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)

REPLY 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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TABLE OF CONTENTS

TABLE OF AUTHORITIES

STATUTES AND LEGISLATION

COURT CASES

FEDERAL ENERGY REGULATORY COMMISSION DECISIONS

CALIFORNIA PUBLIC UTILITIES COMMISSION DECISIONS

<u>OTHER AUTHORITIES</u>

SUMMARY OF RECOMMENDATIONS - UPDATED

The Summary of Recommendations provided with the Opening Brief contained certain minor omissions and cost discrepancies that have been corrected. This Summary of Recommendations is also updated to reflect the proposed settlement with TURN.

Introduction/Summary/Policy

- SoCalGas and SDG&E respectfully request that the Commission adopt their proposed, updated revenue requirements of $4.434 billion and $3.007 billion, 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; lead in short and long-term clean energy solutions to support advancement of California's carbon neutrality goals; all 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 $21.250 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 $15.109 million for non-shared service activities and $1.239 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 Gas Transmission Operations and Construction 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 Gas Transmission Operations and Construction 2022, 2023, and 2024 forecasts for capital expenditures of $181.997 million, $150.659 million, and $106.568 million, respectively.
- SDG&E requests that the Commission adopt its Gas Transmission Operations and Construction 2022, 2023, and 2024 capital forecasts of $28.826 million, $11.619 million, and $11.706 million, respectively.
- SoCalGas and SDG&E requests that the Commission adopt their Gas Transmission Operations and Construction 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.

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 $18.953 million, $18.033 million, and $24.153 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.

Gas Integrity Management Programs

- The O&M forecast is composed 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 composed 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 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 the 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 million O&M annual cost for the Gas Acquisition function as justified and reasonable.

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 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 Joint CCAs 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 $4.556 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.
- The Commission should adopt SDG&E's forecast for the Contact Center of the Future (CCotF) as reasonable. It is prudent to perform periodic modernization of its business capabilities to support the critical obligation to serve customers.

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Customer Services Information – SoCalGas

- SoCalGas provides customer information and services through multiple channels to enhance the ability of SoCalGas's customers to understand and manage their energy usage. Customer Services-Information 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, and carbon management; and increased renewable gas interconnection.
- On August 11, 2023, SoCalGas and TURN reached a proposed resolution for SoCalGas's CSIN O&M forecast for TY 2024. TURN and SoCalGas have reached an agreement on the O&M forecast for 2024 in the amount of $25.445 million, which represents a reduction of $1.732 million from SoCalGas's $27,177. Pursuant to Rule 12.1(a), SoCalGas and TURN intend to file and serve a written Motion describing the proposal of settlement.

Customer Services Information – SDG&E

- In its Application, 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.
- 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.

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.

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 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 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 $25.809 million and $9.985 million respectively, including continued funding for SDG&E's non-shared San Onofre Nuclear Generating Station (SONGS) marine mitigation and workers' compensation costs.
- 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 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 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 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 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 adopt 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 adopt the reasonable forecasts of A&G costs for Franchise Fees expenses in 2022, 2023, and 2024 of $44.612 million, $47.611 million, and $53.419 million respectively.
- SDG&E requests that the Commission adopt its reasonable TY 2024 O&M forecasts of A&G costs for SDG&E'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 adopt the reasonable forecasts of A&G costs for SDG&E's Franchise Fees expenses in 2022, 2023, and 2024 of $77.966 million, $81.916 million, and $93.859 million respectively.
- Cal Advocates does not challenge SoCalGas 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.

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 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 2024 revenue requirement and annual PTY adjustments.

Miscellaneous Revenues

- SoCalGas and SDG&E request that the Commission adopt its forecasts.
- 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.

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 it 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)

REPLY 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 Reply Brief (Reply Brief) in the above captioned, consolidated General Rate Case (GRC) proceedings. This Reply Brief is timely submitted pursuant to Administrative Law Judge (ALJ) Lakhanpal's oral ruling on July 17, 2023, which set the deadline for the reply briefs in this proceeding as Thursday, September 7, 2023.

Provided herein after the Table of Contents and Table of Authorities is an updated Summary of Recommendations. The Summary of Recommendations provided with the Opening Brief contained certain minor omissions and cost discrepancies that have been corrected. It is also updated to reflect the proposed settlement with TURN.

2. Procedural Background

SoCalGas and SDG&E described the procedural background of this proceeding in their August 14, 2023 Opening Brief (Opening Brief or OB). Certain intervenors included arguments in their opening briefs. Such arguments are addressed by the arguments in the Opening Brief or this Reply Brief.

Since the filing of the Opening Brief, there has only been one significant procedural development. On August 15, 2023, SoCalGas and Cal Advocates appeared in-person for a status conference regarding Cal Advocates' July 7 Motion to Admit Exhibits. The motion remains pending at the time of this filing.

3. Evidentiary Standards and Burden of Proof

Pursuant to Section 454(a) of the California Public Utilities Code, rates may only be changed upon a finding by the Commission that the new rate is justified. SoCalGas and SDG&E agree that they have the ultimate burden of proof and must justify the reasonableness of their positions in this ratemaking proceeding. As noted, the evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence.[1] The Commission affirmed in the S-MAP Decision, D.14-12-025, that this standard specifically applies to a GRC.[2]

Cal Advocates, TURN, SBUA, San Diego Community Power and Clean Energy Alliance (the Joint CCAs), EDF, Indicated Shippers, and Mussey Grade Road Alliance agree that the burden of proof in a GRC proceeding is one of a preponderance of the evidence.[3] For instance, Cal Advocates correctly notes that "[t]he evidentiary standard the applicant utility must meet in establishing that its requests are just and reasonable, is by the preponderance of the evidence."[4] TURN similarly writes, "[t]he Commission requires utilities to meet the 'preponderance of the evidence' standard of proof in GRC proceedings."[5]

However, Cal Advocates incorrectly argues that "Sempra must make this showing for each request in its TY 2024 GRC Application, and this showing must be 'substantial affirmative' with 'witnesses in support [of] all elements of the application."[6] As noted above, SoCalGas and SDG&E agree that they have the ultimate burden of proof and must justify the reasonableness of their positions in this ratemaking proceeding. However, the standard from the 1980 Decision that Cal Advocates cites to is the burden of proof specific to a utility applicant establishing the

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1 SCG/SDG&E OB at 4.

2 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.

3 SBUA states, "[t]he same standards, as have previously been applied to rate case applicants, should continue to apply in the current proceeding." SBUA OB at 5. The Applicants interpret this to support the preponderance of the evidence standard.

4 Cal Advocates OB at 33 (*citing* D.19-05-020 at 7 and D.15-11-021 at 8-9). EDF correctly notes "[t]he Sempra Utilities need not provide 'clear and convincing' evidence." EDF OB at 51.

5 TURN OB at 17 (*citing* D.14-12-025 at 21).

6 Cal Advocates OB at 34 (*citing* D.92496).

"reasonableness of energy expenses sought to be recovered through the Energy Cost Adjustment Clause (ECAC)."[7] A utility seeking recovery of costs to manage fuel oil supplies, in a ECAC proceeding, and an Applicants' GRC request are not comparable, and Cal Advocates' citation to the "substantial affirmative" standard should be disregarded.

Community Legal Services (CLS) loosely references a "mandated burden of proof," without stating what that standard is, and goes on to argue that "[t]he Commission must . . . require that the utility justify why relevant evidence which was later produced only in data responses, or worse in rebuttal testimony or cross examination, was not initially presented to satisfy their required showing and properly inform the Commission."[8] CLS does not cite to any authority, or Commission Decision, to support their claimed burden of proof. Instead, precedent does not support CLS' theory that rebuttal testimony, cross examination, or responses to data requests, cannot be used to support the Applicants' original request. To the contrary, the Applicants 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 Applicants' subject matter expert witnesses, and hearing testimony of over 50 of these witnesses.[9] 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.[10] As such, the Applicants urge the Commission to disregard CLS' attempt to create a new "mandated" burden of proof, without providing any evidence or support for its claims.

Preponderance of the evidence requires a utility to show that the evidence, "when weighted with that opposed to it, has more convincing force and the greater probability of truth."[11] As noted above, and in the Applicants' Opening Brief, 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

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[7] D.92496 at *18, 1980 Cal. PUC LEXIS 1023.

[8] CLS OB at 8.

[9] SCG/SDG&E OB at 4.

[10] *Id.* at 4.

[11] D.21-08-036 at 9-10.

matter expert witnesses, and hearing testimony of over 50 of these witnesses.[12] The Companies also responded to over 10,800 data request questions from multiple parties throughout this proceeding.[13] As conclusively demonstrated by the record in this proceeding and as discussed, SoCalGas's and SDG&E's showings are well supported. . Where SoCalGas and SDG&E present a sufficient showing to prove by a preponderance of evidence the reasonableness of its request, the burden shifts to intervenors to demonstrate the superiority of their proposals or evidence to rebut the Companies' positions.[14]

Lastly, several parties propose a project-specific evidentiary standard and/or burden of proof in Section 3 of their Opening Briefs. Aside from the discussion of certain threshold legal issues specific to hydrogen-related projects below, if a party proposed a project-specific evidentiary standard or, burden of proof, or other legal issue for the Commission to consider, the Applicants respond to those arguments in the corresponding substantive areas of the Reply Brief.

3.1 Legal Issues regarding Hydrogen Jurisdiction, Affiliate Transaction Rules, Unfair Competition, and Separate Proceedings

3.1.1 The Commission Has Jurisdiction over Hydrogen

Certain parties[15] discuss the issue of whether the Commission has jurisdiction over hydrogen. Air Products in particular raises several arguments contesting such jurisdiction. As an initial matter, given the limited nature of the hydrogen related requests in this GRC, it would not require the Commission to assert that it has general jurisdiction over hydrogen. For example, Cal. Pub. Util. Code Section 701 permits the Commission to do everything that is "necessary and convenient" in the exercise of its authority over the supervision and regulation of public utilities. Thus, the CPUC is empowered to decide that activities that are preliminary, exploratory, or

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[12] SCG/SDG&E OB at 4.

[13] *Id.* at 4.

[14] *See* D.92-04-059 at 3-4 ("Once [the applicant] has provided reasonable support for its proposals [] it is up to opposing parties to demonstrate the superiority of their own proposals or provide evidence which rebuts the applicant's position."); 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.").

[15] Air Products OB at 9; EDF OB at 53.

directly tied to SoCalGas's operations should be permitted, without reaching the question of jurisdiction.[16]

On the question of jurisdiction, Air Products claims that the Commission's jurisdiction over hydrogen is "at best, uncertain."[17] Although hydrogen is not referenced by name in the Cal. Pub. Util. Code, there is nothing in the code that suggests the Commission's jurisdiction is limited to methane or that the Commission is excluded from regulating other types of gas. To the contrary, Cal. Pub. Util. Code § 221 (Section 221) defines the "gas plant" 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***, ***except propane***, for light, heat, or power."[18] 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.) Indeed, if the Commission or legislature intended to exclude hydrogen from Commission jurisdiction under Section 221, they could easily have done so, as evidenced by the explicit exclusion of propane. Air Products does not dispute that hydrogen may be "manufactured," that it is a "gas," or that it will be used for "light, heat, or power." As a result, there is no reason why facilities and activities associated with hydrogen should fall outside the Commission's authority to regulate a gas plant and the public utility gas corporation that builds, owns, and operates such a plant.

Air Products claims that the Commission's Angeles Link Decision (D.22-12-055) "expressly declined to accept jurisdiction over hydrogen."[19] This overstates the Commission's actual position. Because the Angeles Link Project "is still in development and planning stages, and Project details are not yet established," the Commission found that it was "too premature to determine whether the Project would fall within the Commission's jurisdiction," and that the issue of jurisdiction was outside the scope of the proceeding.[20] In other words, the Commission did not

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16 As recognized by EDF, Cal. Const., Art. XII, § 3 also grants broad power to the Commission with respect to the production, generation, transmission, or furnishing of heat, light, water, power, storage, or wharfage directly or indirectly to or for the public.

17 Air Products OB at 9. Notably, other intervenors disagree with Air Products. For example, EDF correctly notes that "[t]he Commission's jurisdiction covers the entirety of the hydrogen-related requests in this GRC." EDF OB at 53.

18 Emphasis added.

19 Air Products OB at 9.

20 D.22-12-055 at 8.

"decline" to accept jurisdiction over hydrogen in general, it simply concluded that affirmatively asserting jurisdiction over the Angeles Link project was unnecessary in order to grant the limited request to establish a memo account. As explained in SoCalGas's Opening Brief, the same is true for the hydrogen-related expenditures proposed in this GRC. Although it easily could, the Commission does not need to affirmatively assert jurisdiction over hydrogen under Section 221 in order to approve the hydrogen-related programs, customer outreach, and research activities proposed in this GRC. Broadly speaking, all of these proposed expenditures are designed to explore potential roles hydrogen can play in California's energy future at a protean level. In this respect, the proposed expenditures related to hydrogen are no different than previously approved expenses for exploratory consideration of other alternate forms of energy or innovative ways SoCalGas may serve its customers, including RNG, CNG, and fuel cells. Indeed, as Air Products rightly acknowledges, "[t]he Commission is also considering the role of hydrogen in numerous other ongoing proceedings," including in the context of hydrogen blending.[21] In that sense, the hydrogen-related initiatives proposed in this GRC are not novel, and, as with the other ongoing proceedings touching upon hydrogen, well within the Commission's jurisdiction over the general rate case of public utilities such as SoCalGas and SDG&E.

Finally, Air Products cites recent legislative efforts as evidence that the existing legal framework does not provide the Commission with jurisdiction over hydrogen.[22] But there is nothing in the proposed legislation that Air Products cites—Senate Bill 733 and Assembly Bill 324—that suggests the Commission does not already have jurisdiction over hydrogen. Instead, these bills call on the Commission to open a new proceeding to consider establishing renewable hydrogen procurement goals for utilities and requiring utilities to procure a proportionate share of renewable hydrogen to meet the these goals.[23] SB 733 would also have required the Commission to evaluate whether authorizing utilities to recover investments in infrastructure to interconnect facilities producing ***biomethane, renewable hydrogen, or both***, from their rate base would be just and reasonable.[24] But this by no means insinuates that the Commission does not already have jurisdiction over hydrogen. For example, the Commission's existing jurisdiction over

21 Air Products OB at 10-11.

22 *Id.* 9-10.

23 *See* SB 733 (Hueso, 2021); AB 324 (Pacheco, 2023).

24 SB 733 (Hueso, 2021) § 3 (emphasis added).

biomethane—the other gas considered in SB 733—is beyond dispute. Indeed, nowhere in either SB 733 or AB 324 is the word "jurisdiction" used. In short, the cited legislative efforts support SoCalGas's belief that the Commission should be proactive in its treatment of renewable hydrogen—not a perceived deficiency in the Commission's regulatory authority.

3.1.2 Approving SoCalGas and SDG&E's Hydrogen-related Requests would not Violate the Commission's Affiliate Transaction Rules

EDF and CEJA argue that SoCalGas and SDG&E's hydrogen-related initiatives are non-tariffed products that are new lines of business and are inconsistent with the Commission's Affiliate Transaction Rules.[25] As a threshold matter, SoCalGas and SDG&E's proposed hydrogen-related initiatives, which involve research, development, and demonstration-type activities, are not new products or services. At most, it could be argued that some of the hydrogen-related proposals in SoCalGas and SDG&E's GRC may eventually lead to new products or services for ratepayers. But even in that eventuality, the Affiliate Transaction Rules do not prohibit utilities from engaging in new lines of business. Section VII.C of the Affiliate Transaction Rules lists "[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," as two of the four types of products and services that utilities may offer.[26] In turn, "tariff," as defined in the Affiliate Transaction Rules, refers broadly to "rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate."[27] Therefore, for purposes of the Affiliate Transaction Rules, it is immaterial whether SoCalGas or SDG&E's offerings are considered "new" or "existing" products and services, provided that they are offered on a tariffed basis.

To the extent any of the hydrogen-related initiatives SoCalGas and SDG&E propose in this GRC could eventually lead to a "new" product or service, there would be no violation of the Affiliate Transaction Rules because the utilities would offer these products and services on a tariffed basis. For example, EDF cites SoCalGas's Clean Fuels Infrastructure Development

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25 EDF OB at 56-62; CEJA OB at 11-12.

26 Cal. Pub. Util. Comm'n, Opinion Adopting Revisions to the Affiliate Transaction Rules, D.06-12-029 (Dec. 14, 2006), Appendix A-3, § VII.C.

27 *Id.*, § VII.B.4.

activities as a "new line of business."[28] As explained in SoCalGas's Opening Brief, the Clean Fuels Infrastructure Development Group includes five distinct programs,[29] whose overarching focus is not the creation of a new line of business, but rather is to explore opportunities for providing cleaner alternatives to natural gas or other fossil fuels—a tariffed service SoCalGas already provides—to SoCalGas's customers, or to otherwise explore opportunities to reduce the climate impacts of SoCalGas's existing services as part of a broader effort to advance the State's clean energy goals. Moreover, many of the hydrogen-related programs EDF identifies involve preliminary research and analysis efforts that are not themselves "products" or "services" provided to customers, and the Affiliate Transaction Rules therefore do not apply. For example, the "Clean Fuels Operational Readiness Program" component of the Clean Fuels Infrastructure Development group is focused on developing a strategic framework for operational and system readiness to help accelerate SoCalGas's adoption of new, clean fuels infrastructure, including through integrating hydrogen and carbon management infrastructure into its existing systems.[30] While this kind of pro-active development broadly benefits SoCalGas ratepayers, it is not a product or service that is subject to the Affiliate Transaction Rules. Moreover, to the extent the Business Development work—or any other hydrogen-related research or analysis—ultimately leads to a product or service

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[28] EDF OB at 57. EDF cites D.15-10-049—the Commission's decision authorizing SoCalGas to establish a Distributed Energy Resources Tariff ("DERS Tariff")—to support its claim that SoCalGas should not "launch a new business on the backs of ratepayers." *See* EDF OB at 59-60. This decision is distinguishable. The DERS Tariff in D.15-10-049 was designed to facilitate the adoption and use of combined heat and power (CHP) energy systems for SoCalGas customers by authorizing SoCalGas to construct, own, operate, and maintain CHP energy systems on customer premises. (*Cal. Pub. Util. Comm'n, In the Matter of the Application of Southern California Gas Company (U904G) to Establish a Distributed Energy Resources Services Tariff*, D.15-10-049 (Oct. 22, 2015) at 2-5.) In this regard, the Commission determined that ratepayers should not be burdened with either development or litigation costs associated with the DERS Tariff because that contradicts "SoCalGas' commitment that only DERS customers and shareholders will pay for costs associated with the tariff." (*Id.* at 120). In this GRC, SoCalGas is not proposing to use ratepayer funding to build new equipment on individual customers' premises that would benefit only those customers. Instead, SoCalGas is proposing a series of research, development, and small-scale projects to explore opportunities for decarbonizing SoCalGas's existing services, which will benefit all ratepayers. As discussed below, even SoCalGas's hydrogen refueling activities are being pursued with the primary intent of fueling SoCalGas's own fleet, which benefits ratepayers in the form of cleaner, more reliable service.

[29] These five categories are 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 the Clean Fuels Power Generation Program. SCG/SDG&E OB at 248.

[30] SCG/SDG&E OB at 258.

offering for SoCalGas customers, it will be done on a tariffed basis, consistent with the Affiliate Transaction Rules.

CEJA argues that the component of the CCUS FEED study that calls upon SoCalGas's consultant to "examine various approaches to developing a carbon dioxide pipeline system, including a utility service model and a shareholder-funded model," violates the provision in the Affiliate Transaction Rules that prohibits utilities from "shar[ing] market analysis reports or any other types of proprietary or nonpublicly available reports . . . with its affiliates."[31] CEJA expresses the same concern with respect to SoCalGas hiring consultants to study the transportation and use of pure hydrogen, because "it is not clear whether Sempra would operate a hydrogen business as a regulated utility or an unregulated affiliate."[32] As a threshold matter, CEJA's claims are targeted at potential *future* violations of the Affiliate Transaction Rules and are therefore premature. Regardless, there is nothing in the Affiliate Transaction Rules that prevents a gas transportation utility from hiring consultants to engage in market and development research regarding pipeline transportation of a jurisdictional gas. In any case, if the results of the CCUS FEED or hydrogen transport studies CEJA identifies suggest that these activities are best-suited to be carried out by an unregulated affiliate, SoCalGas will make these studies publicly available. As a result, there would be no violation of the Affiliate Transaction Rules.

3.1.3 SoCalGas and SDG&E's Clean Energy-related Initiatives Would not Violate the Principle of Cost-Causation or Result in Unfair Competition with Non-Utilities

Several intervenors argue that using ratepayer funding for SoCalGas and SDG&E's clean energy-related proposals violates the principle of cost-causation or otherwise results in an improper cross-subsidy for new lines of business from existing ratepayers.[33] As a threshold matter, SoCalGas's initiatives are being pursued "[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," and are intended to "accelerate the energy transition by increasing the delivery of clean fuels, adapting its system for blended hydrogen, and supporting

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31 CEJA OB at 31-32 (*citing* D.06-12-029, Appendix A-3 at 7).

32 CEJA OB at 32.

33 *See e.g.,* Air Products OB at 14-16; CEJA OB at 11-12, 30-37; EDF OB at 60-62; Indicated Shippers OB at 7-8.

customer decarbonization."[34] In other words, these initiatives are part of SoCalGas's efforts to improve upon its *existing* services and can therefore be attributable to (and will benefit) SoCalGas's existing ratepayers. For example:

- Hydrogen refueling stations support zero emissions vehicles in SoCalGas's own fleet so that it may carry out existing services while reducing its own carbon emissions and is consistent with other transportation services that SoCalGas already provides.[35]
- H2IE can help decarbonize SoCalGas's existing services through the development and adoption of a portfolio of sustainable energy solutions that can benefit ratepayers, provide end users with relevant energy choices options based on their individual requirements, and support local grid resilience and reliability needs.[36]
- Blending hydrogen into the natural gas system could decarbonize SoCalGas's existing pipelines—the backbone of SoCalGas's utility services.[37]
- Adding additional HFCEVs to its fleet would allow SoCalGas to maintain reliable service to ratepayers while reducing its GHG emissions.[38]
- The Clean Fuels Infrastructure Development program would explore opportunities to improve the efficiency and environmental impact of SoCalGas's utility system via the adoption of clean fuels, which could 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.[39]
- The CCUS FEED Study Program will research the potential for a CO2 pipeline which could help support direct air capture of CO2 which could help offset

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[34] SCG/SDG&E OB at 50 (*citing* Ex. SCG-02-R (Sim/Arazi) at 5.)

[35] SCG/SDG&E OB at 277-280.

[36] *Id*. at 597-598.

[37] *Id*. at 276.

[38] *Id*. at 278, 577-586.

[39] *Id*. at 248-250.

emissions for gas customers, improve air quality, and provide environmental benefits.[40]

- The RD&D program, which already exists and already involves research into clean fuel alternatives, allows SoCalGas to research and develop new ways to improve its services.[41]

If the Commission were to interpret the "cost-causation" principle as prohibiting SoCalGas from engaging in preliminary market development and research activities to develop and support cleaner fuel alternatives, that would send an unwarranted signal that gas utilities are not part of the state's energy transition. The benefit of early-stage activities like preliminary market development and research activities and FEED studies almost never can be tied to a particular group of customers. Air Products argues that it is improper to "authorize ratepayer spending in hydrogen investments because the Commission is still in the process of determining the appropriate role for hydrogen" in the energy market.[42] But it is precisely the type of research, development, and small-scale demonstration activities that SoCalGas has included in this GRC, building on the hydrogen RD&D projects that the Commission has approved in the past,[43] that will help the Commission determine the role that hydrogen will play in future utility service. Accordingly, to the extent the Commission agrees that SoCalGas's hydrogen-related initiatives will contribute to a cleaner gas

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[40] *Id*. at 252-258.

[41] *Id*. at 264-275.

[42] Air Products OB at 10-11.

