areas mentioned above. By utilizing the 5-year average of

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4288 Ex. SDG&E-245 (Hancock) at 10, citing Ex. SDG&E-45-R (Hancock) at-7.

4289 Ex. SDG&E-245 (Hancock) at 10-11, addressing Ex. FEA-01 (Smith) at 41-43.

4290 *See* SDG&E-245 (Hancock) at 10 and Appendix B, SDG&E's response to data request FEA-SDGE-001, Question 78.

4291 *See id.,* Appendix B, SDG&E's response to data request CCAS-SDGE-003, Question 18, dated 11/16/2022.

capital additions (2020-2024), SDG&E can more appropriately capture the future environment of the utility through the utilization of the most current trends.

45.2 Post-Test Year Capital Exceptions and Other Proposals

As referenced above, and as more fully explained in Mr. Nguyen's and Ms. Hancock's direct testimony exhibits,[4292] SoCalGas and SDG&E proposed certain "capital exceptions" to the PTY mechanism, *i.e.,* that the capital-related costs for a limited number of projects not fully reflected in the TY 2024 revenue requirement be included as part of the PTY attrition, so that SoCalGas and SDG&E are authorized adequate revenue to execute such projects and initiatives that are largely needed for safety and reliability. The adjustment is necessary because the majority of the capital expenditures related to these projects are expected to close to plant in service in 2025, 2026, and 2027, and therefore the associated capital-related costs will not be fully reflected in the TY 2024 revenue requirement.[4293]

The detail for the following SoCalGas capital projects and the associated costs are discussed primarily in the prepared direct testimony and workpapers, as noted in Table 45.5 of Exhibit SCG-40-2R-E below. Table 45.6 provides the capital-related revenue requirement for each of capital projects listed in Table 45.5.

TABLE 45.5
Project Sponsors of Capital Post-Test Year Exceptions

Project	Witness	Exhibit
Gas Integrity Management Programs (DIMP, TIMP, SIMP, FIMP, and GSEP)	Amy Kitson and Travis Sera	SCG-09
CIS Replacement Program	Evan Goldman	SCG-13
Honor Rancho Compressor Modernization (HRCM)	Larry T. Bittleston and Steve Hruby	SCG-10

TABLE 45.6
Capital Post-Test Year Exceptions Revenue Requirement Summary

($ in millions)	2025	2026	2027
DIMP	$46.7	$85.3	$124.9
TIMP	$21.4	$44.8	$66.8

4292 Ex. SCG-40-2R-E (Nguyen) at 8-11; Ex. SDG&E-45-R-E (Hancock) at 8-10.

4293 Ex. SCG-40-2R-E (Nguyen) at 8-9; Ex. SDG&E-45-R-E (Hancock) at 8-9.

($ in millions)	2025	2026	2027
SIMP	$2.9	$6.8	10.7
FIMP	$0.3	$0.6	$0.9
GSEP	$16.3	$39.1	$66.1
CIS Replacement Program	-	$11.5	$40.9
Honor Rancho Compressor Modernization (HRCM)	-	-	$92.4
Total	**$87.6**	**$188.1**	**$402.7**

SDG&E's capital projects proposed as an exception to the PTY mechanism are presented in 45.7 with the capital-related revenue requirement for each capital project shown in Table 45.8 below.

TABLE 45.7
Project Sponsors of Capital Post-Test Year Exceptions

Project	**Witness**	**Exhibit**
Gas Integrity Management Programs (DIMP, TIMP, FIMP, and GSEP)	Amy Kitson and Travis Sera	SDG&E-09
Smart Meter 2.0	David H Thai	SDG&E-17
Moreno Compressor Modernization	Rick Chiapa and Steve Hruby	SDG&E-06
Wildfire Mitigation	Jonathan Woldemariam	SDG&E-13

TABLE 45.8
Capital Post-Test Year Exceptions Revenue Requirement Summary

($ in millions)	2025	2026	2027
DIMP	$13.4	$26.0	$40.1
TIMP	$1.6	$2.7	$3.9
FIMP	$0.0	$0.0	$0.1
GSEP	$4.7	$9.1	$12.8
Smart Meter 2.0	$4.4	$20.7	$33.0
Moreno Compressor Modernization	$0.0	$52.1	$70.8
Wildfire Mitigation	$97.7	$201.3	$311.4
Total	**$121.7**	**$312.0**	**$472.2**

SoCalGas and SDG&E note that revenue requirement related to the proposed PTY Capital Exceptions are based on the estimated in-service date. SoCalGas and SDG&E are not seeking revenue requirement for these Capital Exceptions in the PTY until the project (asset) goes into service. For example, both SoCalGas's CIS Replacement Program and SDG&E's Moreno Compressor Modernization project are estimated to go into service in 2026. Accordingly, as shown in Tables 45.6 and 45.8, there is no revenue requirement being requested for the CIS Replacement Program and Moreno Compressor Modernization project, respectively, in 2025.

While the Commission has favored simple PTY ratemaking, capital exceptions to the PTY mechanism are not new. For example, in D.19-09-051, continued by D.21-05-003, the Commission authorized a PTY Capital Exception for SoCalGas's PSEP, recognizing that the capital-related costs were not fully reflected in the Test Year revenue requirement:[4294]

> We also find SoCalGas' proposal that PSEP capital-related costs not fully reflected in the TY2019 revenue requirement be included as part of the PTYs reasonable and we approve it. This is because PSEP is being incorporated into the GRC for the first time and timing and completion of the proposed projects should not be delayed. We find the adjustment necessary in order to fully reflect the capital costs we are authorizing but will not be fully reflected in the TY.[4295]

Similarly, in SCE's 2012 GRC final decision (D.12-11-051), the Commission found reasonable and adopted a PTY adjustment for costs not fully reflected in the test year:

> It is reasonable to adopt a separate 2013 forecast for CSBU O&M to reflect integration of SmartConnect deployment costs into general rates because the PTYR would not adequately adjust for the unique set of costs transferred.[4296]

Furthermore, the Commission added:

> A PTYR is reasonable and adopted which includes the following: . . . Separately adopted 2013 CSBU O&M and capital expenditures escalated in 2014.[4297]

The proposed incremental total capital-related revenue requirements are summarized in Tables KN-7 and MH-7 for SoCalGas and SDG&E, respectively.[4298]

As described in the testimony and briefing sections referenced below, these projects and programs are necessary for various reasons and cannot be absorbed into the PTY mechanism. For

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4294 D.19-09-051, COL 41. Also *see* D.21-05-003 at 26, FOF 29, and COL 9.