[43] *See, e.g.* 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."); 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 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).

system and energy marketplace for existing customers, the Commission should conclude that at this stage, these costs are consistent with the GRC cost-causation principle because they benefit all ratepayers.[44]

Additionally, it is important to note that the cost-causation principle is not absolute. As explained in the Joint Opening Brief, although the Commission has historically "emphasized cost-causation" in setting rates, the Commission has recognized that "[i]n recent years, changes in energy use to protect the environment have become increasingly important."[45] As a result, the Commission may allow "for certain subsidies to promote certain societal programs" or "support explicit state policy goals."[46] This policy is reflected in the Commission's recently updated "Electric Rate Design Principles," which explain that "Rates should avoid cross-subsidies ***that do not transparently and appropriately support explicit state policy goals***."[47] Clean renewable hydrogen programs do just that[48]—as Air Products concedes, "[h]ydrogen is critical to meeting California's long-term energy, climate, and social justice goals through air quality improvements in front line communities, options for industrial and ports decarbonization, new skilled long-term green jobs, and zero-emission solutions for heavy-duty transportation, goods movement, and heavy industry."[49] Yet Air Products wishes to exclude investor-owned utilities from playing a role developing the market for this "critical" resource. However, excluding public utilities from California's clean energy transition would significantly undermine the State's climate goals—an

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44 *See*, *e.g.*, D.06-12-032 (finding that assigning costs to all ratepayers for a climate program is "consistent with how we have assigned costs in the context of other programs that offer substantial public benefits, including energy efficiency, the Self Generation Incentive Program (SGIP), and the California Solar Initiative (CSI)." (*Id.* at 15); D.94-09-065 ("All telecommunications customers share in support of lifeline programs and will benefit from the societal value of lifeline programs; therefore, surcharges are assessed on all end-users in order to pay for these social goals.").

45 D.15-07-001 at 2.

46 *Id.* at 8, 28.

47 D.23-04-040 at 20 (emphasis added).

48 *See e.g.*, CARB, *2022 Scoping Plan for Achieving Carbon Neutrality* (November 16, 2022) at 9 (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); Letter from Governor Newsom to Director Myers, GO-Biz, dated August 3, 2023 (noting that the that the State needs to "scale up" the clean renewable hydrogen market "1,700 times by 2045 to meet our carbon neutrality goal"); Governor Brown, Executive Order B-48-18 (directing 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).

49 Air Products OB at 17.

incredibly detrimental result when the Governor has recently recognized that the State needs to "scale up" the clean renewable hydrogen market "1,700 times by 2045 to meet our carbon neutrality goal."[50] Indeed, excluding the state's largest natural gas utility from exploring opportunities to develop and implement cleaner alternatives, like green hydrogen, would only serve to extend the state's reliance on fossil fuels. Therefore, to the extent the Commission finds that any of SoCalGas's hydrogen-related initiatives do not comport precisely with the principle of cost-causation, the Commission should make an exception on the grounds that these efforts explicitly and transparently further the state's decarbonization goals.

Air Products contends that SoCalGas's proposed hydrogen refueling station (HRS) proposals violate the principle of cost-causation and result in unfair competition with non-utilities.[51] With respect to the public-facing component of the HRS, there is little risk of unfair competition arising between SoCalGas and unregulated entities. Air Products argues that Commission precedent regarding electric vehicle charging and RNG vehicle fueling stations cautions against including costs for the public-facing component of the HRS in this proceeding.[52] Air Products points out that the Commission initiated dedicated proceedings and engaged in substantial record building before determining whether it was appropriate for utilities to engage in transportation fueling services for these emerging technologies.[53] But Air Products disregards the critical outcome of these early EV and RNG proceedings, which concluded that utilities had a role to play in developing these markets.[54] Besides expressing opposition to hydrogen as a vehicle fuel in general, Intervenors do not give any legal reason why hydrogen should be treated differently. For example, in D.91-07-018, the Commission approved proposals to spend millions of dollars on NGV programs, including the construction of NGV fueling stations, and to recover the costs from

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[50] *See* Letter from Governor Newsom to Director Myers, GO-Biz (August 3, 2023); *see also* D.21-07-028 at 11 (finding that additional investments from investor-owned electric utilities in "light-duty EV charging and medium- and heavy-duty EV charging will be necessary to meet the State's policy goals").

[51] Air Products OB at 15.

[52] *Id.* at 20-22.

[53] *Id.*

[54] *See e.g.*, *Re Pac. Gas & Elec. Co.*, 40 CPUC 2d 722, D.91-07-018, (July 2, 1991) (approving ratepayer funding for NGV fueling stations to support nascent NGV industry); *see also,* D.21-07-028 at 10 ("it is the role of the Commission to determine the level of support ratepayers should provide to help the state to ensure that an additional 59,000 [Level 2 EV chargers] and 500 [direct current fast chargers] are operational by 2025.")

utility ratepayers. It noted that "because of consumer indifference, the low cost of gasoline, the lack of oil company participation, and the lack of financial incentives, the chance of a natural gas fueled vehicle industry surviving and growing without some form of initial public assistance is practically nil."[55] This same rationale applies to the nascent hydrogen market. If gas utilities are precluded from participating in this emerging market, there is a considerable risk that it may falter.

It is important to keep in perspective the relatively modest scale of what SoCalGas has proposed for its HRS. SoCalGas is requesting costs to develop a single HRS at one of its bases. In contrast, in 2021, the Commission authorized electric utilities to spend more than $720 million to build approximately 52,000 light-duty chargers.[56] In other words, SoCalGas is not proposing to radically alter the hydrogen refueling landscape in this GRC. Because SoCalGas's proposals are consistent with other transportation services that utilities already provide, and, given the Commission's long history of successfully regulating utilities' charging/fueling infrastructure and services without adversely affecting competition, the Commission should approve SoCalGas's request and avoid an unnecessary delay to SoCalGas's entrance into the hydrogen refueling space.

Air Products and Clean Energy argue that unfair competition concerns with respect to hydrogen refueling are made evident by the hydrogen refueling rate SoCalGas proposed in its current cost allocation proceeding (A.22-09-015), which would cover fuel costs, but only 50% of the capital costs for the stations themselves.[57] As a threshold matter, the issue of cost allocation for hydrogen refueling stations is outside of the scope of this proceeding. In any case, the Commission is well-equipped to handle perceived competition between utilities and non-utilities, including for public-facing gas infrastructure, both in this GRC and the cost allocation proceeding. For example, in *Clean Energy Fuels Corp. v. Public Utilities Commission* (2014) 227 Cal.App.4th 641, the Fourth District Court of Appeal upheld a Commission decision allowing SoCalGas to design, build, own, operate, and maintain equipment to compress, store, and dispense natural gas above standard line pressure for customer end-use applications. Non-utility competitors challenged the Commission's decision, arguing that "the competitive advantages SoCalGas has as a regulated monopoly utility allows [*sic*] it to unfairly compete with nonutility enterprises in the

55 D.91-07-018, *Re Pac. Gas & Elec. Co.*, 40 CPUC 2d 722 (July 2, 1991).

56 D.21-07-028 at 11.

57 Air Products OB at 18-19; Clean Energy OB at 11.

unregulated compressed natural gas market."[58] The Court rejected this argument, acknowledging that the Commission had "imposed several reporting, cost tracking, and marketing restrictions on SoCalGas to prevent it from unfairly competing."[59]

Air Products and Clean Energy also argue that SoCalGas's proposed use of LCFS credits for hydrogen fueling stations could unfairly compete with non-utility refuelers.[60] But there is nothing novel in SoCalGas's expansion of its existing LCFS customer incentive program to include hydrogen.[61] As explained in Advice Letter 6024, SoCalGas already applies a LCFS rate credit to the pump price posted at all SoCalGas public access CNG stations, which are available to the general public. Because the Commission has not determined that applying LCFS credits to CNG refueling results in unfair competition with non-utilities, there is no reason that it should reverse course with respect to hydrogen.

Intervenor concerns that SoCalGas's proposed activities will disrupt or distort the nascent hydrogen marketplace are unfounded. As with other industries regulated by the Commission, there is ample room for both utilities and non-utilities in the emerging green hydrogen industry. As the Supreme Court has explained, "[r]egulated and nonregulated services compete in many fields."[62] For example, the Commission and courts have recognized the role of non-utilities in selling

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58 *Clean Energy Fuels*, 227 Cal.App.4th at 643.

59 *Id*. at 644.

60 Air Products OB at 33-35; Clean Energy OB at 11-12.

61 SoCalGas Advice Letter 6024 (September 25, 2022), *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_6024.pdf.

62 *Com. Communications, Inc. v. Pub. Utilities Comm'n* (1958) 50 Cal. 2d 512, 521-522; *see also Pac. Tel. & Tel. Co. v. Pub. Utilities Comm'n* (1965) 62 Cal.2d 634, 658 ("gas and electric utilities compete not only with each other but with nonregulated industries, such as oil.")

electricity,[63] selling and delivering water,[64] and transportation.[65] It is also important to note that Commission approvals of SoCalGas's hydrogen-related initiatives in no way signals to private companies in the same space that they would henceforth be subject to commission jurisdiction. As the Supreme Court explained in *Richfield Oil Corp. v. Public Utilities Commission* (1960) 54 Cal.2d 419*,* "gas producers in this state have not been subject to [Commission] jurisdiction when they have not dedicated their property to public use," and such a company is "free to use property it has not dedicated to public use as it sees fit so long as it does not dedicate such property or prejudice any public utility obligations it may have assumed."[66] Accordingly, like electricity, water, transportation, and natural gas, there is room for regulated and unregulated entities in the hydrogen industry.

3.1.4 A Separate Application for Hydrogen-Related Initiatives is Unnecessary

Several intervenors argue that it would be more appropriate to consider SoCalGas and SDG&E's hydrogen-related initiatives in a separate proceeding.[67] As intervenors note, the Commission already has several ongoing proceedings involving the use of hydrogen.[68] There is no need to add one more proceeding to that list. The parties in this proceeding have already dedicated dozens pages of testimony and briefing to SoCalGas and SDG&E's hydrogen proposals,

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63 *Story v. Richardson* (1921) 186 Cal. 162 (allowing a private building owner to sell excess electricity as a non-utility).

64 *Thayer v. California Dev. Co*. (1912) 164 Cal. 117, 131 (allowing company to sell and deliver water as a non-utility where it retained "control of the water to the extent, at least, of choosing for itself the persons and corporations to whom it should be sold or delivered, and the terms and conditions on which such sales or deliveries should be made."); *see also W. Canal Co. v. R.R. Comm'n* (1932) 216 Cal. 639, 646-47 ("Whenever any private corporation or association is organized for the purpose solely of delivering water to its stockholders or members at cost, and delivers water to no one except its stockholders or members at cost, such private corporation or association is not a public utility, and is not subject to the jurisdiction, control or regulation of the railroad commission of the State of California.")

65 *Market St. Ry. Co. v. Railroad Comm'n.,* 24 Cal.2d 378 (addressing competing transit service by a municipal railway company and a commission-regulated utility).

66 *Id.* at 431-436.

67 *See e.g.*, EDF OB at 62-64; Clean Energy OB at 14; TURN-SCGC OB at 77-78.

68 For example, the Commission is considering the development of pilot projects to evaluate standard for the safe injection of clean renewable hydrogen into California's common carrier pipeline system (D.22-12-057) and the Commission recently authorized SoCalGas to proceed with an initial phase of feasibility studies for a clean hydrogen transmission pipeline (D.22-12-055).

accompanied by hours of cross-examination of SoCalGas and SDG&E witnesses going to the heart of intervenor concerns regarding Commission jurisdiction, unfair competition, and other issues. As a result, in this record, the Commission has everything it needs to make an informed and urgently needed decision regarding the reasonableness of SoCalGas and SDG&E's proposals. Delaying the resolution of these issues by initiating a new, multi-year proceeding would serve only to stall SoCalGas and SDG&E's efforts to decarbonize. Accordingly, SoCalGas and SDG&E respectfully requests that the Commission use this opportunity to advance SoCalGas and SDG&E's modest hydrogen-related programs.

4. Scoping Memorandum Issues

Several groups provided discussion of the issues from the October 3, 2022 Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo). Many of the arguments raised therein are addressed throughout this brief in more relevant sections. The below discussion addresses the more extensive arguments raised by Intervenors in Section 4 of Opening Briefs that are not addressed elsewhere.

Air Products argues within Section 4 of its Opening Brief that the inclusion of hydrogen-related requests does not result in just and reasonable rates. As discussed in Sections 3 and 18.1 of this brief, and 18.1 of the Opening Brief, such work is appropriately included. In addition, the dollar amounts identified by Air Products for reduction because they are tied to hydrogen is overbroad. Air Products recommends the rejection of all costs identified in the hydrogen roadmap provided as an exhibit during hearings.[69] As explained in that exhibit, certain numbers provided were not entirely for hydrogen:

> The activities listed below are an aggregate of sustainability activities and costs that include hydrogen activities but are not exclusive to hydrogen. These aggregated O&M costs support diverse clean energy solutions including clean hydrogen, renewable natural gas (also referred to as biogas and RNG), synthetic natural gas (also referred to as syngas and SNG), and biofuels. The exact amount of hydrogen costs cannot be isolated.[70]

As one example, for SoCalGas's Sustainability group, SoCalGas is requesting $1.982 million in the Test Year. As explained in the hydrogen roadmap, and more extensively in testimony, the Sustainability group does a host of activities, and work related to hydrogen is just one piece of it:

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69 *See* Air Products OB at 6-7 (*citing* Ex. SCG-322/SDG&E-320).

70 Ex. SCG-322/SDG&E-320 at 1.

> Sustainability activities and costs pertaining to the planning, developing, and tracking near and long-term environmental, social, and governance (ESG) business strategies and implementation of sustainable business practices to optimize operational activities that include, as a component, consideration of hydrogen strategies. It works across the Company's organizations to facilitate ongoing discussions, workshops, and cross-functional collaboration, review, implementation of sustainability-related initiatives and goals.[71]

As from being improper for the reasons discussed elsewhere, Air Products' proposed reductions are therefore erroneous.

EDF includes extensive arguments in section 4 of its Opening Brief. Several of the arguments touch on affordability, which is addressed in Sections 6, 7, and 47 of the Opening Brief, and Sections 6, 7, and 47 of this Brief. EDF also argues that SoCalGas and SDG&E's natural gas-related requests in this GRC are "disconnected with the reality of declining gas demand," and that they do not consider stranded assets.[72] These arguments are generally addressed in Sections 37 and 40 of the Opening Brief and this brief. Furthermore, it bears noting that, as SoCalGas and SDG&E explained earlier in this proceeding,[73] for addressing the long-term determinations of dealing with the gas system, there is an entire proceeding dedicated to that determination.[74] Finding in this GRC that SoCalGas's and SDG&E's revenues should be capped at the level EDF suggests while long-term planning has not yet occurred would be backward and would greatly impact SoCalGas's operations.

EDF also states that "The Sempra Utilities propose to expend well over $82 million on hydrogen…."[75] In deriving this number, EDF makes the same errors that Air Products did, taking entire amounts from the hydrogen roadmap where hydrogen-related work is only a small part of the request. But EDF goes further, making several grossly inaccurate incorrect determinations as to what qualifies as a proposed expenditure on hydrogen. Some of these are addressed in other

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71 *Id.*

72 EDF OB at 18-21, 64.

73 *Opposition of San Diego Gas & Electric Company (U 902 M) And Southern California Gas Company (U 904 G) To Environmental Defense Fund's Motion Regarding Gas Scenario Data* (September 30, 2022) at 2.

74 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).

75 EDF OB at 66.

areas of testimony,[76] and on the whole EDF's summary should be entirely ignored. One of the most obvious and glaring errors is EDF's attribution of ***$56.139 million*** in O&M for hydrogen related to "Pipeline and Instrumentation Operations."[77] This expense is simply not related to hydrogen in anything beyond the most miniscule way. The Pipeline and Instrumentation Operations cost includes a host of major activities at SoCalGas, including Instrument Leak Survey, Pipeline Patrol, Locate & Mark and Standby, Measurement and Regulation Inspections, and Odorization Activities.[78] It includes costs to "address the physical condition of the gas transmission pipeline system and its appurtenances" and it spans SoCalGas's "20,000 square mile service territory."[79] In all of the testimony and workpapers there is one reference to hydrogen that there is some "incremental activity to operate and maintain equipment at the Hydrogen Home." It appears that the only reason EDF decided that SoCalGas plans to spend $56 million on hydrogen for this activity is this passing reference. This is incorrect. In fact, EDF just assumes that because there is operations and maintenance related to the hydrogen home, those workers must be working on hydrogen. Any work would have been de minimis, but EDF uses this to inflate its numbers to argue SoCalGas and SDG&E's hydrogen-related requests are excessive. EDF's hydrogen cost summary is not based on fact or grounded in evidence at all and should be disregarded.[80]

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[76] *See, e.g.*, Section 10 (Gas Distribution).

[77] EDF OB at 33.

[78] Ex. SCG-06-2R-E (Chiapa/Hruby/Bell (adopted by Garcia)) at 17-23.

[79] *Id.* at 18:1-3.

[80] EDF actually complains that SoCalGas and SDG&E's hydrogen roadmap is "incomplete and inaccurate." EDF OB at 75. Specifically, EDF states "For example, SoCalGas lists costs associated with their RD&D program as $10.52 million in 2024 O&M costs. However, EDF was able to identify references to hydrogen throughout all subcategories for the RD&D program as requested by SoCalGas, which would bring the total associated costs to $23.249 million." *Id.* SoCalGas does not intend to spend its entire RD&D budget on hydrogen. A brief review of Appendix B to the Direct Testimony of Armando Infanzon (Ex. SCG-12-R) shows this. Including the entire RD&D amount is inappropriate.

As SoCalGas demonstrated through its inclusion of various explanations in the hydrogen roadmap exhibit, it is not a simple request to disaggregate every specific hydrogen related cost for a variety of reasons. To the extent there were "inaccuracies," SoCalGas and SDG&E made a good faith effort to include hydrogen costs in the roadmap document. That said, in no way are the costs close to what was identified by EDF.

EDF also argues that SoCalGas's and SDG&E's "requests in this GRC weigh upon [] disadvantaged communities…."[81] However, EDF does not identify any specific request other than just the Utilities' overall revenues requests. This issue is addressed in affordability and policy sections of the Opening Brief and this brief. As explained in the Opening Brief, SoCalGas and SDG&E have several proposals that specifically advance the goals outlined in the Commission's Environmental Justice Action Plan.

5. Test Year Forecasting Methods and GRC Ratemaking

PCF and SBUA submitted Opening Briefs regarding SoCalGas and SDG&E's Test Year forecasting methods, which are addressed in Section 5.1.1 of this Reply. Section 5.1.2 of this Reply addresses CEJA's Opening Brief comments regarding the reprioritization of authorized GRC funding.

5.1 Response to Parties' Recommendations regarding Test Year Forecasting Methods

5.1.1 PCF's Claim that the Utilities Provide "so little information" Regarding the Chosen Forecast Method is Baseless

As stated in SoCalGas and SDG&E's Opening Brief, the utilities prepare their forecast estimates in accordance with the Commission's Rate Case Plan.[82] Witnesses develop GRC forecasts for expenditures they believe are necessary to provide safe and reliable gas and electric service to our customers.[83] To develop forecasts for the instant proceeding, SoCalGas and SDG&E utilize a variety of forecasting methods, many of which use historical data available at the time (*i.e.*, through the 2021 base year), which have been authorized by the Commission in past GRCs. More specifically, utilities (and parties) utilize generally accepted forecast methodologies to reflect the future funding needs.[84] Contrary to PCF's claim that "the Utilities provide so little information that the Commission cannot ascertain that the Utilities selections are not focused on increasing rate base and the associated shareholder profits,"[85] every witness area that put forth forecasts submitted testimony and workpapers that include detailed information on how the utility

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81 EDF OB at 69.

82 SCG/SDG&E OB at 10-11.

83 *Id.* at 12.

84 *Id.*

85 PCF OB at 20.

determined the appropriate forecast method and why it is the most reasonable forecast method to use. PCF had the opportunity through discovery to seek more information about these methods or offer its own forecasts – something done by other parties. The Commission should disregard PCF's baseless claims.[86]

5.1.2 SBUA's Recommendation that the Utilities Adopt and Consistently Implement No More Than Two Forecasting Approaches, One Being Zero-Based, in all Future Applications is Neither Practical Nor Reasonable

SBUA recommends that the Commission require the utilities to use only two forecasting methods in all future GRC's in order "to reinforce consistency across programs, enhance transparency and better enable review by the Commission and other parties,"[87] Additionally, SBUA recommends that the Commission require a zero-based approach as one of the two methods.

First, as described in the Opening Brief, SoCalGas and SDG&E utilize generally accepted forecasting methods that include 2021 base year, historical averages, linear trends, or zero-based.[88] These methods are used by the other Investor-Owned Utilities (IOUs), including PG&E and SCE, and the Commission has approved these methods in approving forecasts in the IOUs' numerous prior GRCs.

Second, being constrained to use only two methods, one of which must be zero-based, would result in anything but reasonable forecasts. For example, historical averages are often used when there may be volatility in spending over the years; linear trend are used when if there is a pattern of growth or decline over time; and base year when the activity may be newer or the historical data is not representative of future expenditures. A zero-based methodology may be most appropriate when historical information is not relevant or where there is detailed information available that is more indicative of anticipated future needs. Given the multitude of scenarios that could occur, it does not make sense that the Commission limit the utilities to a zero-based forecast and only one other method. Further, it is not clear how the Commission would determine what the

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[86] Section 12.3 (PCF's Opposition to all Transmission Requests Is Baseless), *infra*, includes a specific discussion of PCF's claim with respect to Gas Transmission and demonstrates the absurdity of PCF's generalized, meritless argument.

[87] SBUA OB at 7.

[88] SCG/SDG&E OB at 12.

other required forecast method should be, and as described above, the utilities require flexibility to evaluate and use historical, linear, base year, as well as zero-based methods depending on the facts and circumstances of the various operational areas. Other intervenors, such as FEA, Cal Advocates and TURN, offer various alternative forecast methods, including 5-year historical average, 3-year historical average, zero-based and base year, among others, illustrating that other parties as well desire the flexibility to use more than just two forecast methods, contrary to SBUA's proposal.[89]

Lastly, SBUA misconstrues SoCalGas's response to a single data request referring to a single witness area as if SoCalGas is speaking broadly. SBUA states: "By their own admission, SoCalGas believes the 'base year methodology used to forecast TY 2024 GRC is the appropriate method to forecast' despite 'state policy orders to electrify, the emergence of distributed energy resources, and adoption of electric vehicles.'"[90] Importantly, SoCalGas's response refers only to activities related to Customer Services-Office Operations;[91] SBUA's weak attempt to apply SoCalGas's reasoning for choosing the base year method in one witness area to all witness areas' various activities is absurd and should be rejected. For the reasons stated above and in our Opening Brief, SoCalGas's and SDG&E's forecasting methods should be adopted as reasonable.[92]

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89 For example, *see* FEA OB at 3 (proposes a 5-year average forecast methodology for Electric Distribution's TY 2024 capital forecast); *Id.* at 19 (proposes a 7-year average for PTY electric capital expenditures); TURN OB at 102 (proposes a "a discrete project forecast method with some small variance for unexpected station failures" for SoCalGas Gas Distribution's Regulator Station capital budget category forecast); TURN OB at 108 (proposing a 3-year historical average for part of its Leak Survey O&M request); Cal Advocates OB at 125 (proposing a "modified four-year average (including the years 2017-2019, and 202)" for 2024 Miramar Energy Facility Capital); Cal Advocates OB at 273 (calculated a "3-year historical average and escalated it for estimated changes in labor costs to derive its LTD ["Long-Term Disability"] O&M expenses recommendation for TY 2024"); and Cal Advocates OB at 61 (does not oppose SoCalGas Gas Distribution's proposed leak survey O&M forecast using a base year forecast methodology).

90 SBUA OB at 7 (*citing* Ex. SBUA-03, SoCalGas Response 5).

91 When SoCalGas received the referenced data request from SBUA, the instructions read "Please refer to the Testimony, as indicated in each heading," and the referenced question was under the heading "SCG-215, Bernardita M. Sides."

92 In addition, the type of limitation proposed by SBUA would be more appropriate for a Rate Case Plan proceeding, which considers these types of broader issues relating to how rate cases are presented.

5.2 CEJA's Comments Regarding Reprioritization of Authorized GRC Funding are Unfounded and Should be Rejected

While CEJA's Opening Brief admits that the utilities may reprioritize spending between GRCs for projects necessary to provide safe and reliable utility service, CEJA claims that "the Commission should find SoCalGas has abused this flexibility by redirecting GRC funds to projects that go expressly against Commission direction as well as for pet projects for which it never requested authorization and are not directly related to its core function of providing safe and reliable gas service."[93] CEJA further argues:

> The Commission should clarify how it will hold utilities accountable for reallocating funds to activities that contradict Commission policy or to projects that are unrelated to safe and reliable utility service without first engaging in the "ongoing dialog" the Commission demanded to review utility activity. The Commission should deduct these misspent funds from SoCalGas' current GRC request and impose further penalties where reallocation went against express Commission direction. To improve transparency and accountability, the Commission should also require the utilities to identify how funds approved in the previous GRC were reallocated at the time it files its next GRC Application.[94]

SoCalGas and SDG&E first note that CEJA's brief is replete with similar insinuations and claims regarding inconsistency with Commission policy that are simply unsupported in evidence or fact. CEJA's briefing arguments that are unsupported by citation to the record should be disregarded. As required by the CPUC's Rules of Practice and Procedure, Rule 13.12, factual statements raised in a party's legal brief "must be supported by identified evidence of record," and fundamental principles of fairness and due process must be adhered to and followed in a Commission proceeding. The Commission has determined that this type of "extra-record material" contained in briefing is inadmissible and "serves no useful purpose because it cannot be considered by the Commission, either as fact or argument."[95]

Notwithstanding CEJA's rhetoric, SoCalGas and SDG&E note that, after revenue requirements are set in this GRC, the Commission monitors utility spending compared to

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93 CEJA OB at 13.