4295 D.19-09-051 at 215-216.

4296 D.12-11-051 at 847, COL 254.

4297 D.12-11-051 at 876, COL 524.

4298 Ex. SCG-40-2R-E (Nguyen) at 10; Ex. SDG&E-45-R-E (Hancock) at 10.

example, SoCalGas's CIS Replacement Program and SDG&E's Smart Meter 2.0 both address and mitigate the risk of technology obsolescence. And, because these are new projects, the historical capital additions do not provide the necessary funding for these projects. The compressor modernization projects, SoCalGas's Honor Rancho and SDG&E's Moreno facilities, are driven by compliance with air district rules. Similarly, these projects do not have capital additions in history to reflect the funding needed in this post-test year period. Lastly, it is important when balancing capital expenditures to have a clear understanding and authorization of the authorized revenue requirement to "balance" in a regulatory account. Accordingly, the Companies seek PTY Capital Exception treatment for the Gas Integrity Management Programs and SDG&E's Wildfire Mitigation Plan.

Parties' proposals related to SoCalGas's and SDG&E's proposed PTY Capital Exceptions should be revised and/or rejected, as set forth in the testimony and briefing sections referenced below:

- TURN/SCGC's recommendation to include no additional revenue requirement for SoCalGas related to post-test year capital exceptions should be rejected, for the reasons discussed *supra* and in testimony.[4299]

- Cal Advocates opposes the inclusion of SDG&E's Moreno Compressor Modernization project as a post-test year capital exception. Cal Advocates' suggestions regarding the completion date and threshold requiring a separate application for the Moreno Compressor Modernization project is addressed in SDG&E's Gas Transmission Operations & Construction testimony area (Exhibit SDG&E-206, rebuttal testimony of Rick Chiapa and Steven Hruby). This project is discussed in further detail in Section 12, *supra*.

- Cal Advocates' suggestions regarding adjustments to the capital forecasts and revenue requirements for Smart Meter 2.0 and Wildfire Mitigation are addressed in Exhibit SDG&E-217 (Customer Services – Field Operations), Exhibit SDG&E-225-E (Information Technology), and Exhibit SDG&E-213 (Wildfire Mitigation and Vegetation Management) the rebuttal testimony of David H. Thai, William J. Exon, and Jonathan T. Woldemariam, respectively. This project is discussed in further detail in Sections 21.2, 27, and 20.3 *supra*.

- Cal Advocates recommends that the Gas Integrity Management Programs and the Wildfire Mitigation Program for SDG&E, be subject to two-way balancing account treatment, along with the requirement that the utility files an application for reasonableness review of any recorded costs in excess of 110% of the capital expenditure amounts authorized in this decision. Any undercollection that is less than 110% of the amount authorized in this proceeding, as well as the refund of any

[4299] *See* Ex. SCG-240-E at 7, addressing TURN-SCGC-07 (Yap) at 11.

overcollection, should be filed via a Tier 2 advice letter. These balancing account proposals are addressed in Exhibit SDG&E-243 and Exhibit SCG- 238 (Regulatory Accounts), the rebuttal testimony of Jason Kupfersmid and Rae Marie Yu, respectively. Exhibit SDG&E-213 (Wildfire Mitigation and Vegetation Management), rebuttal testimony of Jonathan Woldemariam, also addressed the wildfire-related PTY proposal. This project is discussed in further detail in Sections 43 and 20.3, *supra*.

- TURN opposes the inclusion of SDG&E's Smart Meter 2.0 project. TURN suggests the project should be rejected and capital reductions of $4.292 million in 2022, $32.802 million in 2023, $58.459 million in 2024, $59.989 million in 2025, $69.169 million in 2026, and $54.163 million in 2027 should be adopted. TURN's proposal regarding the Smart Meter 2.0 project is addressed in Exhibit SDG&E-217, Customer Services – Field Operations (rebuttal testimony of David H. Thai) and Exhibit SDG&E-225-E, Chapter 2, Information Technology (capital rebuttal testimony of William J. Exon). This project is discussed in further detail in Sections 21.2 and 27, *supra*.

- UCAN opposes the inclusion of SDG&E's Smart Meter 2.0 project costs impacting post-test year ratemaking. UCAN suggests the capital costs of $59.99 million in 2025, $69.2 million in 2026, and $54.16 million in 2027 should be denied. UCAN's proposal regarding Smart Meter 2.0 capital costs impacting the post-test year ratemaking is addressed in Exhibit SDG&E-217, Customer Services – Field Operations (rebuttal testimony of David H. Thai) and Exhibit SDG&E-225-E, Information Technology (rebuttal testimony of William J. Exon). This project is discussed in further detail in Sections 21.2 and 27, *supra*.

- Cal Advocates' proposal to exclude Customer Information System (CIS) as a PTY Capital Exception is addressed in Exhibit SCG-213 (rebuttal testimony of Evan D. Goldman) and in Section 21.1, *supra*.

- Cal Advocates' proposal to exclude Honor Rancho Compressor Modernization (HRCM) as a PTY Capital Exception is addressed in Exhibit SCG-210, Gas Storage Operations and Construction (rebuttal testimony of Lawrence T. Bittleston and Steve A. Hruby) and Section 16, *supra*.

- Cal Advocates' proposal to have a 110% threshold for all the Gas Integrity Management Programs is addressed in Section 43, *supra*.

- TURN/SCGC's proposal for excluding SoCalGas's projects related to clean energy innovations is addressed in Exhibit SCG-212, Clean Energy Innovations (rebuttal testimony of Armando Infanzon) and Section 18, *supra*.

45.3 Conclusion

For the reasons set forth above and in testimony, the Companies' PTY ratemaking proposals should be adopted.

46. Revenues and Rates

SoCalGas and SDG&E's Present and Proposed Gas Transportation Revenues and Rates testimonies, supported by witness Sharim B. Chaudhury, present the utilities' proposed gas transportation revenue and rate changes, and the expected residential customer bills impact associated with TY 2024 GRC proposals.[4300] Present and Proposed Electric Revenues and Rates testimonies, supported by witness Jeff Stein, present the proposed electric revenue and rate changes, and the expected residential customer bills impact associated with TY 2024 GRC proposals for SDG&E only.[4301] These revenue and rate changes and expected bill impacts are based on rates at the time the TY 2024 GRC application was filed. The gas transportation revenues and rates for both utilities were prepared similarly and will be discussed together. The electric revenues and rates for SDG&E will be discussed separately. Broader issues concerning affordability are discussed in Sections 7 and 47.

46.1 Present and Proposed Gas Transportation Revenues and Rates

The Present and Proposed Gas Transportation Revenues and Rates as of the time of filing are presented in Ex. SCG-42-R (Chaudhury) and Ex. SDG&E-47-R (Chaudhury). The overall bill impact numbers were updated in the Update Testimony on July 7, 2023.[4302]

46.2 Present and Proposed Electric Revenues and Rates

The Present and Proposed Electric Revenues and Rates as of the time of filing are presented in Ex. SDG&E-48-R. The overall bill impact numbers were updated in the Update Testimony on July 7, 2023.[4303]

Only Small Business Utility Advocates (SBUA) (Dr. Richard McCann and Steven Moss) provided testimony opposing the calculations included in the Present and Proposed Electric Revenues and Rates testimony. SBUA argues, looking only at rates themselves, that SDG&E's rates for electricity service are too high. SBUA makes this statement based only on the U.S. Energy Information Administration's data for 2021. As explained in SDG&E's last two GRCs,[4304] SDG&E's average monthly residential usage is among the lowest in the nation when compared to

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4300 Ex. SCG-42-R (Chaudhury); Ex. SDG&E-47-R (Chaudhury).

4301 Ex. SDG&E-48-R (Stein), Ex. SDG&E-248 (Stein).

4302 Ex. SCG-401/SDG&E-401 (Hom) at 23.

4303 *Id.*

4304 SDG&E-248 (Stein) at 2; D.19-09-051 at 716-717.

other IOUs – this results in higher than average electric *rates* due to fewer electric sales (kilowatt hours or "kWhs") over which to recover non-commodity costs. In fact, because of milder temperatures and higher technology adoption, SDG&E has among the lowest average monthly residential usage nationally in 2021.[4305] Despite this, SDG&E's average residential bills in 2021 were the lowest among the three large IOUs in California and lower than the national average.[4306] System Average Usage and System Average Bills better represent the cost of SDG&E's service, and show that SDG&E's bills compare well to other utilities on the state and national level.[4307]

47. Affordability Metrics

47.1 SoCalGas and SDG&E Have Complied with D.22-08-023

Pursuant to the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo), issued October 3, 2022, and consistent with the requirements of D.22-08-023, SoCalGas and SDG&E submitted supplemental Affordability Metrics testimony in November 2022.[4308] Pursuant to that Decision, SoCalGas and SDG&E provide the following metrics associated with revenues in effect at the time of filing and with the 2024 GRC proposed revenues:

a) Essential usage bills by climate zone;

b) average usage bills by climate zone;

c) Affordability Ratio 20 (AR20) by climate zone;

d) Affordability Ratio 50 (AR50) by climate zone;

e) Hours-at-Minimum-Wage (HM); and

f) For climate zones with Areas of Affordability Concern (AAC) as defined in the annual 2020 Annual Affordability Report,[4309] AR20 by climate zones subdivided by Public Use Microdata Area (PUMA).[4310]

SoCalGas and SDG&E's testimony further presents additional analyses of (1) the impact on affordability of including California Alternate Rates for Energy (CARE) discounts for low-

4305 Ex. SDG&E-248 (Stein) at 2 and Appendix C.

4306 *Id*. at Appendix D.

4307 *Id*. at Appendices E, F.

4308 *See generally* Ex. SDG&E-50-S-E (Baez); Ex. SDG&E-51-S (Chaudhury, adopted by Foster); Ex. SCG-43-S (Chaudhury, adopted by Foster).

4309 CPUC 2020 Annual Affordability Report (October 2022) (2020 Annual Affordability Report) at 12, available at https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability/2020-annual-affordability-report.

4310 *See generally* Ex. SDG&E-50-S-E (Baez); Ex. SDG&E-51-S (Chaudhury/Foster); Ex. SCG-43-S (Chaudhury/Foster).

income households; and (2) energy burden to isolate the impact of the electric revenue requirements being requested.[4311] SoCalGas and SDG&E argued for the inclusion of these metrics in the Affordability Order Instituting Rulemaking (OIR), and although the Commission declined to adopt them as official affordability metrics, D.22-08-023 permits stakeholders to provide alternatives to the adopted metrics.[4312] SoCalGas and SDG&E believe these are important supplemental metrics that complement the affordability metrics adopted in D.22-08-023 and provide a rounded view of potential impacts to their customers.

SoCalGas and SDG&E emphasize that, for a variety of reasons discussed in direct and rebuttal testimony on affordability metrics, it is important to consider all available affordability metrics and avoid making conclusions on affordability generally based on any one metric. Importantly, the Commission has declined to define affordability[4313] and instead required analysis of certain metrics and allowed consideration of others—an important point in considering the arguments of the various parties regarding affordability.[4314]

Intervenors have not objected to the accuracy of the metrics provided by SDG&E and SoCalGas.