94 *Id.* at 14.

95 D.92-06-065 at *91-92 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating "[i]f that is so, it is no proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact, or argument.").

authorized through various means, including the Risk Spending Accountability Reporting (RSAR) filed annually.[96] The RSAR provides the status of projects, including if they were "canceled," "deferred," or are "emergent." By definition, any project not specifically authorized in the GRC is classified and reported as "emergent." In addition, the recent Rate Case Plan Decision (D.22-10-002) in the Risk-Based Decision-Making Framework (RDF) OIR expanded RSAR to require the utilities to include all projects authorized in the GRC, not just safety, reliability and maintenance driven projects, which adds even more oversight over the utilities' spending. Thus, contrary to CEJA's claims that there needs to be more transparency for projects unrelated to safety and reliability, the RSAR provides the Commission and parties transparency and accountability for all authorized projects throughout the GRC cycle.[97]

CEJA acknowledges that the Commission expects that the utilities may need to reprioritize spending between GRCs, as stated in SoCalGas and SDG&E's Opening Brief.[98] To the extent CEJA requests that the Commission assume a micromanaging role in how the Companies' operations are run, this is contrary to Commission policy. CEJA's suggestions that Commission policy is whatever CEJA decides it should be must also be rejected.

Regarding SoCalGas's Hydrogen Innovation Experience (H2IE) Project (formerly called the Hydrogen Home Project), CEJA alleges that SoCalGas "abused this flexibility by redirecting GRC funds to projects that go expressly against Commission direction as well as for pet projects for which it never requested authorization and are not directly related to its core function of providing safe and reliable gas service."[99] This allegation is baseless, and this Reply addresses CEJA's arguments in Sections 18.1 (Clean Energy Innovations (SoCalGas) and 25 (Real Estate, Land Services, and Facility Operations).

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[96] SCG/SDG&E OB at 17.

[97] On June 8, 2022, SDG&E and SoCalGas filed their third annual RSAR, which compares TY 2019 GRC authorized funds to cumulative actual recorded costs for all safety, reliability, and/or maintenance activities. On April 28, 2023, SDG&E and SoCalGas filed their fourth annual RSAR. In addition to safety, reliability or maintenance activities, 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 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.

[98] *Id.* at 13; SCG/SDG&E OB at 17-18.

[99] CEJA OB at 13.

Lastly, regarding Administrative and General costs, CEJA argues:

> the Commission should prohibit SoCalGas from using GRC-funded accounts to book any costs related to its voluntary participation in rulemakings and other policymaking processes that do not directly relate to regulation of its operations. Second, in a future GRC, if SoCalGas seeks recovery of the labor costs of any employees that support engagement with CARB, CEC, air quality districts, or other government agencies, the Commission should require SoCalGas to provide detailed information about how each of these employees spend their time.[100]

This Reply Brief addresses CEJA's arguments that are the basis for the above recommendation in Section 34 (Administrative and General). Such a requirement is not supported, vague, overbroad, intrusive, and would be burdensome for the Commission and SoCalGas. For the reasons provided in SoCalGas's and SDG&E's Opening Brief and herein, the Commission should disregard CEJA's arguments regarding reprioritization of authorized GRC funding.

5.3 EDF's Proposal Would Ignore the Evidence Presented in This Proceeding and that SoCalGas and SDG&E have met Their Burden of Proof

In its Opening Brief, instead of arguing against SoCalGas's and SDG&E's proposals in this GRC, EDF proposes the Commission approve a cap on revenue requirement without opposing specific proposals, for the most part. EDF states that it "has not recommended specific cuts to achieve this outcome as: (1) the Commission only authorizes revenue requirement rather than a detailed budget that the Sempra Utilities must adhere to, and (2) the Sempra Utilities must exercise prudent management to determine the best use of ratepayer dollars."[101] EDF's proposal would essentially turn the GRC on its head by ignoring all of the evidence provided by SoCalGas, SDG&E, and all of the intervenors in this case. By doing so, EDF's proposal would be improper because it would ignore whether SoCalGas and SDG&E have met their burden of proof with respect to the many requests.[102] EDF's proposal should not be entertained.[103]

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100 *Id.* at 16.

101 EDF OB at 11.

102 EDF's proposal would function as an extreme version of TURN's already extreme proposal related to presenting a "CPI-constrained" alternative. *See* SCG/SDG&E OB at Section 6.2.2 (SDG&E's GRC Proposals Advance These Critical Goals While Balancing Affordability) and Section 7.2 (SDG&E Affordability and Customer Impacts).

103 EDF also raises arguments regarding gas demand and revenue requirement that are inconsistent with the facts of the TY 2024 GRC proceeding. EDF OB at 96. EDF did not offer specific detail or evidence that could be vetted here. The Commission should reject EDF's undeveloped and unsupported suggestions. *See also, intra* Section 40.1 (Gas Customer Forecasts), Section 45 (Post-test Year Ratemaking), and Section 47 (Affordability Metrics).

6. Policy Overview

6.1 SoCalGas

As explained in the Opening Brief, in this GRC SoCalGas had to strike a balance with its various requests: "[A]s 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."[104] SoCalGas is tasked with presenting requests that maintain affordability while making the investments SoCalGas needs to make to meet the goals discussed in this GRC.

Few parties include any arguments within the Policy section of their opening briefs that are directed to SoCalGas.[105] MGRA raises issues concerning how risk is addressed.[106] Such issues are addressed below in Section 9. Cal Advocates argues that SoCalGas's overall request must be "just and reasonable."[107] As demonstrated by the record for each of the requests in this GRC, the requests in this GRC support that the ultimate rates here are just and reasonable.

EDF argues that SoCalGas's requests do not "reflect the need for affordability," but is instead focused on developing hydrogen as its new line of business.[108] PCF briefly makes the similar argument that SoCalGas proposes "major expenditures in transmission spending and hydrogen spending" and therefore its request must be excessive.[109] EDF specifically discusses the business priorities for SoCalGas in developing this GRC request and argues that affordability was not included in SoCalGas's considerations.[110] However, as discussed in the Opening Brief, the Rebuttal Testimony of Maryam Brown (Ex. SCG-201), and in Ms. Brown's cross-examination testimony, SoCalGas is pursuing its goals all while keeping affordability in mind. Affordability is not absent from the considerations, as EDF argues. In addition, EDF and PCF's argument that rates are too high because SoCalGas is pursuing "major expenditures" on hydrogen is based on a

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[104] SCG/SDG&E OB at 19.

[105] Several arguments raised by intervenors apply equally to SoCalGas and SDG&E, and therefore arguments discussed in the SDG&E section below apply here as well.

[106] MGRA OB at 9-10.

[107] Cal Advocates OB at 35.

[108] EDF OB at 77

[109] PCF OB at 24.

[110] EDF OB at 77.

false premise. As explained elsewhere in this brief, SoCalGas's requests concerning hydrogen are relatively limited, and are mostly initial steps and research, development and demonstration (RD&D) types of proposals. Other than the one proposed hydrogen refueling station and the Hydrogen Innovation Experience (H2IE), the hydrogen-specific requests are generally limited O&M requests which support initial steps toward exploring hydrogen as a method for reducing SoCalGas's scope 1, 2, and 3 emissions – something that directly aligns with state policy. As discussed in the Opening Brief, there is a balance that needs to be struck with affordability, safety and reliability, developing the workforce, meeting customer needs, and supporting sustainability.[111] SoCalGas has made proposals in this GRC that strike that balance.

TURN provides an extensive discussion of affordability in its Opening Brief and argues that SoCalGas does not care about affordability. Many of the points TURN raises with respect to affordability are broad, social problems that cannot be solved in this GRC. For example, TURN includes extensive argument in its Opening Brief discussing racial inequality, racial income disparities on a national level, and energy burden.[112] Lowering SoCalGas's requests in this GRC will not solve these societal issues. TURN goes on to argue that SoCalGas does not meaningfully consider affordability because according to TURN, the SoCalGas president stated that "she or her team did not provide guidance to the rest of the company on how to consider affordability in its GRC application."[113] TURN's summary of Ms. Brown's testimony is incomplete. Ms. Brown's testimony on this issue is as follows:

> Q· · Okay.· Did you or your team provide guidance to the various departments on how to consider affordability in this GRC?
>
> A· · Not affordability specifically because I think that that's something that's very difficult to be able to define because it's going to depend on who the customer is.· But what we did do as an organization is give direction to develop a revenue requirement request that balanced the need of -- 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*.[114]

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[111] SCG/SDG&E OB at 19.

[112] TURN OB at 55-60.

[113] *Id*. at 61.

[114] Tr. V4:807:19-808:10 (Brown) (emphasis added).

As explained in the Opening Brief, there are a number of measures that SoCalGas takes to help keep gas affordable for its customers.[115] Some of these steps were taken during the time when customers were hardest hit early this year with the unprecedented high commodity prices – the time period during the PHC and which TURN has taken several quotes from.[116] The impact to customer bills at the time of the PHC was unfortunate for customers, but the rare occurrence of the high commodity price over a short period (which is essentially a pass through cost for consumers) should not dictate the findings on whether the requests in this GRC result in just and reasonable rates. If anything, proposals to levelize costs, something SoCalGas has proposed in the Cost Allocation Proceeding, should be seriously considered.[117]

6.2 SDG&E

SDG&E had to consider a myriad of sometimes conflicting pressures with its 2024 GRC proposal—including a warming climate, wildfire risks, increasing electrification, an evolving energy supply, and the rising cost of living. Despite these challenges, SDG&E amply demonstrates that its proposals as a whole result in just and reasonable rates—reasonably balancing affordability with investments that promote safety, reliability, resilience, and decarbonization.

Unlike intervenors, SDG&E is not permitted to exclusively focus on single issues (such as affordability or climate change) or the needs of individual stakeholders (such as small businesses or environmental groups). Instead, consistent with Commission precedent, the Commission and SDG&E are tasked with balancing safety, reliability, and affordability. As always, safety takes a primary role.

And SDG&E must take a long-term view—particularly with regards to decarbonization and reaching net-zero by 2045—consistent with state policy and Commission planning.[118] As noted, SDG&E anticipates that the volume of electricity sold will nearly double in the next two

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[115] SCG/SDG&E OB at 19-21.

[116] *Id*. at 20-21.

[117] *Id*. at 20.

[118] Ex. SDG&E-201 (Folkmann) at 1 (*citing* CPUC Staff White Paper, *Utility Costs and Affordability of the Grid of the Future* (May 2021) (White Paper) 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). *See* SCG/SDG&E OB at 29.

decades.[119] Intervenor proposals focusing on short term needs or recent trends increase the risk that SDG&E is unprepared and lacks the flexibility to deal with future challenges and events beyond its control.

Neither the Commission nor SDG&E can thus myopically focus on a singular, short-term data point. Instead, SDG&E seeks "to deploy ratepayer dollars in the most effective manner to reduce risk."[120] As the Commission has observed, investments now in areas like wildfire mitigation, decarbonization, and electrification can offer safety, economic, and environmental benefits for ratepayers now and in future generations.[121] And investing now in electrification helps ensure that customers' whole energy bill decreases even while a larger percentage of a customer's bill goes to electric use.[122]

SDG&E's combined gas and electric proposals in this GRC proceeding meet this myriad of goals—while remaining within the six percent energy burden metrics (percent of income) threshold cited by TURN.[123] The Commission should similarly reasonably balance affordability with just and reasonable investments that support safety, reliability, and decarbonization now and going forward.

6.2.1 The Commission Should Continue Balancing Affordability with Ensuring Just and Reasonable Investments in Safety and Reliability

For all their overwhelming focus on short-term affordability, intervenors ultimately recognize, as Cal Advocates states, that the Commission's standard of review remains the same—the Commission is charged with ensuring just and reasonable rates.[124] Cal Advocates references

119 Tr. V4:902:24-903:4 (Folkmann).

120 *Id.* at 865:9-11.

121 Ex. SDG&E-201 (Folkmann) at 5-6 (*quoting* 2022 Senate Bill 695 Report (May 2022) (2022 Senate Bill 695 Report) at 78) (recognizing an expanding need for increased investments in wildfire mitigation measures, clean energy resources, and electric system reliability enhancements), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2022-sb-695-report.pdf; SDG&E-201 (Folkmann) at 6 (*quoting* Senate Bill 100 CPUC, CEC, and CAISO Joint Agency Report (March 2021) (SB 100 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

122 Tr. V4:903:5-20 (Folkmann).

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

124 Cal Advocates OB at 34 (*quoting* Pub. Util. Code §§ 451, 454); *accord* EDF OB at 38.

the Commission's recent affordability proceeding. But as Cal Advocates quotes, in that proceeding the Commission simply reaffirmed that it must balance "'consider[ing] whether utility rates and charges are affordable,'" with ensuring that '"costs authorized and recovered from ratepayers are just and reasonable, consistent with safe and reliable service.'"[125] Cal Advocates also notes that it "does not oppose many of the projects" that SDG&E proposes.[126]

TURN similarly cites the Commission finding that it should deny a utility's GRC request when the utility cannot "'establish by a preponderance of the evidence that a request is necessary to provide safe and reliable service'" to support affordability.[127] But this, again, is just the inverse of the Commission's longstanding precedent that requests will be approved where a utility establishes by a preponderance of the evidence that the request is necessary to provide safe and reliable service. As the Commission has found, it is the "Commission's duty and obligation under Pub. Util. Code § 451 [] to establish just and reasonable rates to enable . . . SDG&E to provide safe and reliable service for the convenience of the public, ratepayers, and employees."[128]

SDG&E's request here is considerate of, and consistent with, this longstanding balance.[129] SDG&E proposes critical investments in:

- Safety—including undergrounding and system hardening to mitigate wildfire risk and PSPS events;
- Reliability and resiliency—to continue as a reliability leader and address increased electrification, climate change, higher levels of renewable energy sources, and unexpected events; and
- Grid modernization—to meet the new challenge for a utility to decarbonize consistent with State and Commission mandates, support the expected nearly

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125 *Id.* at 35 (*quoting* D.22-08-023 at 8).

126 *Id.*

127 TURN OB at 62 (*quoting* D.19-05-020 at 20).

128 D.13-05-010 at 12; *see id.* at 207 ("SDG&E has a continuing obligation under Pub. Util. Code § 451 to provide safe and reliable service."); *see also* D.19-09-051 at 20 ("The above review and evaluation process results in the revenue requirements that are appropriate for SDG&E . . . to provide safe and reliable service at just and reasonable rates, as required by Pub. Util. Code § 451.").

129 *See* SCG/SDG&E OB at 29-32; Tr. V4:785:4-16 (Folkmann) ("So when we consider the affordability for our customers individually or in the aggregate, it is this balance we are attempting to find, the right balance as we are maintaining safe and reliable service as well as the new challenge that we haven't seen in the utility operating history of decarbonizing.").

doubling of electric load by 2045, and facilitate the consumer economic benefits that the Commission found can be achieved through electrification.[130]

SDG&E's proposals here are thus consistent with the Commission's recent findings of an expanding need for increased investments "'in wildfire mitigation measures, clean energy resources and electric system reliability enhancements,'"[131] given that "'[m]eeting 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.'"[132]

Yet in so doing, SDG&E made affordability "an important part of the decisions we ma[d]e in preparing our rate case application." SDG&E considered affordability in conjunction with SDG&E's "role in the instrumentality of providing safe and reliable service as well as helping to support California legislative and regulatory priorities."[133] This resulted, as noted, in SDG&E's combined gas and electric proposals here being within the six percent energy burden metrics (percent of income) threshold cited by TURN.[134]

6.2.2 SDG&E Prioritized Affordability in Conjunction with Ensuring Needed Investments in Safety, Reliability, and Decarbonization

Intervenors nonetheless argue that SDG&E did not adequately consider immediate affordability considerations. TURN asserts that SDG&E's policy witness, Bruce Folkmann, did not "provide any guidelines or boundaries in terms of percentage or dollar increase to the rest of

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130 Ex. SDG&E-01-R (Folkmann) at 56, 20-23; Ex. SDG&E-201 (Folkmann) at 9-11; Tr. V4:838:2-5; 859:2-10; 860:19-21; 861:16-18 (Folkmann) (path to net-zero is a reasonable representation of the steps necessary for decarbonization and the most cost-effective way to achieve those goals).

131 Ex. SDG&E-201 (Folkmann) at 5-6 (*quoting* 2022 Senate Bill 695 Report 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.

132 *Id.* at 6 (*citing* SB 100 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.

133 Tr. V4:784:16-22 (Folkmann); *see* SCG/SDG&E OB at 32-34.

134 Ex. SDG&E-201 (Folkmann) at 6 (citation omitted). TURN's opening brief focuses on customer impacts in specific climate zones. TURN OB at 52, 54. But when the customer impacts are considered in total, SDG&E satisfies the metrics cited by TURN.

the company regarding how affordability should be considered."[135] EDF and UCAN similarly argue that SDG&E did not plan for affordability.[136]

On the contrary, as Mr. Folkmann testified, "affordability was a top consideration" for SDG&E in preparing its GRC application in conjunction with SDG&E's other goals of safety, reliability, and decarbonization.[137] It is not correct, as TURN suggests, that SDG&E could not describe how affordability was evaluated.[138] Nor is it accurate to state, as EDF alleges, that SDG&E did not have an affordability strategy.[139]

Instead, SDG&E evaluated the affordability of its GRC request in the aggregate.[140] Because there is not a way to define a "boundary" for all the different components that make up a rate case application, such as gas distribution, electric distribution, wildfire mitigation, cybersecurity, and the like, SDG&E considered the proposals' impact on affordability in totality to ensure that the overall application, when taken together, supports that goal.[141] Considering the proposal in totality is consistent, as EDF notes, with the Commission's responsibility to consider the overall reasonableness of SDG&E's request.[142] It also reflects a typical customer's focus on their total bill, not individual spending areas.[143]

As discussed further in sections 31 and 37 below, in response to that consideration of the overall impact of the request, SDG&E voluntarily removed from its GRC request long-term incentive compensation (LTIP) costs for employees not covered by Pub. Util. Code § 706,[144] Sempra executive officer compensation costs, and proposed freezing common and electric plant depreciation levels at their current rates.[145] Although TURN complains that the Commission denied SDG&E the recovery of LTIP and executive compensation costs in SDG&E's 2019

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135 TURN OB at 60 (*citing* Tr. V4:771:22-775:20 (Folkmann)).

136 EDF OB at 42; UCAN OB at 14.

137 Tr. V4:771:20-21; 775:18-20 (Folkmann); *see* SCG/SDG&E OB at 32.

138 TURN OB at 60.

139 EDF OB at 42.

140 Tr. V4:775:15-20 (Folkmann).

141 *Id.* at 776:5-23.

142 EDF at 51 (*citing* Tr. V4:821:11-20 (Folkmann)).

143 Tr. V4:776:17-23 (Folkmann).

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

145 *Id.* at 901:6-8

GRC,[146] that did not preclude SDG&E from seeking recovery of those costs here. Moreover, SDG&E's depreciation proposal results in a $43 million dollar savings compared to Dane Watson's expert analysis (Exhibit SDG&E-36-R) demonstrating the increases necessary for SDG&E to adequately recover its plant in-service under longstanding Commission precedent.[147] And intervenors largely ignore the numerous other proposals SDG&E is pursuing outside of this proceeding to reduce customers' bills.[148]

Intervenors instead focus on the proposed percentage of rate increase on certain customer classes.[149] Yet as Mr. Folkmann testified, what matters to customers is the impact on their bills.[150] Although SDG&E does not control certain aspects of a customer's bill, such as the price of commodities, SDG&E's proposals would be about a $9 increase for an electric customer and $9 increase for a gas customer.[151]

Intervenors' focus on SDG&E's transmission spending under FERC's exclusive jurisdiction,[152] or SDG&E's cost of capital,[153] are irrelevant because they are not in the scope of this proceeding. In particular, as discussed in SCG/SDG&E's Opening Brief, TURN's assertion that SDG&E has over-earned its CPUC-jurisdictional Return on Equity (ROE)[154] is based upon a faulty premise that does not provide a relevant comparison because TURN is including FERC inputs in its calculations.[155] Regardless, as EDF indicates,[156] SDG&E's authorized ROE is not guaranteed.[157] It is only an opportunity to earn that ROE, as the "utility's shareholders bear the risk of imprudent capital investments and imprudent management."[158]

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[146] TURN OB at 61.

[147] Ex. SDG&E-01-R (Folkmann) at 18.

[148] SCG/SDG&E OB at 32-33; Ex. SDG&E-201 (Folkmann) at 3-6.

[149] TURN OB at 43; SBUA OB at 8-9; UCAN OB at 2.

[150] Tr. V4:779:14-22 (Folkmann).

[151] *Id.* at 780:14-17; 782:16-25.

[152] PCF OB at 28-29; TURN-44.

[153] *See* PCF OB at 18-19.

[154] TURN OB at 44.

[155] SCG/SDG&E OB at 36.

[156] *See* EDF OB at 80.

[157] Tr. V:4:904:4-15 (Folkmann).

[158] EDF OB at 80 (citations omitted).

The Commission has long found that its "duty and obligation under Pub. Util. Code § 451" is to allow SDG&E "an opportunity for their shareholders to earn a fair return on the property that [SDG&E] use[s] in providing" utility services.[159] The Commission should not be swayed here to address ROE-related issues that are clearly out of scope of this proceeding. Accordingly, TURN or others' arguments on cost of capital-related matters should be given no weight.

TURN likewise focuses on the proposed revenue requirement increase as compared to the consumer price index or customer wage growth.[160] TURN's myopic focus is misplaced. As Mr. Folkmann demonstrated, a party cannot focus on a single metric to determine if a proposal is "affordable."[161] Instead, as the Commission has found, affordability must be balanced with providing revenue requirement "necessary for the utility to recover the reasonable capital investment costs and annual expenses necessary to operate and maintain its facilities and equipment, in a safe and reliable manner."[162] The affordability framework simply helps the Commission fulfill its statutory mandates of ensuring safe and reliable service.[163] Rather than relying wholly on a single metric, rates must be considered from an overall value proposition, including the benefits from reliability and safety, the quality of service provided, and the opportunities presented by electrification.[164]

For example, as noted, the benefits from wildfire mitigation cannot solely be measured by the costs of the investment. It must also consider the costs avoided from a catastrophic wildfire, and the economic, safety, and reliability benefits from minimizing PSPS events. Likewise, reliability is more important than ever; evidenced by the state's efforts to avoid further summer blackouts.[165]

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159 D.13-05-010 at 12 (*citing* D.04-12-015 at 64 (COL 7)).

160 TURN OB at 48, 60-61. Contrary to TURN's suggestion, wage growth has been outpacing inflation since the second quarter of 2023. *See* New York Times, *Pay Gains are Slowing, Easing Worries on Inflation available at:* https://www.nytimes.com/2023/09/01/business/economy/wage-growth-inflation.html.

161 Tr. V4:902:20-22 (Folkmann).

162 D.20-01-002 at 4.

163 D.22-08-023 at 80 (COL 6).

164 Tr. V4:902:20-903:4 (Folkmann).

165 *See, e.g.*, D.23-06-029 at 22-25 (adopting a higher "effective" capacity planning reserve margin [PRM] for the peak summer months of 2024 and 2025); D.23-02-040 at 6-7 (describing ongoing factors generally contributing to system reliability concerns).

Similarly, the Commission's recent White Paper found economic benefits for customers from the "'high electrification scenario.'"[166] Moreover, as Mr. Folkmann described, electrification "creates a new value proposition for electric service."[167] That is, as electric sales volumes grow, utility bills would also grow to meet that increased demand.[168] Yet because "customers will purchase less supplies of other sources of energy, particularly gasoline in a residential context, the whole energy burden, in real dollar terms, actually goes down."[169] Mr. Folkmann's testimony thus demonstrates that TURN's implied premise that if a request exceeds inflation it is not affordable is a faulty one.[170]

Similarly, PCF's proposal to not increase revenue requirements at all based on affordability,[171] or EDF's proposal for budget-based post-test year ratemaking,[172] are not reasonable positions and inconsistent with the Commission's obligation to consider whether a request is necessary to support safe and reliable service. Such concepts fail to balance and consider the benefits of electrification, as the whole energy burden may be declining simultaneous to an increased need to invest in the electric system.[173] And it would potentially forego necessary safety and reliability investments that have downstream health, safety, and economic benefits and that will benefit ratepayers for generations to come.

6.2.3 The Commission's Ratemaking and Forecasting Methods Already Ensure Just and Reasonable Rates and Should not be Abandoned

Similarly, there is no need for the Commission to adopt TURN's proposal and require a utility to present alternative proposals in testimony that the witness does not support or agree with, such as an "inflation-constrained alternative,"[174] to achieve affordability. As noted, the Commission can already consider affordability in the context of setting just and reasonable rates

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

167 Tr. V4:902:24-903:4 (Folkmann).

168 *Id.* at 903:8-10.

169 *Id.* at 903:11-14.

170 TURN OB at 63.

171 PCF OB at 67.

172 EDF OB at 68.

173 Tr. V4:903:14-20 (Folkmann).

174 TURN OB at 2, 65-66.

consistent with safe and reliable service. In other words, the Commission already has the authority, as TURN identifies, to "weed out spending requests that provide minimal benefit."[175]

Similarly, CUE does not provide adequate justification for altering the Commission's longstanding forecasted test year ratemaking framework.[176] PCF likewise does not justify the Commission abandoning its longstanding ratemaking process to require "evidence of [the Companies'] actual planned expenditures."[177] Nor do intervenors justify prescribing a single forecasting method, such as SBUA's argument for "zero-based forecasting."[178] The Commission has long applied multiple forecasting methods,[179] and intervenors do not justify why this precedent needs to be altered or the Commission's authority to set just and reasonable rates needs to be circumscribed to only considering certain proposals.

Similarly, FEA's complains that, because SDG&E underspent on electric distribution capital expenditures between 2017-2021, the five-year average of that historical period should be used to set the forecast in this area for 2024.[180] CUE cites that same underspend as evidence that SDG&E should be subject to a Safety and Reliability Investment Incentive Mechanism to "hold SDG&E accountable for meeting specified safety and reliability capital investment and workforce targets over the GRC cycle."[181]

But FEA misunderstands (or attempts to alter) the Commission's longstanding *forecasted* ratemaking process, which is based on the best information about expected *future* events combined

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175 *Id.* at 2, 62-63.

176 *See* CUE OB at 6.

177 PCF OB at 64.

178 *See* SBUA OB at 6 (arguing for zero-based budgeting forecasting); PCF OB at 23 (complaining that SDG&E uses multiple forecasting methods).

179 *See* D.00-02-046 at 238 ("The Commission has recognized that there are different valid and acceptable methods for account-by-account forecasting test year costs in a GRC") (*citing* D.89-12-057 at 22).

180 FEA OB at 3 (arguing that a five-year historical average of SDG&E's electric distribution capital expenditures should be used to set the 2024 capital expenditures).

181 CUE OB at iv; *see* SCG/SDG&E OB at 371 ("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.").

with historical trends.[182] The Commission does not generally authorize rates based upon actual historical costs.

Similarly, as discussed in Section 33 below, Cal Advocates is incorrect to propose a headcount based upon four-year ICP Headcount information.[183] SDG&E's headcount forecasted growth rates for 2022-2024 average to 4% growth per year—consistent with SDG&E's headcount growth rate when averaging the 2018-2021 headcount[184] and with the Commission's forecast ratemaking process. SDG&E's forecasted headcount represents the resources needed to support SDG&E's anticipated projects and programs this GRC cycle, as well as support safety, reliability, and meeting regulatory requirements.[185]

Nor does the Commission penalize a utility when it spent less money in an area than forecasted, as CUE suggests. Instead, the "Commission has always acknowledged that utilities may need to reprioritize spending between GRCs."[186] Far from allocated categories of spending being a "slush fund," as FEA alleges,[187] the Commission recognizes that a modern utility needs to more often change course 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."[188] The need to repurpose funding from one area to another is precisely applicable to the electric distribution capital authorization cited by FEA and CUE, as SDG&E needed to quickly reprioritize electric distribution capital spending towards wildfire mitigation after 2019.[189]

And to the extent that CUE or others want to "hold SDG&E accountable" for repurposing authorized funds,[190] variances between funding authorized in GRCs and actual spending is identified and explained in SDG&E's annual Risk Spending Accountability Report (RSAR), where

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

183 Cal Advocates OB at 254-256.

184 Ex. SDG&E-232 (Taylor) at 5-9; SCG/SDG&E OB at 37.

185 SCG/SDG&E OB at 37; Ex. SDG&E-201 (Folkmann) at 11-12.

186 D.20-01-002 at 38; *accord,* SCG/SDG&E OB at 33, 36.

187 FEA OB at 3.

188 D.20-01-002 at 35.

189 *See* Ex. SDG&E-201 (Folkmann) at 8.

190 CUE OB at *iv*.

the Commission and parties can review.[191] In fact, the Commission found that one benefit to moving to a four-year GRC cycle was that the Commission could "become more involved in monitoring how utilities reprioritize authorized GRC funding."[192] As the Commission continued, implementing a "four-year cycle and its attendant widening of 'forecast error' means that the Commission, the utilities and stakeholders will be able to spend less time in a GRC trying to achieve precision in forecasts, and instead dedicate more time and effort between GRCs to monitoring how each utility spends its authorized revenue requirements."[193]

FEA is thus incorrect to state that SDG&E's actual spending cannot be compared to requested spending categories.[194] It does not make sense under the Commission's ratemaking model to attempt to punish SDG&E, or impose additional spending constraints, when the Commission recognizes that funding will sometimes need to be prioritized—and methods exist to review that re-prioritization.

6.2.4 SDG&E's Application Supports the Clean Energy Transition in the Context of A Four-Year GRC Cycle

Other intervenors inaccurately complain that SDG&E is not sufficiently accounting for decarbonization. For example, EDF asserts that SDG&E's gas proposals are inconsistent with declining demand.[195] But as EDF cites, Mr. Folkmann testified that gas demand has been declining for some time as appliances have become more efficient.[196] EDF likewise states that gas use has been declining for decades.[197] Yet as Mr. Folkmann added, the more pertinent fact to SDG&E's GRC gas request is customer growth,[198] which has not declined.[199] SDG&E has an obligation to serve customers who want gas service, and its forecast is reasonable for 2024-2028.[200]

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191 SCG/SDG&E OB at 35; SDG&E-201 (Folkmann) at 8.

192 D.20-01-002 at 36.

193 *Id.*

194 FEA OB at 3.

195 EDF OB at 5.

196 *Id.* at 16 (*quoting* Tr. Vol.4 825:3-6 (Folkmann)).

197 EDF OB at 8.

198 Tr. V4:824:19-22 (Folkmann).

199 Ex. SDG&E-201 (Folkmann) at 10; *See* SDG&E-OB at 30-31.

200 Ex. SDG&E-201 (Folkmann) at 10.

EDF likewise misrepresents SDG&E's Path to Net Zero as being based solely upon renewable natural gas and hydrogen uptake.[201] Instead, as noted, SDG&E's Path to Net Zero is based upon a nearly doubling of electricity use by 2045.[202] SDG&E believes that its Path to Net Zero represents a reasonable representation of the steps needed to decarbonize by 2045.[203]

UCAN and PCF similarly allege that SDG&E is anti-DERs, or that decarbonization can effectively be accomplished with customer DERs alone.[204] One of nearly every six SDG&E customers already has a DER (about 240,000 installations), around the highest in the United States.[205] SDG&E's Path to Net Zero is premised upon a significant further increase in customer DERs, with SDG&E expecting about a five percent annual growth in DERs between now and 2045.[206]

Yet a DER-only approach cannot realistically support decarbonization's expected doubling of electricity demand, which is why ongoing investments in SDG&E's system are also needed.[207] PCF itself cites CARB's finding that electricity demand will increase by 76% by 2045.[208] The Commission, CEC, and CAISO have likewise 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.'"[209]

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201 EDF OB at 9.

202 Tr. V4:902:24-903:4 (Folkmann).

203 *Id.* at 859:2-10.

204 *See* PCF OB at 28-29; UCAN OB at 2 and 6. Contrary to PCF's contention, SDG&E self-evidently refuted PCF's testimony *See, e.g.*, Ex. SDG&E-201 (Folkmann) at 10-11. *See generally* D.23-08-028 at 8 (rejecting PCF's claim that its testimony was unrefuted). Nor is the Commission under any obligation to adopt PCF's testimony even if it were unrefuted. *Id.* (rejecting PCF's contention that the Commission had to accept PCF's purportedly unrefuted testimony because the "Commission has discretion to weigh conflicting evidence provided by the parties.").

205 Tr. V4:905:12-17 (Folkmann).

206 *Id.* at 905:18-24.

207 *Id.* at 906:2-4.

208 PCF OB at 29 (citation omitted). There is no evidence, as UCAN alleges, that customer demand for electricity will decrease with electrification. UCAN OB at 21-22.

209 Ex. SDG&E-201 (Folkmann) at 11 (*citing* SB 100 Joint Agency Report at 18), *available at:* https://www.energy.ca.gov/publications/2021/2021-sb-100-joint-agency-report-achieving-100-percent-clean-electricity.

PCF assumes that the state can have its cake and eat it too by suggesting that enough customers will bear the costs themselves to provide sufficient DERs to power the entire electric grid.[210] But the Commission cannot simply hope that enough parking lot and warehouse owners decide to fund large solar installations to benefit the entire service territory, as PCF envisions.[211] Such heavy reliance on DERs also assumes that all ratepayers have the means to invest and maintain such systems when, as the Commission has recently observed, DERs are more likely to be adopted by moderate-to-higher income customers.[212] PCF's argument that certain solar providers may offer installation without any up-front costs does not change the fact that customers must still purchase the product.[213]

Nor is there an explanation for how DERs could support the entire grid, including meeting industrial, commercial, and multi-unit residential needs.[214] Solar energy does not cover energy needs at night or days when the sun does not shine. Although PCF cites Mr. Folkmann's testimony regarding how batteries are charged,[215] the issue is not whether they can be continuously charged—it is whether customer batteries can hold enough electricity for long enough to power the entire grid when solar power is not available.

In sum, customer DERs are an important component of decarbonization that SDG&E supports. But as the Commission found, a DER-only strategy is not realistic. Instead, SDG&E's GRC application supports decarbonization in way that also prioritizes safety, reliability, and affordability.

6.2.5 Conclusion

SDG&E's GRC request reasonably balances just and reasonable investments in safety, reliability, and decarbonization with affordability and should be approved.

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210 PCF OB at 57-60.

211 *Id.* at 21-23.

212 2022 Senate Bill 695 Report at 16, *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2022-sb-695-report.pdf.

213 PCF OB at 39.

214 Ex. SDG&E-201 (Folkmann) at 11.

215 PCF OB at 38 (*citing* Tr. V4:853:21-25 (Folkmann)).

7. Affordability and Customer Impacts/Alternatives

Several parties addressed the affordability and customer impacts of the Companies' GRC requests in their opening briefs.[216] Some parties, such as TURN, CEJA, EDF, IS, SBUA, and UCAN[217] mainly expressed concerns with the overall affordability of the Companies' requests.[218] The merits of these concerns are addressed extensively in the Opening Brief and Section 6 above, where the Companies identify both legislative statutes and the Commission's standard of review that require the consideration and balance of safety, reliability, and affordability when developing GRC requests. In addition, Section 6 clearly demonstrates that the Companies actively considered affordability in this Application and removed costs, where possible, to lower their revenue requirements for this GRC cycle.

Fewer parties, namely TURN, UCAN, EDF, and SBUA, addressed the actual affordability metrics calculated and presented by SoCalGas and SDG&E in testimony.[219] These parties either ignore the Commission's and ALJ's requirements for the presentment of affordability metrics in Applications, and in this GRC specifically, or misinterpret the metrics themselves in an attempt to justify the party's own policy arguments. Intervenor's metrics-focused arguments are addressed by the Companies in Section 47 below. The Companies' affordability metrics are calculated correctly and their presentation in this GRC clearly comply with all directives currently required by the Commission.

In terms of alternatives proposed by parties, the companies have addressed these proposals in Section 6 above. It should be noted that few, if any, of the parties proposed alternatives focus on the current GRC application itself and instead require wholesale readjustments to the Rate Case Plan or other longstanding ratemaking concepts. These alternative proposals, and specifically, TURN's Income Constrained Alternative proposal are not only unjustified but would have widespread implications that are better addressed in a rulemaking or other Commission proceeding. Indeed, the OIR to Establish a Framework and Process for Assessing the Affordability of Utility Service (Affordability Proceeding or R.18-07-006) is a more appropriate

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216 CEJA, Cal Advocates, EDF, IS, MGRA, PCF, SBUA, TURN, and UCAN.

217 UCAN also argues that SDG&E has failed to comply with Pub. Util. Code § 913.1. UCAN OB at 47. The statute is a requirement on the Commission.

218 TURN OB at 42; CEJA OB at 17; EDF OB at 78; IS OB at 2; SBUA OB at 8; UCAN OB at 34.

219 TURN OB at 52; UCAN OB at 37; EDF OB at 49; SBUA OB at 2, 18-20.

venue for discussion of such a significant change to utility ratemaking. A 2023 Electric and Gas Rates En Banc is set to be scheduled before the end of 2023 and this would be an appropriate topic to address the larger group there.[220] The Companies submit that these are not the type of alternatives that can be readily addressed in an active GRC application.

The Affordability Proceeding is also the more appropriate venue to address TURN's arguments on the potential issue of the racial disparity of rate impact.[221] In fact, not only is this an appropriate topic for the En Banc mentioned above, but the May 2023 scoping memo includes "impacts on environmental and social justice communities" as one of the three issues to be considered in Phase 3 of the Affordability Proceeding.[222] Accordingly, the Companies submit that, although important issues to be considered, this is not the appropriate venue.

Additionally, the Commission should recognize that it is addressing widespread affordability issues in the OIR to Advance Demand Flexibility through Electric Rates. A proposed decision in Track A of that proceeding, related to income-graduated fixed charges for electric bills, is expected in March or April of 2024.[223] Based on a recent ruling providing guidance on parties' opening briefs, SDG&E is hopeful that a proposed decision will provide electric bill relief for its low-income customers on its low-income CARE and FERA programs.[224] SDG&E's proposals also include a pathway for future bill relief for moderate income customers.[225] Notably, implementation of an income-graduated fixed charge, will provide necessary low-income bill relief without impacting GRC revenue requests necessary to address the Companies' reliability and safety obligations.

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220 R.18-07-006, *Assigned Commissioner's Sixth Amended Scoping Memo and Ruling* at 8 (May 19, 2023).

221 TURN OB at 55-60.

222 R.18-07-006, *Assigned Commissioner's Sixth Amended Scoping Memo and Ruling* at 8 (May 19, 2023) at 7.

223 *R.22-07-005, Administrative Law Judge's Ruling Addressing the Track A Procedural Schedule, Opening Briefs Guidance, and Exhibits* (August 22, 2023) at 3.

224 *Id*. at 4 ("Parties should focus their briefs on issues necessary to authorize the first version of [income graduated fixed charges], which will reduce volumetric rates and rely on existing income verification processes used by the Commission for the California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance Program (FERA) programs.")

225 *See*, *e.g.*, R.22-07-005, *Opening Comments of the Joint IOUs in Response to Administrative Law Judge's Ruling on Implementation Pathway for Income-Graduated Fixed Charges* (July 31, 2023).

8. Climate Change/Sustainability Policy

In SoCalGas' and SDG&E's Opening Brief, Section 8, the utilities explained their sustainability practices, California's climate change goals, and that investments proposed in this proceeding seek to advance California's energy transition as well as provide safe, reliable and resilient service to their customers.[226] State utilities play an essential role in the collective effort to address climate change challenges and to achieve California's carbon neutrality goals. SoCalGas and SDG&E's sustainability efforts aim to achieve net-zero GHG emissions in its operations and delivery of energy for Scopes 1-3 by 2045, which is in alignment with Executive Order B-55-18.[227] Specific information about proposed investments, including anticipated costs, were presented in other sections of the Opening Brief.

Many intervenors did not address Climate Change/Sustainability Policy in their Opening Briefs.[228] Cal Advocates stated in its Section 8 that it "addresses these issues in section 18 of this brief."[229] SoCalGas and SDG&E respond to Cal Advocates' project-specific challenges in Section 18 herein. CEJA similarly did not respond to SoCalGas' and SDG&E's sustainability practices, but stated that it addresses alleged "inconsistencies of proposed expenses with State climate policy in the sections of testimony where specific costs are requested."[230] SoCalGas and SDG&E respond to CEJA's claims in the corresponding sections herein.

Air Products argues against SoCalGas's and, to a lesser extent, SDG&E's hydrogen-related investments under numerous Sections of the Common Briefing Outline, including Section 8, but its concerns that such projects might compete with its own sales of hydrogen are not a challenge to the Utilities' sustainability practices.[231] SoCalGas and SDG&E respond to Air Products' challenges to hydrogen projects in Sections 3.1 and 8.4.

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226 SCG/SDG&E OB at 45-52, 56-60.

227 Office of the Governor of California, Executive Order B-55-18, *available at*: https://www.ca.gov/archive/gov39/wp-content/uploads/2018/09/9.10.18-Executive-Order.pdf.

228 *See* Clean Energy OB; Community Legal Services OB; CCUE OB; Federal Executive Agencies OB; Indicated Shippers OB; Mussey Grade Road Alliance OB; Small Business Utility Advocates OB; TURN OB at 69; TURN-SCGC Joint OB at 2; Utility Workers Union of America, Local Union 132 OB; San Diego Community Power and Clean Energy Alliance OB.

229 Cal Advocates OB at 36.

230 CEJA OB at 18.

231 Air Products OB at 26-29.

EDF, PCF and UCAN challenge SoCalGas' and/or SDG&E's sustainability practices, either in Section 8 of their Opening Briefs or by reference therein to other Sections of their Opening Briefs. SoCalGas and SDG&E respond to policy-level challenges below and, where intervenors also assert challenges to specific projects, in other relevant Sections herein. SDG&E also responds in Section 8.3.6 to UCAN's unsupported attacks on SDG&E's sustainability policy witness, Estela de Llanos, found in UCAN's Section 6.[232]

8.1 EDF's Attack on SoCalGas' and SDG&E's Sustainability Practices is Unfounded

EDF asserts that the "Sempra Utilities have failed to ensure environmental integrity and cost-effectiveness of their "sustainability" efforts," referring to its arguments in Section 1.2 of its Opening Brief.[233] In Section 1.2, EDF argues against SoCalGas' and SDG&E's hydrogen-related projects.[234] Among those arguments, EDF contends that SoCalGas' and SDG&E's "sustainability efforts must be environmentally and economically sound compared with their alternatives."[235]

SoCalGas and SDG&E agree with that concept, but disagree with how EDF applies it to the utilities' proposed hydrogen projects. As discussed in SoCalGas' testimony, SDG&E's testimony, the Utilities' Opening Brief, and Section 3.1, federal and state agencies, including this Commission, agree that clean hydrogen has potential to advance decarbonization.[236] Both federal and state programs support hydrogen projects aimed at developing that potential.[237] For example, Governor Newson's August 2023 letter to the Office of Business and Economic Development[238] recommends development of a Hydrogen Market Development Strategy to help build a clean, renewable hydrogen market in California. SoCalGas and SDG&E's hydrogen-related requests are aligned with state policy.

232 UCAN OB at 23-32.

233 EDF OB at 78.

234 EDF OB at 24-36.

235 EDF OB at 24.

236 Ex. SCG-202-E (Niehaus/Arazi) at 8-11, 17; Ex. SCG-212 (Infanzon) at 6-10; Ex. SDG&E-202 (de Llanos) at 11-15; Ex. SDG&E-215 (Valero) at 15-17; SCG/SDG&E OB at 24-25, 46-49, 53-55, 62, 290-291.

237 Ex. SCG-212 (Infanzon) at 6-10; Ex. SDG&E-202 (de Llanos) at 13-15; Ex. SDG&E-215 (Valero) at 16-17.

238 SCG/SDG&E OB at 245 and FN 1440.

The hydrogen projects proposed by SoCalGas and SDG&E in this proceeding are small-scale pilot projects, which will provide ratepayer benefits and allow the utilities to learn about hydrogen to understand its potential for the clean energy transition.[239] As SDG&E witness Fernando Valero testified:

> While SDG&E does not endeavor to undertake the technical, operational, and cost risks that LADWP is facing by directly proceeding to mass scale deployment, SDG&E also cannot sit on the sidelines for the next ten to twenty plus years and then suddenly expect our employees, vendors, contractors, supply chains, and assets to be experienced and ready to meet the 2035, 2040 and 2045 deadlines of SB 100 and SB 1020, while also meeting our requirement to serve safe, reliable, affordable energy.[240]

Similarly, SCG witness Armando Infanzon testified that:

> The Business Development function assists in developing and scaling up clean energy solutions that benefit current and potential future ratepayers by advancing toward a net zero-emissions future in a cost-effective and resilient manner. . . . [advancing] development and deployment of cost-effective and environmentally sustainable clean energy solutions to serve SoCalGas's customers. . . . For example, hydrogen has the potential to decarbonize important transportation sectors such as heavy-duty trucks displacing millions of gallons of diesel, reducing CO2 emissions to combat climate change and improving air quality in the communities of our ratepayers.[241]

In short, consistent with federal and state policy, SoCalGas and SDG&E propose hydrogen projects that both provide benefits to ratepayers now and also develop expertise to understand hydrogen's potential contribution to the clean energy transition.

EDF ignores hydrogen's potential for the future and demands that each hydrogen project be compared to the cost of currently available alternatives.[242] As SDG&E testified, "the costs of solar, batteries, and other clean energy technologies has fallen over time, and there is no reason to anticipate hydrogen will not follow this trend."[243] And learnings about hydrogen technology have immediate value.[244] EDF also raises concerns about environmental impact, noting that SDG&E's

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239 Ex. SDG&E-215 (Valero) at 17-18, 75-77, 82-88; Ex. SCG-202-E (Niehaus/Arazi) at 8; Ex. SCG-212 (Infanzon) at 44; SCG OB at 264, 275, and 277.

240 Ex. SDG&E-215 (Valero) at 18 (footnote omitted).

241 SCG-212 (Infanzon) at 15-16.

242 EDF OB at 27-30.

243 Ex. SDG&E-215 (Valero) at 19.

244 *E.g.*, Ex. SDG&E-215 (Valero) at 83-85.

proposed Palomar electrolyzer would not be fully powered by a proposed on-site solar array.[245] SDG&E explained the benefits of learning about production and use of hydrogen on a small scale at the Palomar Energy Center,[246] as well as addressing environmental concerns about using grid energy to partially power the electrolyzer in this pilot project.[247] SoCalGas also noted in response to concerns raised by PCH about hydrogen leakage and climate impacts, that such a position "is not consistent with state and government policy that approves of and directs the use of hydrogen by state entities (including the CPUC) to combat regional air pollution and climate change."[248]

In sum, SoCalGas and SDG&E believe that, as prudent managers, their hydrogen-related projects are environmentally and economically sound given hydrogen's potential to advance the clean energy transition. SoCalGas and SDG&E respond to challenges to specific hydrogen projects in the relevant Sections below, and to EDF's other concerns in Section 3.1.

8.2 PCF's Attack on SoCalGas' and SDG&E's Sustainability Practices is Without Merit

PCF inaccurately, and without citation to any evidence, asserts that "the Utilities admit they failed to consider the need to reduce greenhouse gas emissions any earlier than 2045."[249] To the contrary, both SoCalGas and SDG&E testified to: (a) California laws and regulations requiring earlier reductions and (b) their sustainability policies that seek earlier GHG emission reductions, both in utility operations and by facilitating customers' decarbonization.[250]

Apparently, to support this assertion, PCF claims the "Utilities were generally unfamiliar with the directive in Executive Order B-55-18 that California should 'achieve net zero greenhouse gas emissions as soon as possible.'"[251] This is untrue (and PCF's reference to that Executive Order is outdated). Both SDG&E and SoCalGas testified that the California Climate Crisis Act (2022

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245 EDF OB at 26-27.

246 Ex. SDG&E-215 (Valero) at 80-88.

247 Ex. SDG&E-215 (Valero) at 70-73, 86-89.

248 Ex. SCH-212 (Infanzon) at 25.

249 PCF OB at 40.

250 *See, e.g.*, Ex. SCG-02 (Peress/Sim) at 3-4, 10-24; Ex. SCG-202 (Niehaus/Arazi) at 3, 15-17; Ex. SDG&E-02-E (de Llanos) at 4, 8, 10-12; Ex. SDG&E-202 (de Llanos) at 3-4, 7-8, 10, and Appendix B, Attachment A at ED-B-11, 19, 20, 36, 42-50 (detailing Sustainability Strategy), Attachment B at ED-B-60-61, 65-66, 68-70, 72-76 (2021 Sustainability Update), Attachment C at ED-B-98, 104-06, 109-12 (2022 Sustainability Update).