48. Other Issues

48.1 Results of Examination (Cal Advocates' Audit)

Cal Advocates conducted its examination of SoCalGas's and SDG&E's financial and accounting records in accordance with the authority and mandates set forth in the Public Utilities Code sections 314, 314.5 and 309.5. Based on Cal Advocates' review of SoCalGas's and SDG&E's financial and accounting records during the audit, Cal Advocates recommended adjustments to Operations and Maintenance (O&M) adjustments within the Administrative and General (A&G) expense areas, including internal audit costs, it determined after reviewing a selection of the Companies' internal audit reports for 2017-2021. Cal Advocates "[did] not recommend any adjustments to non-A&G O&M Accounts (VI), the balances of the regulatory accounts that were selected (XI), SoCalGas's and SDG&E's utility plant (VII and VIII), or to the reasonableness of SoCalGas's and SDG&E's Compliance testimony (XII).

4311 Ex. SDG&E-50-S-E (Baez) at 16-26; Ex. SDG&E-51-S (Chaudhury/Foster) at 8-11; Ex. SCG-43-S (Chaudhury/Foster) at 10-17.

4312 D.22-08-023, Ordering Paragraphs 5 and 6 at 84-85 and FOF 17 at 77.

4313 *Id.* at 50 ("The definition of affordability adopted in D.20-07-032 is relative, not absolute.

4314 *Id.* at Ordering Paragraphs 5 and 6 at 84-85 and FOF 17 at 77.

Cal Advocates only recommends the removal of SoCalGas and SDG&E's costs in two areas:

1. Costs for conducting 36 attorney-client privileged internal audit reports. For SDG&E, Cal Advocates recommends the removal of $233,000 in 2017, $101,000 in 2018, $217,000 in 2019, $546,000 in 2020 and $334,000 in 2021.[4315] For SoCalGas, Cal Advocates recommends the removal of $381,000 in 2017, $593,000 in 2018, $344,000 in 2019, $117,000 in 2020 and $114,000 in 2021.[4316]
2. Costs for SDG&E's Safety Management Systems that Cal Advocates asserts were one-time expenses that would not be recurring in TY 2024. Cal Advocates recommends the removal of $268,378 in 2019 (invoice for consulting milestone payment), $224,454 in 2019 (invoice for accrual of 2019 services), and $335,000 in 2020 (invoice for accrual of 2020 services).[4317]

48.1.1 Internal Audit Costs For Audits Conducted Under the Attorney-Client Privilege.

Cal Advocates claims that the Commission should disallow the recovery of costs associated with twenty-one audit reports for SoCalGas and fifteen for SDG&E that were performed under legal privilege. SoCalGas and SDG&E disagree that any amount should be disallowed for audits conducted under the attorney-client privilege, and they have addressed Cal Advocates recommendation *infra* in Section 29, Corporate Center–General Administration.[4318]

48.1.2 Non-labor Costs for Safety Management System.

Cal Advocates recommends adjustments to recorded costs for Risk Management that it considers to be one-time expenses in 2019 and 2020. Specifically, Cal Advocates states that SDG&E should have removed three vendor-related transactions from historical A&G expenses since they are non-recurring.[4319] Cal Advocates misapprehends SDG&E's forecast for its Safety Management System. SDG&E's TY 2024 cost forecast was developed using BY 2021 incurred costs plus incremental activities. The 2019 and 2020 costs identified by Cal Advocates, listed above, were not included in SDG&E' s BY 2021 actuals and thus, were not factored into

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4315 Ex. CA-19 (Chia/Lee) at 2.

4316 *Id.* at 1.

4317 *Id.* at 2.

4318 *See, infra,* Section 29, Corporate Center – General Administration at Section 29.4.

4319 Ex. CA-19 (Chia/Lee) at 13-14.

SDG&E's TY 2024 forecast. SDG&E' s TY 2024 forecast includes incremental mitigation costs added to actual incurred 2021 costs. Because costs incurred in 2019 and 2020 were not factored into SDG&E' s forecasted test year, given the base year forecast methodology used, there is no justification for the removal of these incurred costs from SDG&E's 2019 and 2020 historical expenses.[4320] Even if the three one-time vendor expenses at issue had been part of SDG&E's TY 2024 forecast, and they were not, the underlying vendor costs were also of the type that would be considering regularly recurring, as SDG&E utilizes consultants to provide specific expertise on risk matters driven by key regulatory directives.[4321] The Commission should reject Cal Advocates recommendation.

48.2 Political Activities Booked to Ratepayer Accounts

Table 48.1
Summary of Total O&M as Addressed in SCG-245-E

TOTAL O&M Constant 2021 ($000)				
	Base Year 2021	**Test Year 2024[4322]**	**Change**	**Change from SoCalGas**
SoCalGas	93,318	125,546	32,228	
Cal Advocates	93,318	46,340	(79,206)	-63.1%

*Represents total company proposed reductions

Table 48.2
Total O&M by Witness as Addressed in SCG-245-E

SoCalGas Constant 2021 ($000)	**Base Year 2021**	**SoCalGas TY 2024 Estimated[4323]**	**Cal Advocates TY 2024**	**Change from SoCalGas**
SCG-04 (2GD011) Regional Public Affairs	3,843	3,968	794	(3,174)
SCG-12 Clean Energy Innovations	28,462	47,223	9,445	(37,778)

4320 Ex. SDG&E-231 (Deremer) at 9-10.

4321 *Id.* at 10.

4322 The numbers provided in the Table have been adjusted as part of SoCalGas's Update Testimony. Ex. SCG-401/SDG&E-401 Update Testimony dated July 7, 2023 was served after Cal Advocates March 27, 2023 testimony. While the Table 48.1 reflects SoCalGas's updated witness forecasts, SoCalGas has not adjusted Cal Advocates' numbers, as stated in Ex. CA-23-C-E-R (Castello), which is the reason for the variance in values.

4323 *Id.*

SoCalGas Constant 2021 ($000)	**Base Year 2021**	**SoCalGas TY 2024 Estimated**[4323]	**Cal Advocates TY 2024**	**Change from SoCalGas**
SCG-16 Customer Services - Information	21,647	27,177	5,435	(21,742)
SCG-29 Administrative & General	39,365	47,178	30,666	(16,512)
Total	**93,318**	**125,546**	**46,340**	**(79,206)**

48.2.1 SoCalGas's Response to Cal Advocates' Proposed Reductions for Political Activities Booked to Ratepayer-Funded Accounts

Cal Advocates recommends: (1) an 80% disallowance for the estimated total TY costs of $4.107 million associated with the Regional Public Affairs organization; (2) an 80% disallowance for the estimated total TY costs of $47.223 million associated with the Clean Energy Innovations organization; (3) an 80% disallowance for the estimated total TY costs of $27.227 million associated with the Customer Service – Information organization; and (4) a 35% disallowance for the estimated total TY costs of $47.249 million associated with Administrative and General costs.[4324,4325] Cal Advocates recommends that these disallowances, which total approximately $80 million, are in addition to the other adjustments Cal Advocates has recommended and should be applied before the other adjustments.[4326]

Cal Advocates asserts that its recommendation is based on its accounting review of SoCalGas's lobbying and other political activities (collectively, Political Activities[4327]), which Cal Advocates commenced in 2019 and claimed it showed an improper pattern of SoCalGas booking

[4324] Ex. CA-23-C-E-R (Castello) at 2.

[4325] The numbers provided in Cal Advocates testimony (Ex. CA-23-C-E-R (Castello)) were later adjusted as part of SoCalGas's Update Testimony. Exhibit SCG-401/SDG&E-401 Update Testimony dated July 7, 2023 was served after Cal Advocates March 27, 2023 testimony. While the Table 48.1 reflects SoCalGas's updated witness forecasts, SoCalGas has not adjusted Cal Advocates numbers, as stated in Ex. CA-23-C-E-R (Castello).

[4326] Ex. CA-23-C-E-R (Castello) at 2.

[4327] For the purposes of this proceeding, "Political Activities" is defined by the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounting (USoA) – Account 426.4. 18 C.F.R § 367.426.4: (a) This account must include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, (b) This account must not include expenditures that are directly related to appearances before regulatory or other governmental bodies in connection with an associate utility company's existing or proposed operations.

costs of Political Activities to ratepayer-funded accounts between 2017 and 2019.[4328] Cal Advocates cites to four (4) campaigns and one vendor contract that occurred between 2017 and 2019 and its Workpaper 318, which reflects payments to six vendors for roughly $2.7 million as evidence of this alleged pattern.[4329] Cal Advocates also argues that SoCalGas consistently underrepresents the extent and costs of the Political Activities and failed to show that all the costs for Political Activities have been removed from the GRC Test Year.[4330]

Cal Advocates' argument appears to reflect a misunderstanding of basic ratemaking principles, including the ratemaking procedures that were used to prepare SoCalGas's proposal in this rate case. Cal Advocates' assertions that certain activities were booked to "ratepayer-funded accounts" is confusing and misleading. From an accounting perspective, there are above-the-line (ATL) and below-the-line (BTL) accounts. "Account," as used in this context, is for financial statement reporting purposes only. ATL and BTL refer to FERC's Uniform System of Accounts (USOA) which the CPUC adopted for gas corporations, effective September 1, 1968, in Case No. 6998. ATL refers to FERC accounts that are above the line in the FERC operating income,[4331] meaning they "are part of the ordinary costs of maintaining services for current ratepayers."[4332] "Below-the-line" refers to FERC accounts that are below the line outside the FERC operating income and are generally not included in SoCalGas's GRC forecast.[4333] ATL and BTL are accounting constructs used for accounting purposes but they do not dictate ratemaking.[4334] As the Commission has previously recognized, the FERC "USOA is a bookkeeping system, not a ratemaking policy."[4335] "While the Uniform System of Accounts for gas utilities serves a useful purpose in assuring consistency in utility bookkeeping, it is important to remember that ratemaking drives accounting, and not vice versa."[4336]

4328 Ex. CA-23-C-E-R (Castello) at 1.

4329 *Id*. at 4; Ex. CA-23-WP-C-R, WP 318

4330 Ex. CA-23-C-E-R (Castello) at 1.

4331 Tr. V16:2803:8-10 (Mijares). *See* Ex. CA-130-C at 60 for a pictorial representation of ATL and BTL, showing the operating income line.

4332 *Newman v. FERC*, 27 F.4th 690, 703 (D.C. Cir. 2022).

4333 Tr. V16:2803:14-16 (Mijares).

4334 Tr. V16:2803:19-25 (Mijares).

4335 *Re Southern California Gas Co.*, 38 CPUC 2d 166 (Nov. 9, 1990), D. 90-11-031.

4336 *Id*.

As described in SoCalGas's rebuttal testimony, for the purposes of determining the forecast for the GRC, SoCalGas begins with the raw financial data from its SAP system.[4337] SAP is SoCalGas's system of record for <u>all</u> accounting activities.[4338] SoCalGas then performs a series of steps in a good faith effort to exclude costs that should not be included in the GRC as further described below. SoCalGas leverages FERC USOA account categorizations for some of these steps, such as removing costs that have been included in below-the-line FERC USOA accounts. After these processes are completed, the remaining costs make up the adjusted-recorded historical costs that will form the basis for SoCalGas's GRC forecast. Only the costs that are included as part of the forecast of revenue requirements for the future test year will impact ratepayers.[4339] All other costs, including costs that were booked to ATL but not included in SoCalGas's GRC forecast, will not impact ratepayers and are not relevant for the purposes of the GRC.