251 PCF OB at 40.

California AB 1279), which "enacted into law Executive Order (EO) B-55-18 (2018)," "established that it is state policy to '[a]chieve net zero greenhouse gas emissions as soon as possible, but no later than 2045.'"[252] When cross-examined by PCF's counsel, who did not provide either witness a copy of the outdated Executive Order, SoCalGas's witness could not recall its "exact language"[253] while SDG&E's witness affirmed the "as soon as possible" language and informed PCF of its codification in AB 1279.[254] The SoCalGas witness's care to not misquote a document not in front of her is not evidence of "unfamiliarity," much less that SoCalGas is unaware of a law that it testified influenced its sustainability policy.[255]

PCF also wrongly asserts that "the Utilities would have this Commission believe that it must choose between affordability for customers on the one hand, and safe and reliable service and the expense of decarbonizing on the other hand."[256] To the contrary, SDG&E's witness testified that SDG&E tries to find the right "balance" among affordability, safe and reliable service, and decarbonization.[257] SoCalGas also clearly includes access to clean energy and supporting energy affordability as part of its five sustainability focus areas.[258] SoCalGas further testified that it "supports the CPUC's directive to provide 'just and reasonable rates' and its efforts to safeguard the environment, while assuring Californians' access to safe and reliable utility infrastructure and services."[259] Counter to PCF's allegations, the Utilities understand the importance of finding the right balance. PCF then suggests that affordability is irrelevant, complaining that SDG&E has not "attempted to determine the most greenhouse gas emission reductions that SDG&E can achieve,"

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252 Ex. SDG&E-202 (de Llanos) at 6, fn.17 (providing link to Executive Order B-55-18); Ex. SCG-202-E (Niehaus/Arazi) at 3, 15-16, fn.64 (providing link to Executive Order B-55-18).

253 Tr. V5:932:11–933:3 (Niehaus).

254 Tr. V6:1116:17-24 (de Llanos).

255 Equally without evidentiary value, PCF notes that a SoCalGas witness did not believe she had read a particular section of the Sixth Assessment Report of the Intergovernmental Panel on Climate Change cited in PCF's Opening Testimony. (Tr. V5:939:4-940:15 (Arazi).) PCF asked nothing of substance.

256 PCF OB at 40 (emphasis added).

257 Tr. V4:785:4-786:10 (Folkmann) ("So when we consider the affordability for our customers individually or in the aggregate, it is this balance we are attempting to find, the right balance as we are maintaining safe and reliable service as well as the new challenge that we haven't seen in the utility operating history of decarbonizing.").

258 Ex. SCG-02-R, Ch.2 (Sim) at 3, 16-20.

259 *Id*. at 16.

regardless of cost.[260] As SDG&E's witness pointed out: "If we were to presume that cost was not a constraint, I think there's an infinite number of possibilities on what we could accomplish. We haven't pursued such studies at length because cost is a constraint, and so we're speaking of a more affordable approach to meet the objectives established."[261]

PCF's attack on SoCalGas' and SDG&E's sustainability practices is without merit.

8.3 UCAN's Claim that SDG&E's Sustainability Policy "Fails to Enable" CSOM DERs Is Without Merit

In numerous Sections of its Opening Brief, UCAN contends that SDG&E has failed to "enable customer side of the meter (CSOM) distributed energy resources ('DERs')."[262] However, UCAN presents no evidence of what SDG&E has "failed" to do. Further, UCAN fails to demonstrate that reliance on CSOM DERs can replace any of SDG&E's proposed investments, and thus fails to support any of its recommended cuts to SDG&E's proposed investments.

In this Section 8, SDG&E responds to UCAN's assertions in its corresponding Section 8 as well as UCAN's attacks on SDG&E's sustainability witness in UCAN's Section 6. SDG&E responds to UCAN's challenges to specific projects in other Sections herein, particularly Sections 18 and 20.

SDG&E further notes that, contrary to Commission Rule of Practice and Procedure 13.12, UCAN's Opening Brief also often fails to properly cite to the evidentiary record (citing either nothing or not to marked exhibits), and cites non-record sources.[263] Purported factual statements not supported by proper citation to evidence in the record should be disregarded.[264] UCAN's conclusions and speculation not supported by any evidence must be disregarded.

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260 PCF OB at 40.

261 Tr. V4:861:13-18 (Folkmann).

262 UCAN OB at 55.

263 For example, UCAN cites to a document about an "SCECalFUSE pilot" that was marked as Ex. UCAN-12 for cross-examination, but not admitted as no SDG&E witness was knowledgeable about the Southern California Edison document or pilot. (UCAN OB at 133, fn.409; Tr. V22:3889:15-3890:19 (ALJ Lakhanpal) ("deny admittance of this exhibit into the proceeding")*; see also*, UCAN OB at 1 fn.1, 2 fn.3, and 3 n.8 (links to news articles and sponsored Internet content). SDG&E has not attempted to catalogue every non-record citation as they are throughout the UCAN OB.

264 CPUC, Rule of Practice and Procedure, Rule 13.12 ("Factual statements must be supported by identified evidence of record. Citations to the transcript must indicate the transcript page number(s) and identify the party and witness sponsoring the cited testimony. Citations to exhibits must indicate the exhibit number and exhibit page number.") (emphasis added).

8.3.1 UCAN and SDG&E Agree That We Must Respond to Climate Change and DERs Will Play a Role

As an initial matter, SDG&E agrees with UCAN that "climate change [is] a growing threat in the West."[265] SDG&E recognizes the climate crisis, the need to respond, and California's climate goals in its testimony and Opening Brief.[266] SDG&E and UCAN agree that we need to begin to "address climate change as soon as possible."[267]

SDG&E and UCAN also agree that DERs, including CSOM DERs, will play an important role in the clean energy transition, as set forth in SDG&E's Sustainability Strategy.[268] In fact, among other things, SDG&E has supported rooftop solar in San Diego, including helping lower-income homeowners install systems, initiated a Virtual Power Plant (VPP) pilot project to test how to "best coordinate the dispatch of customer resources enrolled in the VPP to help balance the supply and demand," and launched a vehicle to grid (V2G) pilot project.[269] UCAN admits: "As of April 2022, SDG&E had over 240,000 DER installations throughout its system, with over 2,000 megawatts (MW) in aggregated nameplate capacity."[270]

As SDG&E testified: "SDG&E supports customer based DERs and customer choice."[271] SDG&E and UCAN disagree, however, that (a) CSOM DERs negate the need for SDG&E's proposed investments and (b) UCAN's proposed budget cuts would help, rather than hurt, the role of CSOM DERs in the clean energy transition.

8.3.2 UCAN Opposes SDG&E's Sustainability Efforts Without Presenting Any Evidence that CSOM DERs Are or Will Be Available to Replace Them

Despite agreement to address climate change, UCAN opposes SDG&E's proposed investments that would actually mitigate GHG emissions, provide more resilient electric service,

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265 UCAN OB at 56.

266 *See, e.g.,* Ex. SDG&E-02-E (de Llanos) at 1, 3-4; Ex. SDG&E-202 (de Llanos) at 6-10; Tr. V6:1117:11-17; SCG/SDG&E OB at 56-59.

267 UCAN OB at 63.

268 Ex. SDG&E-202 (de Llanos) at 17-18 and Attachment A at ED-B-47 (Sustainability Strategy).

269 Ex. SDG&E-202 (de Llanos) at 18 and Attachment C at ED-B-101, 106, 111 (2022 Sustainability Update); *see also* Ex. SDG&E-01-R (Folkmann) at 22 (describing SDG&E's projects to integrate DERs into the system).

270 UCAN OB at 18; Ex. SDG&E-12-R-E (Swetek), Appendix C (Grid Modernization Plan at 1).

271 Ex. SDG&E-201 (Folkmann) at 10.

and strengthen the electric grid's ability to support decarbonization because UCAN is suspicious of alleged utility "hegemony."[272] Thus, UCAN opposes SDG&E's investments in energy storage and microgrids (cutting over $100 million from Clean Energy Innovations capital and O&M budgets), and would cut SDG&E's electric distribution capital budget by $425.18 million, grid modernization budget by $88.85 million, and more.[273] UCAN recommends such cuts despite admitting that the "situation now … is that CSOM DERs are <u>not</u> fully used or supported, are <u>not</u> networked, and are <u>not</u> 'smart-grid-integrated,' so <u>cannot be optimized</u>, to provide systematic, flexible load shifting for maximum value."[274]

UCAN recommends these cuts because it contends SDG&E should "prepare for the inevitable high DER scenario."[275] UCAN's argument has two fatal flaws. First, because SDG&E's Grid Modernization Plan (GMP) and other investments will <u>increase</u> SDG&E's ability to incorporate and utilize CSOM DERs, UCAN's proposed budget cuts in fact will undermine CSOM DERs' role in responding to climate change.[276] Second, as UCAN admits, the availability of CSOM DERs to support grid reliability and resiliency is dependent upon customers' choices about funding and installing such DERs, whether to include storage,[277] whether to make such

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[272] UCAN OB at 14, 42-45, 86, 95, 98, 135, *passim*.

[273] UCAN OB at 6, 102-04, 123.

[274] UCAN OB at 61 (emphasis added).

[275] UCAN OB at 29. UCAN thus concedes that the high DER scenario is not yet here. *See also, e.g.*, UCAN OB at 2 ("SDG&E's ability to prepare for the widespread dispersion of customer side of the meter distributed energy resources"), 31 ("failure to prepare to integrate CSOM DERs"), 35 ("prepare for the high DER futures that are inevitable"), 173 ("SDG&E fails to prepare for the high DER scenario which will bring forward millions of CSOM DERs").

[276] Ex. SDG&E-212 (Swetek) at 3 ("Because these [GMP] projects will allow SDG&E to integrate the large numbers of DERs projected to be connected to the distribution system (either directly or on the customer side of the meter), SDG&E's position is that the recommendations by UCAN to reduce or eliminate the O&M and capital budgets associated with those projects should be rejected."), 39-45 (discussing GMP projects impacts on DERs in detail).

[277] Without storage, CSOM DERs only reduce customer demand while the CSOM DER is generating electricity. CSOM DERs' demand reduction is already taken into account in grid planning. *See, e.g.*, R.22-11-013 at 4 fn.5 ("residential photovoltaics … and other DERs are included in the IRP via the demand forecast process"); Ex. SDG&E-202, Appendix B, Attachment D at ED-B-146 (Path to Net Zero, Technical Appendix [modeling assumptions from E3 report include "behind-the-meter solar growth"]). The extent to which customers will install storage is uncertain. As noted in SDG&E testimony, of the additional 8.1 MW of approved customer Net Energy Metering (NEM) applications for Borrego Springs, "only an additional 150 kW of storage has been requested and approved." Ex. SDG&E-215 (Valero) at 14 fn.45.

stored energy available to the grid rather than for the customers' own use,[278] and acting in coordination with sufficient other CSOM DERs to make a difference, as well as where available CSOM DERs are located.[279] UCAN presents no evidence that CSOM DERs now or ever will negate the need for SDG&E's proposed investments, much less address what will happen to SDG&E's customers (including those with CSOM DERs) if such investments are <u>not</u> made.

Indeed, UCAN never coherently explains what SDG&E allegedly has failed to do to "encourage" or "prepare" for CSOM DERs, much less how CSOM DERs would replace SDG&E's proposed grid investments. When asked to explain how "reducing SDG&E's electric and gas distribution capital requests by 30% will 'enable' CSOM DER," as stated in Ex. UCAN-01-E at 2, UCAN's witness responded only "my statement quoted above was a conclusion in summary of my 300+ pages of testimony in support, I will not replicate those pages here but refer to the document in chief."[280] UCAN was similarly obtuse when asked whether SDG&E has an obligation to serve customers who do not have CSOM DERs ("SDG&E does not have an obligation to serve where the costs will be unjust and unreasonable"[281]), the amount, cost and funding of CSOM battery storage that UCAN contends would be available if SDG&E "encouraged" its customers to adopt battery storage (only non-responsive evasions[282]), and the CSOM DERs that UCAN contends will be available in SDG&E's service territory by end of 2027 ("SDG&E continues to exercise hegemon and monopoly control over electrical energy in its service territory, while responding the AJW effect (referred to in my testimony), SDG&E seems likely to attempt to severely diminish the use of CSOM DERs"[283]). In short, UCAN's witness complained about SDG&E's "failures," but provided no evidence that CSOM DERs would replace

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278 *See* D.22-12-056 at 69, 211 (Findings of Fact 41-43) (even for solar paired with storage, no "convincing evidence that the examples of resiliency benefits offered are more than individual benefits").

279 UCAN OB at 60.

280 Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 9, UCAN Response to Question 7a).

281 Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 3, UCAN Response to Question 1).

282 Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 4-5, UCAN Response to Question 4b-e).

283 Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 5-6, UCAN Response to Question 5a-c).

SDG&E's investments (particularly when SDG&E's proposed investments will enhance CSOM DERs).[284]

UCAN wrongly asserts that SDG&E "implies that utility-scale (USOM) renewables are <u>all that is required</u>" to meet California's climate goals.[285] UCAN cites no evidence that this is SDG&E's "position" and the allegation is absurd. As noted above, SDG&E has over 240,000 DER installations throughout its system,"[286] and numerous programs supporting CSOM DERs.[287] Grid planning and SDG&E's Path to Net Zero include expectation of significant amounts of CSOM DERs.[288] Both SDG&E's Sustainability Strategy and Grid Modernization Plan expect and plan to incorporate CSOM DERs to contribute to meeting electric demand, which will increase significantly as a result of electrification of buildings and transportation.[289] However, SDG&E also testified that its investments in utility-owned storage and the electric grid are required to respond to climate change[290] and UCAN provides no evidence to the contrary.

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284 Ex. SDG&E-212 (Swetek) at 39-42.

285 UCAN OB at 62 (emphasis added).

286 UCAN OB at 18.

287 Ex. SDG&E-202 (de Llanos) at 18, Appendix B, Attachment C at ED-B-101, 106, 111 (2022 Sustainability Update); *see also* Ex. SDG&E-01-R (Folkmann) at BAF-22 (describing SDG&E's projects to integrate DERs into the system).

288 *See, e.g.*, R.22-11-013 at 4 fn.5 ("residential photovoltaics … and other DERs are included in the IRP via the demand forecast process"); Ex. SDG&E-202, (de Llanos), Appendix B, Attachment D at ED-B-146 (Path to Net Zero, Technical Appendix [modeling assumptions include "behind-the-meter solar growth"]).

289 Ex. SDG&E-202 (de Llanos) at 17 (quoting Attachment A at ED-B-47(Sustainability Strategy 2020) ("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."); Ex. SDG&E-12-R-E (Swetek) at 13 ("SDG&E is leveraging operational technology to optimize customer value in adopting behind the meter renewables and DER based microgrids. These DER assets support State and Company goals that reduce dependence on GHG emitting technology, enhance electric reliability, and mitigate impacts during PSPS events."); *Id.*, Appendix C (Grid Modernization Plan at 1-25).

290 *See, e.g.,* Ex. SDG&E-215 (Valero) at 12 ("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"); Ex. SDG&E-212 (Swetek) at 3 ("The projects referenced in the GMP will support safe and reliable operation of SDG&E's distribution system in a high DER, high electrification, and low carbon energy future."); Tr. V6:1136:13-1137:7 (de Llanos) ("My policy is sustainability policy. It describes the investments needed to advance climate mitigation, climate adaptation, and grid transformation in a way that advances California -- California's clean energy

In D.22-12-056, in considering the costs and benefits of the net metering tariff, the Commission rejected attributing to CSOM DERs either a "resiliency benefit" or a "land-use societal benefit." The Commission found that parties asserting such benefits failed to provide "convincing evidence that the examples of resiliency benefits offered are more than individual benefits" and, with respect to utility-scale solar or wind generation, failed to "offer any evidence that increased net energy metering installations will directly result in decreased utility-scale projects."[291] The same conclusion is appropriate here—UCAN has failed to demonstrate that CSOM DERs negate the need for any of SDG&E's proposed investments.

As stated by SDG&E: "As of this filing, California has less than eight years to achieve its 2030 emissions reduction target, ambitious ZEV goals, and other climate initiatives."[292] This is not the time to stop grid modernization efforts based on UCAN's unsupported claims.

8.3.3 UCAN Wants the Commission to Adopt Guidance for CSOM DERs More Quickly; Those Proceedings Are the Appropriate Place for UCAN's Recommendations

In response to UCAN's claims that CSOM DERs could and should replace SDG&E's investments in a reliable and resilient electric grid, SDG&E pointed out that "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.'"[293] These ongoing proceedings 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-

transition goals, and while SDG&E supports customer-owned DER, our position is that these resources alone cannot support the grid, and may exacerbate equity consideration.").

291 D.22-12-056 at 69, 70-71, 211-212 (FOF 42-44, 49).

292 Ex. SDG&E-02-E (de Llanos) at 13.

293 SCG/SDG&E OB at 64 (quoting Ex. SDG&E-202 (de Llanos) at 19).

013).[294] The critical questions to be resolved by the Commission outside of the scope of this GRC are discussed in SDG&E's testimony and Grid Modernization Plan.[295]

UCAN concedes that these Commission proceedings will resolve critical questions about CSOM DERs, including how to incorporate them into resource and grid planning. Indeed, as UCAN states, important Commission decisions are expected in 2024:

> In addition, the Commission's High Distributed Energy Resources Future," (R-21-06-007) defines these four elements [from CPUC DER Action Plan 2.0, Track 4], which further aim to develop workshops and technical reports:
>
> 1. Distribution System Operator Roles and Responsibilities with a Proposed Decision <u>by 2024</u>;
>
> 2. Distribution Planning, Data Portals, Community Engagement, and DER Integration, with a Proposed Decision <u>by 2024</u>;
>
> 3. Smart Inverter Operationalization, Grid Modernization, and GRC Alignment, with a Proposed Decision <u>by 2023</u>;170; and
>
> 4. This includes use of a Distribution System Operator (DSO), dynamic pricing and real-time pricing (RTP) <u>by 2024</u> for EVs, in the Commission's DER Action Plan 2.0.[296]

Similarly, UCAN admits that, in the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (R.22-07-005) proceeding, "the Commission <u>will provide a plan</u> to show the following: How [to] ensure universal access to dynamic electricity prices by customers, devices, distributed energy resources, and third-party service providers?"[297]

When SDG&E asked UCAN to identify the "steps YOU contend that SDG&E should take to 'encourage its customers' to adopt 'customer battery storage," UCAN responded in key part "implement <u>CPUC directed</u> policies."[298] When asked about future CSOM DER installations, UCAN responded: "<u>CPUC encouragement</u> of CSOM DERs is needed, such as through the

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[294] Ex. SDG&E-202 (de Llanos) at 19-22.

[295] *See Id*.; Ex. SDG&E-215 (Valero) at 12-15; Ex. SDG&E-12-R-E (Swetek), Appendix C (Grid Modernization Plan at 28-36).

[296] UCAN OB at 54 (emphasis added).

[297] UCAN OB at 25 (quoting Phase 1 Scoping Memo in OIR 22-07-005) (emphasis added).

[298] Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 4, UCAN Response to Question 4a) (emphasis added).

multiple policy initiatives which the CPUC has ongoing, including the Cal-FUSE initiative."[299] Yet, as UCAN concedes, many of the expected Commission policies have not been decided.

Ultimately, UCAN desires for the Commission to act more quickly. UCAN's Opening Brief candidly asserts: "UCAN recommends that <u>the Commission proceed with all possible speed</u> to implement the maximum use of DERs, customer load flexibility, dynamic pricing, and full use of the DSO, in short, an approach consistent with the proposed CalFUSE program (R.22-07-005) to lower overall rates."[300] The Commission currently is considering the CalFUSE report's recommendations in the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates (R.22-07-005) proceeding.[301] Yet UCAN asks SDG&E to act before the Commission determines what should be done.

As SDG&E testified: "These active 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."[302]

8.3.4 SDG&E's Sustainability Policy and Investments Are Consistent with the 2022 CARB Scoping Plan

UCAN notes that the 2022 CARB Scoping Plan requires significant reductions of fossil fuel combustion.[303] SDG&E is fully aware of the 2022 CARB Scoping Plan, and its sustainability policy is consistent with it.[304] UCAN's assertion that "SDG&E fails to recognize or acknowledge the updated CARB/Newsom plan"[305] is simply wrong. Indeed, it is UCAN that fails to acknowledge the 2022 CARB Scoping Plan. The Scoping Plan not only supports clean fuels, including hydrogen, and carbon capture and sequestration,[306] it also emphasizes the need for

299 Ex. SDG&E-215 (Valero), Appendix B (Data Request SCG-SDGE-UCAN-001 at 5-6, UCAN Response to Question 5a) (emphasis added).

300 UCAN OB at 46 (emphasis added).

301 R.22-07-005 at 7; Ex. SDG&E-202 (de Llanos) at 19-21, n.75.

302 Ex. SDG&E-202 (de Llanos) at 21-22.

303 UCAN OB at 66.

304 Ex. SDG&E-202 (de Llanos) at 13, 15; Ex. SDG&E-215 (Valero) at 3-4, 16, 22, 33, 35, 81.

305 UCAN OB at 67.

306 Ex. SDG&E-202 (de Llanos) at 13, 15; Ex. SDG&E-215 (Valero) at 3-4, 16, 22, 33, 35, 81.

utility-scale renewables and storage in addition to CSOM DERs: "Annual build rates (over the 2022–2035 period) for the Scoping Plan Scenario will need to increase by about 60 percent and over 700 percent for <u>utility solar and battery storage</u>, respectively, compared to historic maximum rates."[307] Yet UCAN opposes SDG&E's proposed battery storage projects simply because they are utility-owned.

Without citing any supporting evidence, UCAN asserts: "Ms. de Llanos appears to argue that a mere projection of goals is all that is needed to enable further efforts" to meet CARB's GHG reduction goals.[308] This is silly. Ms. de Llanos' opening testimony provides an overview of SDG&E's proposed investments and how they advance SDG&E's sustainability goals, including GHG emission reductions.[309] She also testified to the role SDG&E's electric grid plays, and will play, in providing the electricity needed to decarbonize the transportation and building sectors,[310] which includes the electric appliances referenced by UCAN.[311]

8.3.5 SDG&E's Obligation to Serve Natural Gas Customers Does Not Negate SDG&E's Sustainability Policy

UCAN also attacks SDG&E's natural gas service. First, UCAN cites PCF comments on SDG&E's 2019 RAMP report in a separate CPUC proceeding.[312] Without waiving its disagreements with the content of PCF's comments, SDG&E points out that "SDG&E's 2021 Risk Assessment and Mitigation Phase (RAMP) Report details threats posed by climate change,"[313] and the need to reduce . UCAN's reliance on PCF's comments on the 2019 report is irrelevant not only to SDG&E's current 2021 RAMP report, but also SDG&E's proposed investments that are at issue in this proceeding.

UCAN also selectively edits an SDG&E data request response to claim that "SDG&E fails to acknowledge the high risk to the planet that they create with the extensive sale, distribution, and

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307 CARB, *2022 Scoping Plan for Achieving Carbon Neutrality*, November 16, 2022, at 202 (emphasis added), available at: https://ww2.arb.ca.gov/sites/default/files/2022-12/2022-sp_1.pdf (cited at Ex. SDG&E-202 (de Llanos) at 13 fn.41).

308 UCAN OB at 67.

309 Ex. SDG&E-02-E (de Llanos) at 9-13.

310 Ex. SDG&E-202 (de Llanos) at 3-4.

311 UCAN OB at 67.

312 *Id*.

313 Ex. SDG&E-202 (de Llanos) at 7, n.19.

losses of natural gas incurred in their daily business."[314] UCAN omitted the portion of SDG&E's response that stated: "SDG&E's commitment to a just and equitable energy transition is evident in its proposed investments in grid transformation, for example. It is SDG&E's view that rapid decarbonization that ensures reliability, resiliency, affordability, and equity will transform the energy system. This requires timely, cost-effective investments in both existing and emerging decarbonization solutions, like those sponsored in the Testimony of SDG&E witness Fernando Valero (Exhibit SDG&E-15, Clean Energy Innovations)."[315]

SDG&E plainly recognizes the need to decarbonize the energy system, and proposed a path to do so in the Path to Net Zero.[316]

8.3.6 UCAN's Attacks on SDG&E's Sustainability Witness are Unfounded

In Section 6 of its Opening Brief, UCAN attacks SDG&E's sustainability policy witness, Estela de Llanos. These unsupported attacks have little to do with the actual issues in this proceeding and provide no evidence that SDG&E's proposed investments are not just and reasonable, contributing to SDG&E's ability to provide safe, reliable and resilient service to its customers. SDG&E responds briefly.