As such, Cal Advocates provides no evidence that justifies its recommended disallowances and admits that the 80% and 35% reductions were not even based on any calculations or methodology.[4340]

48.2.2 SoCalGas Began Enhancing its Policies, Training and Governance related to Political Activities Tracking in 2020.

Since 2019 Cal Advocates has been investigating SoCalGas's Political Activities and whether SoCalGas has been recording those costs to appropriate accounts. SoCalGas acknowledges that, historically, time spent on Political Activities was not always consistently recorded correctly.[4341] As explained in the Rebuttal Testimony of Sara Mijares (Ex. SCG-245-E), in 2020, SoCalGas began enhancing its governance and designing and implementing policies, practices, procedures, and internal controls that directly address the FERC and CPUC requirements that certain costs be recorded BTL.[4342] Further, SoCalGas engaged PricewaterhouseCoopers

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4337 Ex. SCG-245-E (Mijares), Appendix G at G-5.

4338 *Id*. at G-6.

4339 Tr. V17:3030:8-21 (Mijares).

4340 Tr. V21:3767:8-10 (Castello); *see also* Ex. SCG-317 at 2 (Cal Advocates data request response states that its methodology and calculations for arriving at the 80% and 35% proposed disallowances were provided in Ex. CA-23-C-R (Castello) at pages 32-38 and "[t]here are no other supplementary workpapers, calculations, or methodologies available . . . ." However, based on SoCalGas's review, SoCalGas was not able to identify any methodology or calculation to support the 80% and 35% proposed disallowances on pages 32-38 of Ex. CA-23-C-R (Castello).)

4341 Ex. SCG-245-E at 8.

4342 *Id*. at 9.

(PwC) in 2020 to perform an independent assessment of SoCalGas's processes and costs incurred for Political Activities between the period of January 1, 2017 through December 31, 2019.[4343] PwC's findings were consistent with SoCalGas's own observations and SoCalGas continued its efforts to further enhance processes and internal controls associated with Political Activities.[4344] For example, SoCalGas enhanced the Work Order Authorization process to assist employees in identifying BTL transactions[4345] and created additional checks and balances between its time reporting system (MyTime) and lobbying activities tracking system (LATS).[4346] Additional enhancements and details of the enhancements can be found in SoCalGas's Political Activities Accounting Procedure.[4347]

In addition, SoCalGas established its Accounting Compliance group (Accounting Compliance) in 2021.[4348] Accounting Compliance developed and delivered Political Activities training to approximately 750 employees between 2020-2021 and approximately 580 employees in 2022.[4349] SoCalGas also maintains an intranet site which serves as a repository of various tools and resources related to ATL and BTL requirements including frequently asked questions, a listing of internal orders to record labor and non-labor costs and activities, and presentations of previously provided training courses.[4350] These enhancements and the additional steps SoCalGas undertook in this GRC to review its Political Activities costs give SoCalGas confidence that Political Activities costs have been appropriately excluded from its adjusted-recorded historical costs.[4351]

4343 *Id*.; *see also* Ex. CA-23-WP-C-R-E (Castello), WP 189.

4344 Ex. SCG-245-E (Mijares) at 9.

4345 *Id*., Appendix E at E-3 to E-4.

4346 *Id*.

4347 *See* Ex. CA-23-WP-C-R-E (Castello), WP 172, for SoCalGas Political Activities Accounting Procedure.

4348 Ex. SCG-245-E at 10.

4349 *Id*. at 10

4350 *Id*., Appendix E at E-3-4; Accounting and Compliance Trainings can be found in Response of Southern California Gas Company (U 904 G) to the Administrative Law Judge's Request for Additional Information During Evidentiary Hearings on June 21, 2023 and June 22, 2023 (filed July 7, 2023), Attachment A.

4351 Ex. SCG-245-E (Mijares) at 8-9.

48.2.3 SoCalGas Provided Evidence of Good Faith Efforts to Exclude Political Activities from its GRC Forecast.

As described in SoCalGas's rebuttal testimony, for the purposes of determining the forecast for the GRC, SoCalGas begins with the raw financial data from its SAP system, which is SoCalGas's system of record for <u>all</u> accounting activities.[4352] SoCalGas then performs a series of steps in a good faith effort to exclude costs that should not be included in the GRC, including:

- An automated process based on a set of pre-defined costs centers, internal orders, FERC accounts in addition to several other accounting system attributes;
- That process removes from the GRC all costs that are charged directly to FERC accounts 426.1, 426.2, 426.3, 426.4, 426.5; and
- Manual adjustments are made for any other costs identified (self-identified and identified by other parties) as part of the GRC review process.[4353]

In addition, for this GRC, because SoCalGas determined that it would not be possible to identify the exact labor costs for certain years in the historical period (2017-2020) given the passage of time, and because 2017-2020 did not have the enhanced policies, controls, and governance in place, SoCalGas performed the following additional steps in a good faith effort to exclude costs associated with Political Activities:[4354]

- SAP system reclasses to internal orders that settle to FERC Account 426.4 for costs identified as part of the non-proceeding data request process (*e.g.*, the "campaigns" referenced in Cal Advocates testimony);
- Manual adjustments to labor costs from 2017-2020 in the GRC workpapers using 2021[4355] as a proxy since in 2021 SoCalGas had the enhancements described above in place; and
- Manual exclusions in the GRC workpapers for Political Activities identified during review or as a result of data request responses.[4356]

[4352] *Id.*, Appendix G at G-5 to G-6.

[4353] Ex. SCG-245-E (Mijares) at 13 and 18, Table SM-5 and Figure SM-4.

[4354] *Id.* at 13-14.

[4355] SoCalGas also believes that using the 2021 Political Activities costs as a proxy for prior historical years would result in the overestimation of Political Activities expenses for the historical years since 2021 included SoCalGas's negotiation of the City of Los Angeles franchise agreement. Tr. V16:2960:14-22 (Mijares).

[4356] Ex. SCG-245-E (Mijares) at 14.

After completing these steps, SoCalGas arrived at its adjusted-recorded historical costs. These adjusted-recorded historical costs then serve as the basis for the appropriate forecasting methodology (3, 4 or 5-year average, 3, 4 or 5-year simple linear trend, use of the "base year" 2021 values, or a "zero-base" method). Depending on the selected forecasting methodology, some or all of the adjusted-recorded historical cost for 2017, 2018, 2019, 2020, and 2021 may be utilized as the basis for SoCalGas's GRC request.[4357] For example, if SoCalGas uses a 5-year average forecasting methodology then the adjusted-recorded historical costs for 2017-2021 would be relevant. On the other hand, if SoCalGas uses a base-year forecasting methodology, then only 2021 adjusted-recorded historical costs would be relevant.

In making its disallowance recommendations, Cal Advocates completely ignores SoCalGas's GRC financial review and exclusion process as well as the applicable forecasting methodology that SoCalGas applied for this GRC, which makes the recommendations incomplete and unreliable.

48.2.4 Cal Advocates Recommended Disallowances Are Not Supported by the Evidence.

Cal Advocates' recommendation of 80% reductions to three organizations and a 35% reduction to a fourth organization[4358] is not supported by evidence and shows a fundamental lack of understanding as to basic ratemaking principles. Cal Advocates disallowances are based entirely on: (1) four campaigns that occurred between 2017 and 2019,[4359] (2) one vendor contract (Agreement No. 56600056525),[4360] and (3) payments to six vendors for roughly $2.7 million in SAP (Workpaper 318).[4361] In order to form its arguments, Cal Advocates relied entirely on information they obtained from pre-GRC non-proceeding data requests or from SAP data acquired through Cal Advocates' SAP access. Accounting information in SAP is not representative of the costs actually included in SoCalGas's GRC forecast and the four categories of costs that form the foundation for Cal Advocates' recommended reductions were also not included in the forecast.

4357 *Id*., Appendix G at G-11.

4358 Ex. CA-23-C-E-R (Castello) at 2.

4359 *Id*. at 4-23.

4360 *Id*. at 23-25, which has been stricken on the grounds that the vendor contract is a 100% below-the-line contract and therefore does not inform SoCalGas's GRC forecast.

4361 Ex. CA-23-WP-C-R-E (Castello), WP 318.

48.2.5 Four Campaigns (MTA, Ports, C4BES, Los Angeles World Airports)

The four campaigns referred to by Cal Advocates all occurred in 2017-2019. They were based on information obtained in Cal Advocates' non-proceeding discovery, which were produced before SoCalGas filed its GRC in 2022. The non-proceeding discovery responses do not represent costs that are in the adjusted-recorded historical costs for the GRC.

As Ms. Mijares explained in rebuttal testimony (Ex. SCG-245-E), SoCalGas undertook specific steps as part of this GRC to remove Political Activities cost from its recorded historical costs including SAP system reclasses to FERC 426.4 accounts for costs identified as part of the non-proceeding data request processes such as these "campaigns."[4362] SoCalGas also made manual exclusions in the GRC workpapers for Political Activities identified during the GRC review or as a result of data request responses (both GRC data request responses and non-proceeding data requests responses).[4363] For example, Cal Advocates points to Marathon Communications as a vendor who SoCalGas retained to work on the MTA and C4BES campaigns and alleges that they are ratepayer-funded based on non-proceeding data request responses and SAP access.[4364] Instead of reviewing the adjusted-recorded historical costs for the GRC to determine whether any Political Activities costs are actually included in the GRC forecast, as SoCalGas explained to Cal Advocates several times,[4365] Cal Advocates opted to rely on out-of-date and irrelevant information. SoCalGas explained in Ex. SCG-245-E that "100% of the Marathon costs were already excluded from the GRC."[4366] Even if Cal Advocates does not want to take SoCalGas "at its word,"[4367] Cal Advocates could have checked for itself by reviewing SoCalGas's GRC workpapers and information offered through the GRC process similar to the process Cal Advocates auditors undertook.[4368] Had Cal Advocates done so, it would have seen that none of the costs for Marathon are included in SoCalGas's GRC forecast as reflected in SoCalGas's assessment of Cal Advocates' Workpaper (WP) 318.[4369]

4362 Ex. SCG-245-E (Mijares) at 14.

4363 *Id*.

4364 Ex. CA-23-C-E-R (Castello) 6-23; Ex. CA-23-WP-C-R-E (Castello), WP 318.

4365 Ex. SCG-245-E (Mijares) at 10; Ex. SCG-320; Ex. CA-120-E at 12-15 (Response 11).

4366 Tr. V16:2959:12-2960:24 (Mijares).

4367 Ex. CA-23-C-E-R (Castello) at 21.

4368 Ex. SCG-320.

4369 Ex. CA-120-C at 31-32; *see also* Ex. SCG-245-E (Mijares) at 19.

In addition, because it would not be possible to identify exact labor costs for Political Activities during the historical periods of 2017-2020 given the passage of time and because this period of time did not have the enhanced policies, controls, and governance in place that 2021 and 2022 did, SoCalGas also made manual adjustments to labor costs for 2017-2020 in the GRC workpapers using 2021 Political Activities labor costs as a proxy for 2017-2020.[4370] This proxy includes the LATS to MyTime reconciliation process described by Ms. Mijares.[4371] As Ms. Mijares explained, using Political Activities costs in 2021 as a proxy for 2017-2020 is reasonable because: (1) SoCalGas had implemented its enhancements to the policies, controls, and governance for Political Activities;[4372] and (2) 2021 included SoCalGas's negotiation of the City of Los Angeles franchise agreement.[4373] The inclusion of the negotiation of the City of Los Angeles franchise agreement in the 2021 proxy likely resulted in more Political Activities time being recorded to BTL than SoCalGas would have actually incurred each of the years from 2017-2020.[4374]

In addition, since SoCalGas used a BY 2021 forecast for most of the organizations that Cal Advocates recommended disallowances, adjusted-recorded historical costs for years prior to 2021 do not inform SoCalGas's GRC forecast and are not relevant.[4375] As noted above, all four of the campaigns occurred from 2017-2019, none of which continued into 2021. As a result of the entries described above and the forecast methodology used by the organizations, SoCalGas's BY 2021 forecast would not include any of the adjusted-recorded historical costs for these four campaigns.