UCAN oddly attacks Ms. De Llanos for using the term "DERs" more in rebuttal than in her opening testimony.[317] In her opening testimony, Ms. De Llanos described SDG&E's sustainability policy and introduced other witnesses' testimony that supports that policy, for example explaining that SDG&E's grid transformation includes "[u]pgrad[ing] systems to prepare the grid for high Distributed Energy Resources (DER) penetration."[318] She also introduced SDG&E's Sustainability Strategy and Grid Modernization Plan, both of which discuss DERs.[319] It is not surprising that Ms. De Llanos discussed DERs in greater detail in rebuttal of UCAN's claims.

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314 UCAN OB at 68-69.

315 Ex. UCAN-03 at pdf pg. 16 (UCAN-SEU-001, SDG&E Response to Question 15).

316 Ex. SDG&E-202 (de Llanos) at 2-3, 12, and Appendix B, Attachment D (Path to New Zero).

317 UCAN OB at 23.

318 Ex. SDG&E-02 (de Llanos) at 11 (citing to witness Swetek, Ex. SDG&E-12), 11-12 (citing to witness Valero, Ex. SDG&E-15).

319 Ex. SDG&E-02-E (de Llanos) at 1, 3 fn.5; Ex. SDG&E-202 (de Llanos), Appendix B, Attachment A at ED-B-47 (Sustainability Strategy 2020); Ex. SDG&E-12-R-E (Swetek), Appendix C (Grid Modernization Plan at 1-25).

Contrary to UCAN's suggestion,[320] there is no inconsistency between Ms. De Llanos' recognition that "grid modernization efforts will require a holistic Distribution System Operator (DSO) strategy,[321] and Mr. Swetek's proposal to fund a Distributed Energy Resource Management System (DERMS). As Mr. Swetek testified, the "technology framework presented in the GMP supports SDG&E's role as the Distribution System Operator (DSO)"[322] and the proposed DERMS will facilitate "large numbers of CSOM DERs."[323]

UCAN wrongly asserts that Ms. De Llanos would not answer whether SDG&E has "integrated all DERs into its grid operations or does it intend to achieve DER integration in this pending GRC cycle."[324] To the contrary, when SDG&E's counsel objected that "all DERs and integration" were vague and ambiguous, UCAN's cross-examiner (Dr. Woychik) said: "I didn't expect an answer actually. Let's go on."[325] Dr. Woychik's failure to ask a proper question is not evidence.

UCAN claims that that Ms. De Llanos conceded "she did not know anything about automation service providers, or the California Energy Commission's MIDAS program."[326] Ms. De Llanos, a policy witness, referred UCAN to the witness with "subject matter expertise in this area that is likely Tyson Swetek."[327] UCAN then attempted to ask Ms. De Llanos about a Southern California Edison document, SDG&E's counsel objected for lack of foundation, and Ms. De Llanos testified she had "no context for this document."[328] This is not evidence.

UCAN then notes that Dr. Woychik asked and answered his own question during cross-examination.[329] Referring to the DER Action Plan, Dr. Woychik asked "[a]re these actions

320 UCAN OB at 21.

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

322 Ex. SDG&E-212 (Swetek) at 43.

323 *Id*. at 41; *see also Id.* at 20-21, 40-42.

324 UCAN OB at 23, 26.

325 Tr. V6:1124:12-1125:9 (Woychik).

326 UCAN OB at 24.

327 Tr. V6:1126:7-18 (de Llanos).

328 Tr. V6:1128:2-1129:14 (de Llanos).

329 UCAN OB at 24-25.

recognized, used or manifest in San Diego's GRC filing …."[330] SDG&E's counsel asked if he was quoting something and objected. Dr. Woychik claimed he was quoting Ms. De Llanos' rebuttal testimony, but ALJ Lakhanpal stated she also did not see "those words on the exhibit."[331] Rather than re-frame a question, Dr. Woychik attempted to testify, SDG&E objected, and Dr. Woychik moved on.[332] Dr. Woychik's failure to ask a proper question is not evidence.

UCAN wrongly asserts that it "has shown that SDG&E has failed to provide investments that will enable the transition to a high DER future" and "SDG&E claims it is waiting for Commission action to provide policy guidance in support of investments to enable the high DER future."[333] Both statements are unsupported. In fact, SDG&E's proposed investments will facilitate "large numbers of CSOM DERs."[334] SDG&E also looks forward to future guidance from the three ongoing Commission rulemakings addressing the expected high DER future.[335]

UCAN claims that "SDG&E's strategy is to substitute for CSOM DERs with utility capital cost investments that can be placed in rate base and thereby maximize earnings."[336] UCAN cites no evidence for this claim. As discussed above and in testimony,[337] there is no evidence that CSOM DERs are able to substitute for any of SDG&E's proposed investments.

Without citing any evidence, UCAN claims that "SDG&E clearly aims to invest in technology that will fail to absorb or to address the coming transformational DER changes."[338] To the contrary, Ms. De Llanos testified: "I don't believe we would propose anything that should be replaced prematurely. What you're describing would be imprudent, and is not consistent with what we have proposed within our GRC."[339] In response to Dr. Woychik's questions about

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330 Tr. V6:1130:6-9 (Woychik).

331 Tr. V6:1130:10-25 (Raushenbush, Woychik & Lakhanpal).

332 Tr. V6:1131:1-9 (Raushenbush & Woychik).

333 UCAN OB at 25.

334 Ex. SDG&E-212 (Swetek) at 41; *see generally, Id*. at 10-11, 18-21, 39-44.

335 Ex. SDG&E-202 (de Llanos) at 18-22.

336 UCAN OB at 27.

337 Ex. SDG&E-215 (Valero) at 11-15.

338 UCAN OB at 27.

339 Tr. V6:1134:23-1135:4 (de Llanos); *see also* Second Amended Joint Motion Of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 M) For Acceptance Of Proposed Transcript Corrections, Attachment A (correcting Tr. V6:1135:3 from "improvement" to "imprudent").

"premature technology obsolescence," she referred him to "the technical expert."[340] As a policy witness, who did not testify about specific proposed technology, that was entirely appropriate.

UCAN complains that Ms. De Llanos testified that CSOM DERs cannot replace SDG&E's proposed investments in this proceeding.[341] That is not evidence supporting UCAN's claims. UCAN also complains that SDG&E's evidence allegedly "does not provide for or include discrete, factual goals, milestones, or dates for SDG&E to achieve California's climate goals or logical response to the high DER scenario."[342] As explained by Ms. De Llanos, "SDG&E's Sustainability Strategy was never intended to be a project plan to reaching net zero but rather an overview of how the company incorporates sustainability into its work and an overview of high-level goals and milestones to reach key company and state objectives."[343] SDG&E's proposed investments reflect this sustainability strategy, and advance climate change mitigation, climate change adaption and grid transformation.[344]

UCAN asked about "the need to reduce … or back out its natural gas deliveries in order to meet [the] GHG goals."[345] Ms. De Llanos testified that SDG&E's Path to Net Zero, "consistent with the CARB scoping plan," "identifies a three-part strategy for achieving these policy goals …. Those three parts are promoting electrification, cleaner fuels and carbon removal."[346] She also noted the pending OIR 20-01-007, where the "Commission is considering natural gas and the future of natural gas infrastructure services," including SDG&E's "statutory duty to serve our customers." Not surprisingly, she testified that any "'backing out of natural gas' would be subject to the direction that we receive from the Commission."[347] UCAN contends that this is a "'diffuse and delay' response," but it is simply complying with the law.

Noting that Ms. De Llanos testified that the Commission's ongoing DER proceedings are the appropriate place for UCAN to offer its recommendations about incorporating CSOM DERs

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340 Tr. V6:1135:10-12 (de Llanos).

341 UCAN OB at 28-29.

342 UCAN OB at 29; *see also Id.* at 31-32 (claiming that SDG&E has no milestones other than "publishing reports").

343 Ex. SDG&E-202 (de Llanos) at 22.

344 Ex. SDG&E-02-E (de Llanos) at 9-13.

345 UCAN OB at 30.

346 Tr. V6:1142:12-24 (de Llanos).

347 Tr. V6:1142:25-1143:7 (de Llanos).

into grid modernization and management, UCAN complains that "SDG&E still presents no plan to adapt to high DER scenarios."[348] To the contrary, UCAN simply does not like SDG&E's proposals for incorporating DERS and wants SDG&E to adopt the CalFUSE recommendations on its own, even though the Commission expressly stated that it is considering whether and how to do so.[349] UCAN provides no evidentiary citations for its unsupported statements about SDG&E's purported "failures" to prepare for a high DER scenario, much less any evidence that SDG&E's proposed investments are not just and reasonable.

Disregarding the evidentiary record, UCAN asserts that SDG&E "seems bent on investments that totally ignore CSOM DERs and the high DER scenario" and that this "GRC situation with SDG&E satisfies the definition of moral hazard."[350] To the contrary, as discussed above, SDG&E has proposed investments that will facilitate large numbers of CSOM DERs, will reduce GHG emissions and provide more resilient electric service, and will incorporate Commission guidance that arises out of its ongoing DER proceedings.[351]

UCAN provides no evidence that SDG&E's proposed investments are not just and reasonable and contribute to SDG&E's ability to provide safe, reliable and resilient service to its customers, while also advancing toward California's climate goals.

8.4 Air Products' Attack on SoCalGas' Sustainability Practices is Without Merit

Air Products argues that SoCalGas "fails to establish that it has the expertise, experience, or role in meeting a particular state goal."[352] Air Products goes on to state that "[i]f California is going to cost-effectively and efficiently achieve its climate and sustainability goals, it will only be through coordination and competition across a wide array of public and private sector entities." Such statements are misleading and mischaracterize the record in this proceeding. SoCalGas has repeatedly noted the crucial role it can play in addressing the critical interdependencies between electricity and gas system reliability in the State during the clean energy transition. SoCalGas has noted its unique ability to provide the capabilities for delivering reliability, resiliency, and the

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348 UCAN OB at 30.

349 *See* SCG/SDG&E OB, Sections 8.3.2 and 8.3.3 *supra*.

350 UCAN OB at 32.

351 *See, e.g.,* SCG/SDG&E OB, Sections 8.3.2 and 8.3.3, *supra*.

352 AP OB at 26.

clean molecules necessary for SoCalGas and its customers to rapidly reduce GHG emissions.[353] Air Product's argument that no policy or legislation specifically supports SoCalGas's sustainability investments is simply wrong.[354]

As explained by Ms. Niehaus and Ms. Arazi, "[t]he California Legislature, California Governors, and this Commission have also made clear that SoCalGas and other California investor-owned utilities are mandated to not only reduce their own GHG emissions and prepare their own infrastructure to withstand climate change impacts, but also address emissions from customers' energy use."[355] SoCalGas's long-term decarbonization strategies include the evaluation of hydrogen and the potential to blend hydrogen into the gas grid to displace traditional natural gas and to reduce GHG emissions.[356] 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."[357]

As to the argument of what role SoCalGas and other utilities may play in decarbonizing the economy, Air Products argues that SoCalGas is proposing to engage in activities "not typical of a gas corporation public utility," such as "to build electric charging and hydrogen fueling infrastructure." Air Products, however, fails to acknowledge or address that proposed improvements are in direct response to legislation, including CARB's Clean Fleet Rules, which require public and private fleets to begin transitioning vehicles toward zero emissions starting in

353 SCG/SDG&E OB, Section 8.2.3.

354 Note that additional responses to Air Products' hydrogen project arguments can be found in SCG/SDG&E OB, Section 3.1.

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

356 Ex. SCG-02-R, Ch. 1 (Peress) at 11; Ex. SCG-02-R, Ch. 2 (Sim) at 8; *see also* Ex. SCG-07-R (Martinez) for the Gas Engineering testimony providing further details and cost information related to these referenced activities.

357 Tr. V5:942:6-18 (Niehaus).

2024 with a goal of being 100 percent zero-emissions vehicles by 2045, where feasible.[358] Please see Section 24 and 25 for further discussion of the need and proposal for hydrogen refueling stations. Rather than address the specific legislative calls to action prompting SoCalGas's proposals, Air Products attempts to manipulate the narrative by asking whether the "Public Utilities Commission ever previously authorized SoCalGas to provide hydrogen fueling service to third parties." That is simply the wrong question. As Ms. Niehaus noted, she was not aware of "any approval **or prohibition** around" SoCalGas being authorized to provide hydrogen fueling service to third parties.[359] Ms. Arazi further pointed out that SoCalGas is working to adhere to relevant legislation, including CARB's Advanced Clean Fleet Rule, and that in order for SoCalGas to transition its fleet, it would need refueling stations at SoCalGas facilities.[360] Air Products cannot ignore the legislation behind the proposals.

Air Products employs a similar tactic in asking whether "the [CARB] 2022 Scoping Plan identif[ied] a specific role for SoCalGas in clean hydrogen production,"[361] but, again, that is an incorrect view of the proposals and distorts the facts. Ms. Niehaus, once again, clarified that "[she was] not sure whether it calls out any specific market players."[362] However, when asked again whether "it identif[ied] a specific role for SoCalGas in hydrogen fueling….,"[363] Ms. Niehaus responded that "indirectly a role is implicated. It doesn't exclusively call out. But, for example, the scoping plan does contemplate blending of clean fuels in the pipeline of which we own and operate pipelines. [….] It implicates our infrastructure, so by implicating our infrastructure, we [SCG] are contemplated, to say the least."[364] Air Products fails to acknowledge this clear logic or that the policies and legislative actions support the proposals. As described extensively in rebuttal testimony, there are numerous government and agency actions encouraging investment in clean

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

359 Tr. V5:976:18-23 (Niehaus) (emphasis added).

360 Tr. V5:983:1-16 (Arazi).

361 Tr. V5:981:24-25.

362 Tr. V5:982:2-3 (Niehaus).

363 Tr. V5:982:4-5 (Niehaus).

364 Tr. V5:982:6-16 (Niehaus).

energy, including in CARB's final 2022 Scoping Plan, as well as in the CEC's Integrated Energy Policy Report (IEPR), and others.[365]

Contrary to Air Product's assertions, SoCalGas provides the clear connection between state and federal climate policy goals and its sustainability strategy.

9. Risk Informed GRC Overview

9.1 Risk Management Policy

SoCalGas and SDG&E's respective risk policy testimonies address how the Companies' respective safety and reliability risks have been prioritized in the TY 2024 GRC and provide an overview of the Companies respective risk management policies and practices.[366] PCF was the only party to address SoCalGas and SDG&E's risk management policies in opening briefs. PCF mischaracterizes SoCalGas and SDG&E witness testimony and in an unsupported summary fashion states that "[t]he Utilities wholly failed to justify their risk related spending."[367] PCF's unsupported allegations should be given no weight.

PCF characterizes SoCalGas's and SDG&E's respective risk policy witnesses as the witnesses "claiming to link [SoCalGas's/SDG&E's] risk framework to [International Organization for Standardization] ISO standards."[368] PCF then criticizes Deana M. Ng, SoCalGas's risk policy witness, for referring PCF to other witnesses for ISO standards not addressed in her testimony and criticizes Michael M. Schneider, SDG&E's risk policy witness, for SDG&E not being ISO certified. Ms. Ng and Mr. Schneider both discuss specific ISO Standards in their respective testimonies in the context of which ISO standards the Companies have utilized as part of their respective risk framework.[369] When questioned about ISO standards that were not part of her testimony, Ms. Ng. referred PCF to the SoCalGas witness that addresses those ISO standards.[370]

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365 Ex. SCG-202 (Niehaus/Arazi) at 4-5.

366 Ex. SCG-03, Ch. 1 (Ng) at 1-2; Ex. SDG&E-03, Ch. 1 (Schneider) at 4-5.

367 PCF OB at 41.

368 *Id*.

369 *See* Ex. SCG-03, Ch. 1 (Ng) at 2 (describing how SoCalGas's Enterprise Risk Management framework is modeled after ISO standard 31000); Ex. SDG&E-03, Ch. 1 (Schneider) at 5-6 (describing how SDG&E has incorporated the Commission's risk-related decisions and orders and international standards such as ISO 31000 (Risk Management)).

370 Tr. V5:1012:23-5:1013:3 ("I was referencing the testimony of Mr. Rawls, and my testimony is focused on risk management, and his testimony is focused on asset management. ISO 55000 refers to

In addition, Mr. Schneider explained why SDG&E is not ISO certified, stating: "we determined that the cost associated with going through that type of certification just wouldn't warrant the value of the framework that we put in place with respect to 55000[.]"[371]

PCF also mischaracterizes the Companies' risk assessment and treatment of climate change, taking issue with climate change not being a stand alone Risk chapter in the Companies' respective 2021 RAMP Reports. Ms. Ng, confirmed for PCF that "climate change was addressed as part of a cross-functional factor in the [2021] RAMP Report."[372] In addition, as stated by Mr. Schneider:

> So we generally, in fact very specifically address climate change in our assessment of risk in wildfire, in electric infrastructure, in gas infrastructure, in customer demand, et cetera. Just because it's not a distinct [Risk] chapter does not mean we do not address it. . . . I think it's very important to provide context that we do take climate change extraordinarily seriously and we look at that in the connection of how it impacts our risks. And I believe the Commission has a proceeding that we will be participating in coming up on climate adaptation where I think a lot of that will come to bear on how we address it specifically.[373]

Lastly, PCF's statement that the utilities have failed to justify their risk related spending is wholly unsupported by PCF and fails to take into account the abundance of evidence the Companies have presented to justify their request. More specifically, the Companies have each presented risk policy testimonies addressing how the Companies' respective safety and reliability risks have been prioritized in the TY 2024 GRC, a joint RAMP to GRC Integration testimony which provides explanations of how the Companies have incorporated their 2021 RAMP Reports into the TY 2024 GRC and additional showings providing risk analysis for the PTYs, 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 2021 RAMP Reports, were presented in a dedicated section, generally Section II, of direct testimony in witness areas with RAMP activities. The Companies' evidence in this

asset management."); *see also* Ex. SCG-03, Ch. 1 (Ng) at 7-8 (referring to the testimony of Wallace Rawls (Ex. SCG-05) for discussion of ISO 55000).

371 Tr. V6:1149:20-1150:4; *see also id.* at 1151:18-20 ("when we look at certification it really needs to provide a benefit above the costs of going through the rigor of it.")

372 Tr. V5:1016:3-6.

373 Tr. V6:1161:17-1162:12.

proceeding was presented in accordance with Commission-adopted requirements and, consistent with those requirements, represents an increasingly more safety-focused GRC showing.

9.2 RAMP-to-GRC Integration

As discussed in the Opening Brief, the testimony of Gregory S. Flores and R. Scott Pearson 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 the testimonies of Ms. Ng and Mr. Schneider, explains how SoCalGas and SDG&E have incorporated risk management into the TY 2024 GRC applications and supporting testimony.[374]

TURN and PCF address the Companies' RAMP-to-GRC Integration in their opening briefs. PCF inappropriately reiterates its allegations regarding prior RAMP filings and past GRC proceedings and also criticizes SoCalGas and SDG&E for not adopting PCF's specific RAMP related recommendations. TURN asks the Commission to find that SoCalGas and SDG&E's Risk Spend Efficiency (RSE) calculations are flawed and to rely on TURN's "re-calculated RSE values" and Benefit-Cost (B-C) ratios. The Companies address PCF's arguments directly below and TURN's arguments in Section 9.3.

9.2.1 PCF's Accusations Regarding the Companies' Past GRC Applications and pre-2021 RAMP Reports Are Incorrect, Irrelevant, and Should Not be Considered

In its opening brief, PCF spends much time discussing the Companies prior GRC Applications and RAMP Reports, alleging that "SDG&E and SoCalGas have escaped any meaningful safety regulation by the Commission for over 8 years."[375] The Companies strongly disagree with this characterization. The Companies have been active participants in the Commission's Risk-Informed Decision-Making Framework (RDF), including through the S-MAP proceedings, the RAMP proceedings, RSAR reporting requirements, and their respective GRC Applications. As addressed by Ms. Ng, "over the last several years, the Commission, intervenors, and the California electric and gas utilities have worked together to develop policies and practices to incorporate risk-based information into the utilities' GRCs and support better risk-informed

374 SCG/SDG&E OB at 68-73.

375 PCF OB at 14; *see also* PCF OB at 42-45 (discussing PCF's comments on the 2019 RAMP Reports).

decision-making by the Commission."[376] The Companies believe they have met the then applicable RDF requirements in their prior RAMP Reports and GRC Applications and have learned from and improved upon each in subsequent filings. More importantly, the Commission has already addressed the Companies' prior risk-related showings in its prior RAMP and GRC proceedings through Commission decisions in those proceedings.[377]

As one example, PCF alleges that the Companies' "2019 RAMP Reports failed to comply with the Commission's RDF requirements as set forth in D.14-12-025, D.16-08-018, and D.18-12-014."[378] The Companies strongly disagree with this characterization. More importantly, however, the 2019 RAMP Reports did not inform the Companies' TY 2024 GRC Application and thus consideration of this issue it not relevant to and not in scope for this proceeding. After the filing of the Companies 2019 RAMP reports, which were intended to inform their respective TY 2022 GRCs, the Commission issued the Rate Case Plan Decision, which modified the GRC cycles of the large energy utilities, eliminating the Companies' TY 2022 GRCs. The Commission issued D.20-09-004, which closed the 2019 RAMP proceeding and clarified that the Companies respective 2019 RAMP Reports *would not be integrated* into each Company's next GRC application.[379] As addressed in Messrs. Flores and Pearson's testimony, it is the Companies 2021 RAMP Reports, and not the 2019 RAMP Reports, that informed the Companies' respective GRC applications.[380]

As testified by Ms. Ng, "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."[381] And as testified by Mr. Schneider "[t]he Commission has created an environment where further leading risk management innovations can be discussed and tested, and SDG&E . . . will continue to be a leader in this

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376 Ex. SCG-03, Ch. 1 (Ng) at 1; *see also* Ex. SDG&E (Schneider) at 1 ("Over the last few years, the Commission, intervenors, and California electric and gas utilities have been engaged in developing policies and practices to incorporate risk-based information into the utilities' GRCs.")

377 *See*, *e.g.*, D.19-09-051 at 21-22 (discussing the Companies' risk analysis in the context of the TY 2019 GRC); D.20-09-004 (closing the 2019 RAMP proceedings).

378 PCF OB at 10.

379 *See also* D.20-09-004 at 2 ("Information and lessons learned from the 2019 RAMP Reports should instead be utilized to further refine the RAMP process and the next RAMP submission of SoCalGas and SDG&E").

380 *See generally,* Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson).

381 Ex. SCG-03, Ch. 1 (Ng) at 1.

field."[382] The Companies have been active participants in the Commission's Risk-Based Decision-Making Framework and remain committed to continuing to support the ongoing refinement and enhancement of that framework.

9.2.2 PCF's Argument that the Companies Were Required to Adopt All of its Prior Recommendations Must be Rejected

PCF takes issue with the Companies' alleged failure to address specific PCF comments on the Companies' respective 2019 RAMP Reports and 2021 RAMP Reports.[383] PCF's complaint apparently misreads the Commission's decision in D.20-09-004 and an October 20, 2022 ALJ Ruling in the RAMP proceeding as mandating that utilities implement any and all proposals by intervening parties, which is not the case. The Commission in D.20-09-004 ordered the Companies to "address and consider in their next Risk Assessment Mitigation Phase (RAMP) applications, the comments and suggestions by intervenors regarding the 2019 RAMP Report and further improvement of the RAMP process."[384] SoCalGas and SDG&E complied with this directive in Chapters RAMP-A and RAMP-E of their 2021 RAMP Reports,[385] by (1) describing intervenor feedback; (2) considering intervenor feedback; and (3) explaining how and why intervenor feedback was incorporated (or not). The ALJ Ruling provided that, "the final step in the RAMP process is for Sempra Utilities to integrate the RAMP filing and comments from SPD and intervenors into their GRC applications."[386] The testimony of Messrs. Flores and Pearson discusses the RAMP to GRC integration process, including the process of considering and addressing the Commission's Safety Policy Division (SPD) and intervenor feedback on the 2021 RAMP Reports.[387] As discussed in Opening Brief, the Companies made several changes in

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[382] SDG&E-03, Ch. 1 (Schneider) at 26.

[383] PCF OB at 43-45. For the reasons discussed above, the 2019 RAMP Reports and comments related to those reports are not relevant to this proceeding and should not be considered.

[384] D.20-09-004 at 18-19 (OP 1).

[385] *See* A.21-05-014, Chapter RAMP A at SCG/SDG&E-RAMP-A-7: Section C, and Chapter RAMP E at SCG/SDG&E-RAMP-E-3-4: Table 1, *available at:* https://www.socalgas.com/regulatory/2021-ramp-report. SoCalGas and SDG&E also addressed comments raised by the parties to I.19-11-010 in multiple workshops.

[386] Ex. PCF-09 at 2.