48.2.6 One Vendor Contract (Agreement No. 56600056525)

As SoCalGas explained in its Reply in Support of its Motion to Strike, Agreement No. 56600056525 was charged to the Balanced Energy internal order (IO) 300796601.[4376] As a result

4370 Ex. SCG-245-E (Mijares) at 14.

4371 Tr. V17:3032:11-22 (Mijares); *See* Response of Southern California Gas Company (U 904 G) to the Administrative Law Judge's Request for Additional Information During Evidentiary Hearings on June 21, 2023 and June 22, 2023 (filed July 7, 2023), Attachment D.

4372 Ex. SCG-245-E (Mijares) at 13-14.

4373 Tr. V16:2960:14-22 (Mijares).

4374 *Id.*

4375 Ex. SCG-245-E (Mijares) at 23, Table SM-8; *see also* Tr. V16:2953:14-24 (Mijares).

4376 *See* Reply of Southern California Gas Company (U 904 G) in Support of May 3, 2023 Motion to Strike Portions of Testimony and Workpapers Containing First Amendment Protected Materials (May 26, 2023) at 3.

of an accounting error, IO 300796601 was initially incorrectly charged to an ATL account.[4377] After the discovery of this accounting error, SoCalGas corrected the settlement rule on October 31, 2019, with an effective date of November 1, 2019.[4378] SoCalGas also reclassed costs in IO 300796601 to FERC USOA Account 426.4.[4379] Cal Advocates does not dispute that IO 300796601 has been moved to a BTL account,[4380] nor does it provide any evidence that the costs in IO 300796601 have not been excluded from SoCalGas's GRC forecast. Through the GRC process, all costs charged to FERC account 426.4 were excluded from SoCalGas's adjusted-recorded costs as part of the automated exclusion process.[4381] As a result, vendor contract (Agreement No. 56600056525) has been stricken from the record pursuant the ALJ's June 12, 2023 Ruling.[4382] The costs for this vendor contract is not included in SoCalGas's GRC forecast, and Cal Advocates may not rely upon vendor contract (Agreement No. 56600056525) to support its erroneous claim that SoCalGas has improperly included Political Activities costs in this GRC forecast.

48.2.7 Payments to Six Vendors (WP 318)

Continuing their flawed approach to reviewing Political Activities expenses, Cal Advocates examined SoCalGas's SAP system to identify Political Activities costs that "*appear* to be booked to ratepayer accounts."[4383] Based on its review of SAP, Cal Advocates created WP 318, which alleges that "SAP records *appear to reflect* that SoCalGas has paid roughly $2.7 million to six vendors between 2017 and 2022 and booked those costs to ratepayer accounts."[4384] However, as SoCalGas explained above, SAP is the starting point for arriving at the adjusted-recorded historical costs for the GRC. It does not represent which costs are actually included in SoCalGas's GRC forecast. Case in point, of the $2.7 million Cal Advocates alleges SoCalGas inappropriately booked to ratepayer accounts, all but approximately $494,000, which was correctly charged to

4377 *Id.*

4378 *Id.*

4379 Ex. SCG-245-E (Mijares) at 14.

4380 Tr. V21:3735:4-14 (Castello).

4381 Ex. SCG-245-E (Mijares) at 13.

4382 *See* Administrative Law Judge's Ruling Granting in part Southern California Gas Company's Motion to Strike Portions of Public Advocates' Testimony and Workpapers and Clarifying the Process to Identify Accounting Errors in this Proceeding (June 12, 2023).

4383 Ex. CA-23-C-E-R (Castello) at 30 (emphasis added).

4384 *Id*. at 30 (emphasis added).

ATL, was excluded from SoCalGas's GRC forecast as explained by Ms. Mijares (Ex. SCG-245-E at SPM-19 and as shown in Table SM-6):

Correctly Charged BTL	Incorrectly Charged ATL, but Manually Removed from the GRC	Correctly Charged ATL, but not in TY 2024 Forecast	Correctly Charged ATL and Included in the GRC Forecast	Total
$1,103	$53	$1,081	$494	$2,730

The workpaper and calculation behind Table SM-6 can be found in SoCalGas's assessment of WP 318.[4385]

In conclusion, Cal Advocates recommended disallowances are not supported by any evidence in the record. The costs that Cal Advocates cites as examples of SoCalGas improperly booking costs to "ratepayer funded accounts" were either correctly included in SoCalGas's GRC forecast (approximately $494,000) or were already excluded from SoCalGas's GRC forecast. Costs that were excluded from SoCalGas's GRC forecast do not affect ratepayers. Further, as evidenced by Cal Advocates' responses to data requests and Mr. Castello's cross-examination, Cal Advocates' 80% and 35% proposed disallowances are entirely arbitrary and are not based on any actual calculations or methodology. As such, Cal Advocates' recommendations should be disregarded.

49. Conclusion

SoCalGas and SDG&E believe they have fully justified and supported their requested TY 2024 revenue requirements, as well as associated ratemaking mechanisms for the four-year rate case cycle. The Companies therefore request that the Commission promptly approve the requested relief in this proceeding by adopting their proposed revenue requirements and proposed costs for TY 2024 as just and reasonable, and their proposed test-year ratemaking mechanisms as just and reasonable. The Commission's final decision should also include an ordering paragraph specifically authorizing the Companies to implement the regulatory accounts as proposed in the Companies' testimonies.

Finally, pursuant to the directive set forth in the October 3, 2022, Assigned Commissioner's Scoping Memorandum and Ruling1 and Commission Rule 13.13, SoCalGas and

[4385] SoCalGas's workpaper can be found at Ex. CA-120-C.

SDG&E wish to reserve their right to request that the Commission hold oral argument in this proceeding.

Respectfully submitted,

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