[387] *See generally,* Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson).

response to SPD and party feedback and provided a summary of responses to SPD and party feedback in Appendix B.[388]

To the extent that PCF believes that D.20-09-004 or the ALJ Ruling required SoCalGas and SDG&E to adopt all of PCF's and other intervenors' comments and suggestions into their GRC application, the Companies did not, and such an approach would not even be feasible, since intervenor proposals may be inconsistent or even in conflict with one another. As testified by Mr. Pearson, the Companies, "considered all . . . party feedback, and as appropriate, we incorporated that feedback."[389] In addition Mr. Flores stated:

> We receive hundreds of [pages of] comments from interested parties. And we consider all of them and prioritize them and rank them to consider them whether or not, as I mentioned, pertinent to our showing. For example, there are instances where many of the provided comments are inconsistent with one another. So it would provide a very disorganized, confusing representation if we were to incorporate all comments.[390]

PCF's allegation that the Companies do not appropriately analyze climate change is addressed above. Regarding PCF's allegation that the utilities fail to utilize utility specific data, the Companies' Appendix B to Messrs. Pearson and Flores' direct testimony provides in response:

> The Companies use a combination of internal and external data as well as Subject Matter Expertise to quantify enterprise risk. The Companies feel that a risk analysis that did not take into consideration similar risks and impacts to other utilities, which may have similar operating conditions or practices, would result in an underdeveloped risk analysis.[391]

Similarly, Appendix B also addresses PCF's allegation of double counting:

> The Companies are not aware of a double counting of manufacturing anomalies in their risk quantification. The Companies assess and analyze risk at various levels of the organization to which all levels recognize the fluid nature of risk as it

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388 SCG/SDG&E OB at 70-71.

389 Tr. V6:1202:19-22.

390 Tr. V7:1271:13-20.

391 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson), Appendix B at 17; *see also id.* at 22 ("The Companies utilize an amalgam of internal and external data. Internal data is leveraged first with external data and subject matter expertise bridging any gaps or lack of data within the internal set."); Tr. V6:1181:7-11 ("We do rely on utility data when it's available. There are instances where data is not available, and we do look to external sources for information that we then can apply to our own risk evaluation.")

relates to operating a mechanical system. The Companies do not ignore risk or the potential for risk to develop on assets as they age.[392]

PCF's arguments are without merit and should be disregarded.

9.3 Balancing of Costs and Risk Reduction Benefits

As discussed in Opening Brief and recognized by the Commission, maintaining affordability while presenting the costs needed for the Companies to operate safely, reliably, and as prudent operators creates challenges in every GRC.[393] TURN, first in its intervenor testimony and now in its opening brief, asks the Commission to address this challenge by relying on RSE calculations.[394] As discussed in Opening Brief, however, 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 relied on to the extent TURN suggests, and are not fit for that purpose.[395] TURN in its opening brief makes a set of policymaking arguments with respect to the Companies' risk evaluation process and calculation of RSEs, at times running counter to established Commission policy. TURN's recommendations should be rejected.

In addition, TURN discusses several alleged flaws with the Companies' RSE methodology. SoCalGas and SDG&E strongly disagree with TURN's allegations and have more fully addressed those allegations in rebuttal testimony. As addressed in the direct testimony of Messrs. Pearson and Flores and summarized in Opening Brief, the Companies have shown how the TY 2024 GRC satisfies the requirements of the Risk Decision Framework.[396] The Companies have presented a robust RAMP-to-GRC Integration, including improvements and lessons learned from the 2021 RAMP Reports to the TY 2024 GRC. These improvements include incorporating 31 additional levels of tranche granularity across 11 of the Companies' 15 key risks. The Companies have not ignored the quantitative aspects of assessing risk mitigation investments, as TURN suggests;[397]

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392 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson), Appendix B at 21; *see also* Tr. V6:1200:11-13 ("the mapping [of RAMP to GRC] is intended to ensure that there's a clean line from different GRC witnesses.").

393 SCG/SDG&E OB at 19, 28-29; D.21-08-036 at 30.

394 Ex. TURN-04 (Borden/Lane); TURN OB at 70-71.

395 SCG/SDG&E OB at 71.

396 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 3.

397 TURN OB at 72.

rather the Companies filed quantitative RSEs and associated workpapers for every mitigation presented in this GRC.[398]

9.3.1 RSEs Are but One Factor in the Risk Decision Framework and TURN's Proposals Run Counter to Established Commission Policy

TURN asserts that "RSEs enable a comparison of the cost-effectiveness of various proposed risk reduction activities, which allows those activities to be prioritized based on cost-effectiveness."[399] The Companies believe that RSE calculations are informative for comparing the relative benefits of various proposed utility safety and reliability investments for prioritization purposes.[400] However, as discussed by Messrs. Flores and Pearson, "RSEs do not allow for 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."[401] As further discussed by Messrs. Flores and Pearson in direct and rebuttal testimony, as well as during cross-examination, RSE calculations were never intended to be used for ultimate comparisons of costs and benefits, and are not fit for that purpose.[402] As provided in Messrs. Flores and Pearson's direct testimony:

> 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.[403]

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398 TURN also criticizes SoCalGas and SDG&E's PTY RSE calculations. The methodologies used to forecast Post-Test Year dollars and risk benefits are a balance of the new requirement to calculate PTY RSEs by the Commission in this proceeding, the existing Settlement Agreement, and the Rate Case Plan. Additionally, Commission precedence favors escalation-based forecasting for the Post-Test Years.

399 TURN OB at 72-73.

400 Ex. SCG-203-E/SDG&E-203-E, Ch. 2 (Flores/Pearson) at 1.

401 *Id.* 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.).

402 Ex. SCG-03-2R-E/SDG&E-03-2R-E (Flores/Pearson) at 14-15; Tr. V7:1264:5-9 ("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").

403 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson) at 14-15.

The Commission has repeatedly confirmed that a comparison of a mitigation's benefits and costs cannot be determined from RSEs. In D.22-12-027, the Commission stated, "RSE values do not indicate whether the Benefits of a proposed mitigation measure outweigh its costs."[404] Regarding the use of RSEs in prioritizing a portfolio, SPD has stated: "We caution, however, that prioritizing a portfolio based on cost effectiveness measures, such as the RSE, is not the same as choosing an optimal mix of mitigation activities based on some rigorous optimization routines[.]"[405] In addition, a primary reason the Commission has cited for adopting the Cost-Benefit Approach for future RAMP/GRC cycles is that RSEs' "unitless Risk Scores lack readily accessible, tangible meaning."[406] SoCalGas and SDG&E agree with the Commission that an RSE is not a replacement for optimization. While RSEs are an informative data point for the Companies to consider, they are not deterministic for mitigation selections. As provided for in direct testimony, no matter the quantification methodology employed, judgment and expertise must be utilized when making decisions.[407] Interpretation of the results of a quantification model are just as, if not more, valuable than the outputs themselves and cannot replace prudent and reasonable risk policies and practices. For example, Messrs. Flores and Pearson testified, "Certain mitigations are recognized by essentially all interested parties to be important – yet if the RSEs are deterministic, it would suggest important safety and reliability related activities could be treated as a lower priority work."[408]

Further, RSE calculations rely substantially on subject matter expert assumptions and estimates, rather than empirical data.[409] As such, RSEs are an inexact proxy for the relative value of risk-reducing investments and fall short of being reliable for purposes of establishing an absolute threshold for justifying mitigation investments. This is particularly true where the inputs

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404 D.22-12-027 at 26.

405 *See* A.15-05-002, Safety and Enforcement Division Evaluation Report on the Risk Evaluation Models and Risk-based Decision Frameworks in A.15-05-002 March 21, 2016) at 50, *available at:* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M159/K671/159671144.PDF.

406 D.22-12-027 at 19.

407 Ex. SCG-03-2R-E/SDG&E-03-2R-E, Ch. 2 (Flores/Pearson) at 14-15.

408 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 7.

409 *Id.* at 7-8.

are not supported by sufficient empirical data – for example, in the case of high consequence events that occur infrequently.[410]

9.3.2 TURN's Proposals to Use Its Re-calculated RSEs or its B-C Ratios Should be Rejected

TURN asks that the Commission "rely on TURN's re-calculated RSE values and B-C ratios."[411] TURN's argument should be rejected. SoCalGas and SDG&E addressed TURN's proposed B-C ratios in their Opening Brief and in rebuttal testimony. As an initial matter, TURN's proposed B-C ratios are outside the scope of the current risk evaluation framework and this GRC. The Companies' risk evaluation framework, including the calculation of RSEs, was approved by the Commission in the Safety Model Assessment Proceeding (S-MAP).[412] The Commission's December 2022 decision to modify the Risk-Based Decision-Making Framework 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.[413] Moreover, as discussed by Messrs. Flores and Pearson, the BCR framework remains a work in progress, with many key elements left to be resolved through the ongoing Risk OIR Phase III proceeding.[414] 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. Recommended improvements to the risk decision making process are being addressed in the ongoing Risk OIR to allow for broad stakeholder input. 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.

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410 *Id.*

411 TURN OB at 3.

412 D.18-12-014, 67 (OP 1) and Attachment A (Settlement Agreement).

413 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.

414 R.20-07-013, Assigned Commissioner and Assigned Administrative Law Judges' Ruling Issuing Phase III Roadmap for Comment And Scheduling Prehearing Conference (March 13, 2023), Attachment A, Safety Policy Division Proposed Phase III Roadmap.

TURN claims that SoCalGas and SDG&E "do not challenge the methodology and arithmetic presented by TURN's experts" for TURN's B-C Ratios.[415] SoCalGas and SDG&E, however, do challenge the proposed use of TURN's B-C Ratios. In rebuttal testimony, Messrs. Flores and Pearson discuss how 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.[416] In addition, the Commission in D.22-12-027, clearly contrasts the existing MAVF framework, used to calculate the Companies' RSEs, and the future cost-benefit approach. In particular, the future cost-benefit approach "eliminat[es] the application of weights and ranges" used in the current MAVF framework.[417] Thus, the same weights and ranges that TURN uses to develop its B-C ratios are not relevant under the future cost-benefit approach.

TURN's approach also fails to incorporate concepts critical to the Companies' investment strategy to promote safe and reliable service. For example, International Organization for Standardization (ISO) 31000 provides that: "Justification for risk treatment is broader than solely economic considerations and should take into account all of the organization's obligations, voluntary commitments and stakeholder views."[418] Further, and as discussed in rebuttal testimony, TURN's approach to deriving its B-C Ratios fails to account for critical elements of the evolving Cost Benefit Framework that remain to be settled, including tail risk, risk tolerance, and risk attitude.[419]

With regard to TURN's "re-calculated RSEs", TURN states that the "conversion factor" used for its B-C Ratios "is the same for . . . the adjusted RSEs that TURN calculated based on the changes . . . that TURN recommends[.]"[420] Thus, for the same reasons discussed above with regard to TURN's B-C ratios, TURN's "re-calculated RSEs" should also be rejected.

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415 TURN OB at 82.

416 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 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.").

417 D.22-12-027 at 17.

418 ISO 31000 Risk Management – Guidelines.

419 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 8.

420 TURN OB at 80-81.

9.3.3 The Companies RSEs are Appropriately Discounted

TURN alleges that SoCalGas and SDG&E "do not properly discount future costs and benefits."[421] The Companies disagree. TURN argues that the numerator and the denominator of an RSE should use the same discount rate. However, the authorities that TURN relies on to support this argument apply to traditional economic analysis, whether the numerator and denominator are both expressed in dollar values.[422] The Commission, however, recognizes that the numerator of an RSE is a "dimensionless" and "unitless" value.[423] The numerator of an RSE includes non-dollar denominated attributes, such as safety and reliability. Because the numerator and denominator of an RSE are expressed differently, discounting them differently is appropriate. Notably, SPD rejected TURN's same argument in assessing SCE's 2022 RAMP application, finding: "It does not necessarily make sense to force the same discount rate to be used to discount both the numerator and denominator unless the two types of outcomes in the numerator and denominator have the same characteristics and same built-in assumptions."[424]

As mentioned in the 2021 RAMP Reports and discussed in rebuttal testimony, the Companies are not opposed to the concept of discounting. The 3% discount rate used by SoCalGas and SDG&E represents a federally accepted value for societal, and safety impacts, hence it is used in the Companies' RAMPs and GRCs.[425] TURN asserts that the Companies should use their weighted average cost of capital (WACC) to discount risk mitigation spend.[426] The WACC, however, takes no consideration of safety into its determination and is therefore inappropriate for discounting in RAMP. Further, in Southern California Edison's (SCE) 2022 RAMP filing, the Commission neither endorsed nor rejected SCE's 3% discount rate for the

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421 *Id*. at 83.

422 *Id*. at 84, n.206.

423 D.22-12-027.

424 *See* A.22-05-013, Safety Policy Division Staff Evaluation Report on the Southern California Edison Company's 2022 Risk Assessment and Mitigation Phase (RAMP) Application (November 10, 2022) at 18, *available at:* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/safety-policy-division/reports/sce-2022-ramp-evaluation-report-final_111022.pdf.

425 Ex. SCG-203-E/SDG&E-203-E (Flores/Pearson) at 8-10.

426 TURN OB at 85.

numerator, stating that SCE should use its best expert judgment, accompanied by a transparent justification, to apply a reasonable discount rate for the numerator.[427]

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[428]

The activities described in SoCalGas's Safety & Risk Management testimonies and SDG&E's Safety, Risk, & Asset Management testimonies help to maintain the delivery of safe, reliable, resilient, and efficient service to the Companies' customers. Ms. Master and Mr. Deremer's testimonies 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 learning and continuous improvement, increased regulatory requirements, and maintaining and strengthening a well-informed and knowledgeable workforce.

Cal Advocates was the only intervenor to address SoCalGas's Safety & Risk Management and SDG&E's Safety, Risk, & Asset Management in its Opening Brief. Cal Advocates restates the same recommendations and arguments from its intervenor testimony and does not take into account SoCalGas or SDG&E's rebuttal testimony. Notably, Cal Advocates does not object to any specific initiative or activity requested, but only recommends disallowances to a portion of the incremental funding above 2021 recorded levels in identified areas. Incremental adjustments are needed to focus an even greater emphasis on enhancing safety for the public, the Companies' infrastructure, their employees, and their contractors. SoCalGas and SDG&E address Cal Advocates recommendations below.

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427 *See* A.22-05-013, Safety Policy Division Staff Evaluation Report on the Southern California Edison Company's 2022 Risk Assessment and Mitigation Phase (RAMP) Application (November 10, 2022) at 18.

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

9.4.1 Common Issues (SoCalGas and SDG&E)

9.4.1.1 SoCalGas and SDG&E Have Fully Supported and Justified Their Respective Forecasts

Although Cal Advocates does not oppose several of the cost category requests presented in Ms. Master and Mr. Deremer's testimonies, for the ones that Cal Advocates does oppose, it alleges that SoCalGas and SDG&E have not provided enough information to justify their respective incremental funding requests. In addition, although acknowledging that SoCalGas and SDG&E have provided additional information through data requests, Cal Advocates claims that the requests "lack detail."[429] As discussed more fully in Ms. Master and Mr. Deremer's respective rebuttal testimonies, the Companies strongly disagree and believe they have fully supported and justified all of their respective funding requests in these important safety areas.

During the discovery period, SoCalGas responded to 211 questions regarding Safety & Risk Management Systems from Cal Advocates. SoCalGas's testimony, workpapers, and its responses to data requests provide the justification for its funding request and the rationale for its forecasts. SoCalGas utilized a Base Year (2021) plus Incremental Activity methodology to forecast costs. This method was selected for the Safety & Risk Management Systems area because it is a more accurate methodology to capture fluctuations in historical spending, the implementation of new programs, the recent establishment of the SMS organization and expected growth in safety related activities. SoCalGas's forecast methodology reflects what SoCalGas believes represents its future needs given the expected growth, outlined within Ms. Master's testimony to the Safety & Risk Management Systems areas.[430]

Cal Advocates takes issue with SDG&E not providing specific "documentation" for costs. Notably, at times Cal Advocates requested documentation for costs that either SDG&E did not incur (*i.e.*, incurred one year, but not another year) or it had not yet incurred (*i.e.*, forecasted to occur in the future). In these instances, SDG&E is not be able to produce a specific document that would validate that any cost had not actually occurred or is yet to occur. In addition, and as provided to Cal Advocates in response to data requests, the primary documentation supporting SDG&E's request is Mr. Deremer's testimonies and the associated workpapers. In responding to Cal Advocates' data requests, SDG&E also provided detailed descriptions of current and planned

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429 *See*, *e.g.*, Cal Advocates OB at 42-43.

430 Ex. SCG-227 at 7-8.

activities, an overall program roadmap, regulatory directives supporting current and incremental activities, and estimates (and the basis for those estimates), and recorded costs quantitatively supported in workpapers – all of which were used to develop and support the TY 2024 forecast.[431]

9.4.2 SoCalGas's Request[432]

9.4.2.1 Continuous Improvement

Cal Advocates recommends a disallowance of $416,000 to this cost category compared to SoCalGas's funding request of $1.623 million.[433] Cal Advocates bases its recommendation on an alleged lack of documentation to support the increased incremental funding over 2021 expenses. SoCalGas disagrees with Cal Advocates' recommended disallowance and with its claimed lack of support. The activities associated with this workpaper include labor and non-labor expenses that support continuous improvement and strengthening SoCalGas's safety performance and culture for achieving safety excellence as it relates to decision making, activities, and processes. Ms. Master's direct testimony contains a detailed description of the costs and underlying activities for Continuous Improvement.[434] SoCalGas included incremental adjustments to its 2021 adjusted recorded operating expenses as SoCalGas anticipates an increase in labor and non-labor costs to enhance data collection tools and to perform quality assessments. One key cost driver is the expansion of quality assessments, a RAMP mitigation.[435] Quality assessments provide critical data for evaluating, measuring, and enhancing compliance activities within gas operations and construction. SoCalGas intends to expand quality assessments and enhance consistent quality oversight across the Company and to increase the number and types of assessments performed. In addition, SoCalGas seeks to develop and implement an electronic data collection tool for field and

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431 Ex. SDG&E-231 (Deremer) at 12-13.

432 For the Continuous Improvement, Safety Management, and Emergency Services categories, Cal Advocates states that there are historical expenses that are one-time and non-recurring. Cal Advocates OB at 42-46. Cal Advocates does not identify such historical one-time, non-recurring costs in its testimony, workpapers, or in its Opening Brief. However, as addressed in Ms. Master's rebuttal testimony, SoCalGas identified one-time, non-recurring costs in its 2021 request and has adjusted its forecast so that these costs do not inform its TY 2024 request. Ex. SCG-227 (Master).

433 Cal Advocates OB at 42. Note that Cal Advocates' Opening Brief does not reflect SoCalGas's updated request for this cost category, which SoCalGas reflects here.

434 Ex. SCG-27-2R-E (Master) at 36-42.

435 *Id.* at 37-40.

office assessments to increase efficiency, accuracy, and data sharing capabilities. The increased quality assessments will help identify potential safety risks to the Company.

9.4.2.2 Safety Management

Cal Advocates recommends a disallowance of $1.666 million to this cost category compared to SoCalGas's funding request of $6.456 million.[436] Cal Advocates bases its recommendation on an alleged failure "to show that its request has commensurate ratepayer benefits."[437] SoCalGas disagrees with Cal Advocates' recommended disallowance. The activities associated with this workpaper include labor and non-labor expenses associated with the support and compliance of required health and safety regulations (*e.g.*, DOT, OSHA, etc.). Ms. Master's direct testimony contains a detailed description of the costs and underlying activities for Safety Management.[438] SoCalGas included incremental adjustments to its 2021 adjusted recorded operating expenses as SoCalGas anticipates an increase in labor and non-labor costs to enhance safety through such programs as defensive driving refresher training, industrial hygiene, the Occupational Health Nurse (OHN) program, and environmental & safety compliance management. Cost drivers for the increase in incremental funding are discussed in Ms. Master's testimony[439] and include:

- Incremental funding to address the increasing number of policies and programs being implemented, enhanced client support, and identifying and addressing safety and health issues. SoCalGas is currently developing a comprehensive potential Serious Injury and Fatality (pSIF) program to provide assessments on incidents that could have led to a serious injury or fatality but did not. These assessments will help to inform program managers and leadership on how, and where, to take action to strengthen SoCalGas's safety culture against future risk.
- Incremental funding to further support the Contractor Safety programs to bring in dedicated resources to provide oversight on both Contractor Safety Standard Program and Contractor Safety Manual.

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[436] Cal Advocates OB at 43. Note that Cal Advocates' Opening Brief does not reflect SoCalGas's updated request for this cost category, which SoCalGas reflects here.

[437] *Id.* at 44.

[438] Ex. SCG-27-2R-E (Master) at 42-54.

[439] *Id.* at 53-54; Ex. SCG-227 (Master) at 9-13.

- Incremental funding to provide ease of access to information for employees and contractors through various channels. These include implementing an electronic library for employees to access current safety information, such as Ladder Safety, Fire Extinguisher Training, Confined Space, etc.
- Incremental funding for two Occupational Health Nurse (OHN) services. Through the on-site OHN program, employees can receive immediate medical care for non-emergency injuries for a fraction of the price of an emergency room visit or hospital costs. This can also reduce injury care costs by implementing preventative measures to reduce injuries from happening in the first place.

9.4.2.3 Emergency Services

Cal Advocates recommends a disallowance of $533,000 to this cost category compared to SoCalGas's funding request of $2.865 million.[440] Cal Advocates bases its recommendation on an alleged lack of documentation to support the increased incremental funding over 2021 expenses. SoCalGas disagrees with Cal Advocates' recommended disallowance and with its claim of a lack of support. The activities associated with this workpaper include labor and non-labor expenses that support business operations with first responder outreach and emergency response, preparedness, and recovery. Ms. Master's direct testimony contains a detailed description of the costs and underlying activities for Emergency Services.[441] SoCalGas included incremental adjustments to its 2021 adjusted recorded operating expenses as SoCalGas anticipates an increase in labor and non-labor costs to enhance safety through such programs as Federal Emergency Management Agency (FEMA) Incident Command System (ICS) response structure training, first responders gas related safety training, and the operations of a 24/7 Watch Office. Cost drivers for the increase in incremental funding are discussed in Ms. Master's testimony[442] and include:

- Incremental funding to support enhancements to the ICS training. The training will be designed to cover the material that the emergency responders would need to build the skill set that will make them successful in the management of an emergency incident.

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440 Cal Advocates OB at 45. Note that Cal Advocates' opening brief does not reflect SoCalGas's updated request for this cost category, which SoCalGas reflects here.

441 Ex. SCG-27-2R-E (Master) at 54-62.

442 *Id.* at 61-62; Ex. SCG-227 (Master) at 14-18.

- Incremental funding for the expansion of the Watch Office. SoCalGas has implemented a 24 hour/7 day a week schedule to proactively monitor for potential emergency incidents within the service territory. This capability allows SoCalGas to address potential risks before they happen and to take a forward-leaning posture in emergency response.
- Incremental funding for an additional resource to perform responsibilities associated to regulatory reporting for lines of business under the Chief Safety Officer. With the increase in regulatory reporting (RAMP, GRC, Safety Performance Metrics Report (SPMR), Risk Spend Accountability Report (RSAR)) and monitoring, the SMS organization recognizes the value in having a consistent method of approach and dedicated resources when compiling regulatory filings.

9.4.2.4 Technology and Analytics Group

Cal Advocates recommends a disallowance of $631,000 to this cost category compared to SoCalGas's funding request of $2.181 million.[443] Cal Advocates bases its recommendation on an alleged lack of documentation to support the increased incremental funding over 2021 expenses. SoCalGas disagrees with Cal Advocates' recommended disallowance and with its allegation of a lack of support. The activities associated with this workpaper include labor and non-labor expenses that support various technology applications, internal and external, safety reporting, technology, analytics, and SMS organization programs and initiatives. Ms. Master's direct testimony contains a detailed description of the costs and underlying activities for the Technology and Analytics Group.[444] SoCalGas included incremental adjustments to its 2021 adjusted recorded operating expenses as SoCalGas anticipates an increase in labor and non-labor costs to enhance various quality management and safety data-related reporting and analytics dashboards. Cost drivers for the increase in incremental funding are discussed in Ms. Master's testimony[445] and include licensing and maintenance costs for safety applications. SoCalGas is requesting incremental funding for the addition of seven full-time equivalents (FTEs). With the growing presence of analysis, safety reporting, and technology to improve efficiencies within the SMS organization, the group's size is also expected to grow to support and enhance the new activities

443 Cal Advocates OB at 46.

444 Ex. SCG-27-2R-E (Master) at 62-68.

445 *Id.* at 67-68; Ex. SCG-227 (Master) at 21-22.

being performed. With the additional funding, SoCalGas plans to build a comprehensive, centralized safety reporting group that supports the SMS organization, operational business units, and the Company's safety culture. SoCalGas recognizes the importance of making data-driven decisions to improve SoCalGas's safety and training programs for its employees and contractors. The incremental funding requested will support technology enhancements and new analytics to continuously improve processes.

9.4.3 SDG&E's Request

9.4.3.1 Safety Management System

Cal Advocates recommends a $903,000 disallowance from SDG&E's forecast of $2.303 million. Cal Advocates bases its recommendation on an alleged lack of documentation to support the increased incremental funding over 2021 expenses. SDG&E disagrees with Cal Advocates recommendation and with its claim of a lack of support. SDG&E's incremental funding request for its company-wide Safety Management System is driven by the Commission's risk-informed decision-making framework and will advance employee, contractor, and public safety. In order to achieve the expected benefits of an SMS, incremental funding is needed. SDG&E has not previously sought funding in prior GRCs, but prioritized development of an SMS in advance of this GRC. Thus, 2021 recorded expenses do not represent costs going forward for full SMS implementation. As discussed in Mr. Deremer's testimony rebuttal testimony,[446] the non-labor costs that Cal Advocates proposes a disallowance of are critical to completing and maintaining key elements of the SMS, including training, process implementation, data analytics, benchmarking, evaluation, and continuous improvement. Given SDG&E's de-centralized SMS organizational structure, technology resources are crucial to enable consistency in process implementation and information flow. SDG&E's incremental request will further enhance and optimize existing safety programs by providing the tools to collectively manage across the organization.

In support of its position, Cal Advocates points to SDG&E's historical costs and a decrease in recorded actuals between 2020 and 2021. As SDG&E explained in Mr. Dermer's rebuttal testimony and in data responses, historical costs were directly related to initial SMS assessment and development. Incurred historical costs to develop SDG&E's SMS are distinct from SDG&E's TY 2024 request to implement and mature its SMS. As a newly developed system, historical costs

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[446] Ex. SDG&E-231 (Deremer) at 7.

fluctuated as the program was initiated and are not representative of full build-out of a mature SMS.[447] SDG&E provided detail to Cal Advocates in response to its data requests and has justified its request.

9.4.3.2 Asset Management

Cal Advocates recommends a disallowance of $1.273 million from SDG&E's request of $2.077 million. Cal Advocates bases its recommendation on an alleged lack of documentation to support the increased incremental funding over 2021 expenses. SDG&E disagrees with Cal Advocates recommendation and with its claim of a lack of support. This 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.[448] While technically not new, Asset Management as a distinct and integrated organization was launched in 2018 and continues to evolve. 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.[449] Mr. Deremer's direct testimony contains a detailed description of the costs and underlying activities for Asset Management.[450] Cost drivers for the increase in incremental funding are discussed in Mr. Deremer's testimony[451] and include:

- Asset Integrity Management (within Asset Management Program) requests 1.6 new Asset Strategy Advisor FTEs to perform integrated asset management evaluation, analysis, and governance for key operational support assets including Gas, Facilities, Information Technology, Fleet, Customer Operations and other developing asset areas, such as energy storage and clean transportation. These advisors will support the ongoing maintenance of the Investment Prioritization software solution and associated processes.

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447 *Id.* at 9.

448 *Id.* at 11.

449 *Id.* at 13.

450 Ex. SDG&E-31-R-E (Deremer) at 59-73.

451 *Id.* at 71-73.

- Asset Data Systems & Records Management (within Asset Management Program) requests 1.2 new FTE to further develop and implement asset data aggregation, integration, and asset health models for an expanded scope of assets within Gas, Smart Meter, Facilities, Information Technology, and emerging lines of business. The workgroup also requests additional O&M dollars dedicated to one Senior Data Analyst to develop and maintain asset management related data governance activities, including addressing the recent focus directed by the Commission on advancing asset data accessibility, including wildfire risk proceedings, microgrids, and electric pole database rulemakings.
- The newly formed Asset Risk & Accountability Reporting workgroup (within Asset Management Program) requests adding 3.6 FTEs to lead and manage SDG&E's annual Risk Spend Accountability Report (RSAR) process. This includes one RSAR Manager (hired in the second half of 2021), one Project Manager, and two Business Analysts. These FTEs will be dedicated to optimizing technology to minimize manual processes and improve information (data/records) management to comply with RSAR accountability reporting, RAMP to GRC integration, visibility of risk-informed decision-making attributes throughout the various management information systems, and implementing overall process improvements with a particular focus on forecasting and recording units of work performed, per RAMP and RSAR requirements.
- Business Technology Solutions requests an additional 0.8 FTEs to support the expanded wildfire safety and regulatory scope of the group, which includes requirements to provide greater data portal access during weather emergency events and other regulatory proceedings.

Cal Advocates' proposed disallowances would compromise SDG&E's ability to execute and advance its risk informed asset management platform and investment decision making tools needed to align with regulatory policy directives, support current electric distribution and transmission operations, and expand to other SDG&E business units.

9.4.3.3 Contractor Field Safety Overhead Pool

Cal Advocates does not take into account SDG&E's adjusted numbers for this cost category as presented in Mr. Deremer's revised direct testimony. Cal Advocates recommends

$5.474 million for 2022, $5.992 million in 2023, and $5.991 million in TY 2024.[452] In Mr. Deremer's revised direct testimony, SDG&E adjusted its request to $2.2 million for 2022, $2.373 million for 2023, and $2.372 million for 2024.[453] While the original forecast reflects the amount that would be charged to the total contractor safety management overhead pool, the forecast incorrectly included costs that should be excluded from the GRC portion of this overhead pool.[454] SDG&E's capital forecasts include costs for the purchase of new enterprise-wide schedule software system, and an expanded contractor safety oversight program. This program is necessary as current staffing levels cannot support the proactive measures taken to effectively support the increased need of safety oversight and to implement safety programs such as the Enterprise-wide Incident and Schedule Management, and Enhanced Verification of Class 1 Contractors.[455] The revised forecast is reasonable, and no further reduction should be taken based on Cal Advocates' recommendations.

10. Gas Distribution (SoCalGas and SDG&E)

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 customers at a reasonable cost consistent with operational laws, codes, and standards established by local, state, and federal authorities. The majority of activities detailed in the testimonies of Shaena Walker and Cody Quezada (SoCalGas) and L. Patrick Kinsella (SDG&E) are compliance driven and are necessary to maintain and enhance the delivery of clean, safe, and reliable service to customers. Eight intervenors addressed SoCalGas and SDG&E's Gas Distribution GRC request in their Opening Briefs: Cal Advocates, TURN, CEJA, CUE, UCAN, FEA, EDF, and Local Union 132.[456] With the exception of a few issues, arguments raised by intervenors in their respective Opening Briefs primarily repeated points raised in intervenors' testimony. SoCalGas and SDG&E already addressed those arguments in their own Opening Brief and thus do not repeat the same arguments in this Reply Brief.

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452 Cal Advocates OB at 53-54.

453 Ex. SDG&E-31-R-E (Deremer) at 81.

454 SDG&E's original forecast inadvertently included overhead costs for CPUC-jurisdictional projects that were already directly charged to specific (larger) projects, as well as electric transmission projects allocated to FERC for ratemaking purposes. Ex. SDGE-231 (Deremer) at 18-19.

455 Ex. SDG&E-231 (Deremer) at 18-19.

456 Local Union 132's recommendations are addressed in Section 33.

SoCalGas and SDG&E focus this briefing on new issues raised by intervenors and on issues not already addressed in Opening Brief. CEJA proposes a 50% reduction in SoCalGas and SDG&E's revised New Business forecast, but CEJA fails to justify its proposed reduction and instead relies on an arbitrary unsupported percentage. In addition, both CEJA and TURN recommend the Commission adopt a balancing account for SoCalGas and SDG&E's New Business cost category for the post-test years. SoCalGas and SDG&E have both previously explored the possibility of a balancing account for these cost categories, but a balancing account mechanism is too complex for this area, resulting in administrative burden and additional costs, as discussed further below.

SoCalGas also addresses TURN's recommendations not previously addressed in SoCalGas and SDG&E's Opening Brief, which primarily rely on arguments that 2022 actuals should be used as SoCalGas's forecasts in identified areas. As discussed, TURN's recommendations should not be adopted and represent a misunderstanding of the process used in putting forth a GRC application. Lastly, SoCalGas addresses Cal Advocates' conflicting recommendations regarding Regional Public Affairs.

SDG&E addresses CEJA's recommendation regarding SDG&E's purging of customer house lines, an important safety activity. SDG&E also addresses UCAN's recommendation that SDG&E's O&M and Capital forecasts be reduced by an unsupported and arbitrary 30%, primarily based on UCAN's concern over declining gas demand. As discussed in Opening Brief, SDG&E's request for Gas Distribution is still needed to support the activities described in Mr. Kinsella's testimony. In addition, SDG&E addresses SDG&E Gas Distribution's hydrogen related requests in response to EDF's discussion of SDG&E's Hydrogen Roadmap.

SoCalGas and SDG&E's Gas Distribution revenue requests represent a more reasonable, balanced approach among the funding options presented by other parties. Accordingly, the Commission should adopt SoCalGas and SDG&E's recommended forecasts as just and reasonable.

10.1 Common Issues (SoCalGas and SDG&E)

10.1.1 SoCalGas and SDG&E's Revised New Business Forecast

As discussed in Opening Brief, 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 and decreased the non-collectible portion of those forecasts, which is the amount included in rate base.[457] Applications for projects received prior to the effective date (July 1, 2023) are not impacted by the new treatment for line extension allowances provided for in the decision. 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 the effective date.[458]

10.1.1.1 CEJA Inappropriately Asks the Commission to Commit Retroactive Ratemaking with Respect to 2023

CEJA requests that the Commission reduce SoCalGas's TY 2024 request by $3.993 million and SDG&E's request by $1.72 million to correspond to the 2023 *forecast* presented by SoCalGas and SDG&E for New Business—for the sole purpose of establishing the TY 2024 forecast—in their respective rebuttal testimonies. This ask amounts to a request to have the Commission engage in retroactive ratemaking and also fundamentally misunderstands the purpose of the 2023 forecast presented by SoCalGas and SDG&E.

In the rebuttal testimony of Ms. Walker and Mr. Quezada and in the rebuttal testimony of Mr. Kinsella, the Companies present their respective revised estimated forecasts for the non-collectible portion of New Business for the year 2023 given the anticipated impact of D.22-09-026.[459] This *estimated forecast*, which does not represent the actual recorded amounts for 2023, was used, and is presented solely, for the purpose of establishing SoCalGas and SDG&E's revenue request for this area for the TY 2024. CEJA fails to recognize the purpose of these forecasts and incorrectly equates them to ratepayer savings.

Further, the 2023 rates for SoCalGas and SDG&E are based on the revenue requirement authorized in Commission decision D.19-09-051, the Companies TY 2019 GRC decision. As discussed in Opening Brief, 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.[460] CEJA, in effect, asks the Commission to engage in retroactive ratemaking and

457 SCG/SDG&E OB at 95-96.

458 *Id.*

459 Ex. SCG-204 (Walker/Quezada) at 31; Ex. SDG&E-204 (Kinsella) at 21.

460 SCG/SDG&E OB at 16 (*quoting* D.20-01-002 at 8.)

adjust SoCalGas and SDG&E's 2023 rates, which are outside the scope of this proceeding, based on a Commission decision that was issued subsequent to D.19-09-051. This request must be denied. It is well established by the Commission and the courts, that 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.[461]

Rather than looking backwards, California sets rates on a forecasted basis. Under Commission precedent, changes that occur in the time between GRCs are reflected and captured in the next GRC cycle. For example, where a utility is required by changing circumstances to spend more in a given area than previously forecasted (and adopted) in its last GRC decision, that utility is not allowed to then go back and recover through rates the excess amount over the adopted forecast. Rather, prudent adjustments and reallocations are made by the impacted utility to meet the changing circumstances, and the increased amount spent in that area is used to inform and justify the forecast in the utility's next GRC request. The same principles and process apply where changing circumstances have resulted in a lower spend than previously adopted. CEJA's request asks the Commission to engage in restorative ratemaking, and this request must be denied.

10.1.1.2 CEJA's Request for a 50% Reduction of the Non-Collectible Portion of SoCalGas and SDG&E's Revised New Business Forecast is Unsupported

Although CEJA recommended a further 10% reduction in the non-collectible portion of SoCalGas and SDG&E's revised New Business forecast in its intervenor testimony,[462] CEJA now argues for a 50% reduction in the non-collectible portion of the Companies' respective revised new

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461 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.)").

462 Ex. CEJA-01 (Vespa) at 16.

business forecast.[463] CEJA argues that: "A fifty percent reduction in TY 2024 will function to normalize overall new business costs over the GRC period and balance later years where there are little to no remaining ratepayer-funded new business expenses."[464] However, CEJA does not offer support for its calculation of a 50% reduction as the appropriate number to account for the impact of D.22-09-026. Rather this number appears to have been arbitrarily arrived at. In contrast, in their respective rebuttal testimonies, Ms. Walker, Mr. Quezada, and Mr. Kinsella describe in detail how SoCalGas and SDG&E established their respective revised new business forecasts and why they are reasonable.[465]

As described in Opening Brief, the Commission does not conduct an extensive review of forecasts in the post-test years to determine revenue requirement. Rather, the Commission has consistently favored a simpler, escalation-based approach.[466] Thus, under the established TY 2024 GRC framework, the Companies forecast for the 2024 test year and provide a post-test year mechanism for the 2025-2027 post-test year period. The post-test year mechanism does not use specifically forecasted costs for the post-test years to derive the revenue requirement, and instead uses an historical average of capital additions, consistent with the mechanism approved in the TY 2019 GRC cycle. When using an average of capital additions, it is recognized that some costs may be greater than the level produced by the average of capital additions and others may be less. The post-test year mechanism, however, is used to derive the total revenue requirement needed for SoCalGas and SDG&E in the post-test years. Specific capital items being above or below the historical average of capital additions works itself out when forecasting on a total company basis.

CEJA does not provide any support or justification for why a 50% reduction in the test year, as opposed to another number, best accounts for the anticipated decreases in non-collectible amounts over the GRC period. SoCalGas and SDG&E believe they have provided a reasonable forecast for TY 2024. SoCalGas and SDG&E acknowledge that the non-collectible portion may

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463 CEJA OB at 18 ("Reduce SoCalGas and SDG&E's TY 2024 non-collectible requests by 50 percent ($13.041 million reduction for SoCalGas and $2.215 million reduction for SDG&E").

464 *Id.* at 22.

465 Ex. SCG-204 (Walker/Quezada) at 31-34; Ex. SDG&E-204 (Kinsella) at 21-23; *see also* Tr. V5:1038:21-25 (Walker) ("we do the best job we can at forecasting demands, and it's actually more of a risk to the company to balance those costs based on a very dynamic, you know, economy and customer base.").

466 SCG/SDG&E OB at 16.

continue to decrease after 2024. SoCalGas and SDG&E urge the Commission not to adjust the 2022-2024 capital expenditure forecasts to address decreases in the post-test years. While looking at potential decreases in the post-test years and applying an associated reduction to the test year forecast (referred to as "normalizing") is a standard practice for O&M expense items, normalizing is not typically utilized for capital items. For capital, the more appropriate means to addressing specific decreases in the post-test years is creating a post-test year capital exception. SoCalGas and SDG&E would not be opposed to such a practice to address the reduction in gas line extension allowances.

10.1.1.3 The Establishment of a One-Way Balancing Account Would be Complicated, Overly Burdensome, and Inappropriate for Gas New Business

CEJA and TURN both propose the establishment of a one-way balancing account for Gas New Business capital expenditures.[467] First, to clarify, it is the revenue requirement associated with capital additions that would be balanced, not the forecasted capital expenditures. Second, as Ms. Walker testified during cross-examination, tracking and balancing these costs would be administratively burdensome:

> SoCalGas did consider a balancing account; however, SoCalGas has a very large amount of new business projects, up to 10,000 projects per year. And after reviewing with our accounting department, they advised it would be extremely problematic to try to balance capital costs across 10,000 projects per year. It would require a significant amount of staffing and -- to maintain that level of balancing, and so they advised against that strategy.[468]

Although the number of projects per year would be different for SDG&E, SDG&E would face similar complications and administrative burden with implementing a one-way balancing account for these projects. Further, D.22-09-026 is a recent decision and the Companies are already working through the complications associated with implementing the cost true-up provisions required by the decision, which require system enhancements, procedural changes, and incremental staffing. Adding balancing account treatment would further complicate the accounting for Gas New Business projects and divert resources away from the implementation of cost true-ups.

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467 CEJA OB at 22; TURN OB at 98.

468 Tr. V5:1044:9-18 (Walker).

Lastly, although SoCalGas and SDG&E do not believe a balancing account should be adopted for this cost category, to the extent it is, recommendations to decrease SoCalGas and SDG&E's TY 2024 forecast for this category should be rejected as they would be unnecessary with the presence of a balancing account and SoCalGas and SDG&E have provided the most reasonable forecast.

10.2 SoCalGas's Request

10.2.1 Response to TURN's Capital Recommendations

In its opening brief, TURN has recommendations for the following capital cost categories: New Business Construction, Pressure Betterments, Regulatory Stations, Capital Tools, and Field Capital Support. TURN acknowledges that it has not proposed specific disallowances to all of these budget categories, and confusingly states that SoCalGas did not provide the requisite information for TURN to be able to do so.[469] SoCalGas disagrees, as it has provided an abundance of information to support its request, including testimony, workpapers, and responses to numerous data requests.

TURN also recommends that "the Commission adopt a budget for SoCalGas capital expenditures that considers 2022 actuals and non-speculative forecasts[.]"[470] TURN's recommendation displays a misunderstanding of how GRC applications are developed. GRC applications are filed using data at a necessary point in time and the forecasts for the TY 2024 were developed prior to 2022. As discussed in Opening Brief:

> 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. These forecasts were developed based on an analysis of historical spending and prudent consideration of future work and economic growth that is reasonably expected.[471]

Thus, the forecasts presented in Gas Distribution are far from speculative and instead are based on data and analysis. Further, 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

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469 TURN OB at 95.

470 *Id.* at 96.

471 SCG/SDG&E OB at 99.

indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others.[472]

For the most part, TURN's recommendations in its opening brief are the same as those presented in TURN's intervenor testimony and were fully addressed by SoCalGas in Ms. Walker and Mr. Quezada's rebuttal testimony.[473] TURN has not offered any meaningful response to the points raised in SoCalGas's rebuttal and its recommendations should be rejected. SoCalGas briefly discusses TURN's recommendations below.

10.2.1.1 TURN's Recommendation that SoCalGas Further Revise Its New Business Forecast Should be Rejected

TURN asks the Commission to direct SoCalGas to revise its New Business forecast calculations using 2022 actuals.[474] In preparing the forecast of this workpaper, SoCalGas utilized the 2021 historical average cost per meter set – the cheapest unit cost during the 2017-2021 period that reflects a mix of work anticipated to construct new main extensions and associated service laterals – and the projected meter set installations, as presented in Ex. SCG-04-CWP-R.[475] SoCalGas's use of 2021 as the base year for the labor and the non-labor cost and a 5-year average for the forfeiture cost to prepare the forecast is the most appropriate method 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. Further, the actual volume of work measured by the number of new meters installed was consistent with the forecast, indicating that underspending in 2022 does not necessarily represent less work being done. SoCalGas believes its revised new business forecast, which was derived based on a review of historical data as well as analyses and consideration of anticipated future needs, is the most appropriate and does not agree with adjusting the forecast based on the 2022 recorded cost. TURN also recommends that the final New Business forecast be updated to reflect TURN's reduced residential customer forecast.[476] For reasons

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[472] *See Id.* at 14-15; *see also* D.19-09-051 at 278 ("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.")

[473] Ex. SCG-204 (Walker/Quezada).

[474] TURN's OB at 4.

[475] Ex. SCG-204 (Walker/Quezada) at 31-32.

[476] TURN's OB at 4.

discussed in Section 40.1, SoCalGas believes its customer forecast to be the most appropriate to use.

10.2.1.2 TURN's Recommendation that SoCalGas "Refine" its Pressure Betterment Forecast Should be Rejected

TURN recommends that SoCalGas be directed to apply "a forecast method that utilizes historic unit costs along with actual planned work and a small additional budget for unknown projects" on the basis that "a utility will typically have identified projects as far out as 5, 10, or even 20 years that it needs to complete to ensure reliability."[477] SoCalGas disagrees with TURN's assumptions that SoCalGas has identified projects as far out as 5-10 years to incorporate in the forecast. As discussed in Ms. Walker and Mr. Quezada's rebuttal testimony, because the demand from the system is constantly changing, some pressure betterment projects may be identified and initiated for planning, but later deemed as unnecessary, and thus, postponed or even canceled. Further, when a pressure betterment project is initiated due to the proposed load from a specific new business project, the timeline of the betterment project depends on the new business project schedule and is executed only when the new business project has been confirmed for construction, at which point, SoCalGas is confident that the proposed load will be added to the existing system. Until then, the betterment project is placed on hold, and, at times, eventually canceled if the new business project is never executed. Therefore, while there may be numerous projects that are planned based on their respective scopes, accurately forecasting the investment more than a year out based on all known projects would not account for the uncertainty of the projects and would likely result in overestimating. For these reasons, SoCalGas utilized the base year methodology for this workpaper based on the identified projects at the time of the forecast, which is consistent with TURN's proposal to consider known projects, but only those that were anticipated to be executed.[478]

10.2.1.3 TURN's Recommendation that SoCalGas Revise its Forecast for Regulator Stations Should be Rejected

Regulator stations reduce the pressure of gas entering the distribution system from high-pressure pipelines to provide lower pressures to the distribution pipeline network. Regulator

[477] *Id.* at 100-101.

[478] Ex. SCG-204 (Walker/Quezada) at 34-35.

stations are critical control elements in the gas distribution system and federal regulations[479] require their inspection and maintenance. TURN recommends that SoCalGas be directed to use "a discrete project forecast method with some variance for unexpected station failures, and that any difference be disallowed[.]"[480] SoCalGas utilized the base year forecast with incremental funding for this workpaper because the most recent years' accomplishments and recorded cost best represented SoCalGas's projections for the future years, accounting for both the RAMP and the non-RAMP activities. SoCalGas's selected forecast methodology best accounts for both the proactively identified projects and the unplanned station issues or failures.[481]

10.2.1.4 TURN's Recommendation that Costs of Potential Hydrogen Equipment be Disallowed is Misplaced

TURN recommends that the "Commission should still specify that hydrogen detection equipment is not appropriate for inclusion in this GRC forecast."[482] As discussed in SoCalGas's testimony regarding Clean Energy Innovations (Exhibit SCG-12-R), SoCalGas believes that costs associated with clean energy are crucial and necessary to support the State's ambitious climate and decarbonization goals. The capital tools workpaper has the potential to incur cost related to tools for clean energy, such as hydrogen and renewable natural gas, but SoCalGas clarifies that the forecasted cost does not necessarily include a specific portion attributable to this equipment since the forecasting method used was a five-year average.[483] SoCalGas disagrees with any reduction to this workpaper's forecast.

10.2.1.5 SoCalGas Disagrees that Costs Related to Training and Off-Production Time Should be Fully O&M

TURN recommends that $372,000 for 2022, $384,000 for 2023, and $396,000 for 2024 training costs from Field Capital Support be removed and added to the appropriate Field Support O&M budget.[484] SoCalGas disagrees with TURN's recommendation that the cost related to training and off-production time should be fully a part of O&M expenditures. These training and

479 49 C.F.R. § 192.739(a).

480 TURN OB at 4.

481 Ex. SCG-204 (Walker/Quezada) at 37-38.

482 TURN OB at 103.

483 Ex. SCG-204 (Walker/Quezada) at 40.

484 TURN OB at 4. TURN does not dispute that generally training costs are recoverable through a GRC. *Id.* at 104.

off-production times occur throughout the employees' routine businesses, and the cost related to training and off-production times in this workpaper are from employees who support both capital and O&M activities. When employees spend time in trainings or during off-production, the resulting labor costs are recorded to the employees' default account which allocates costs between capital and O&M based on the default allocation for the account. SoCalGas reviews and updates these labor split allocations between capital and O&M costs annually so that the contributions to each type of work is accurately represented and recorded. This is consistent with SoCalGas's capitalization policy.[485]

10.2.2 Regional Public Affairs (RPA) Plays a Critical Role in Supporting Gas Distribution and There Should be No Disallowance

In its opening brief, Cal Advocates states in the Gas Distribution section that "Cal Advocates does not oppose SCG's TY 2024 forecasts for the following categories: . . . Regional Public Affairs . . ."[486] However, in its Political Activities section, despite never specifically addressing RPA or SoCalGas's request related to RPA, Cal Advocates appears to continue to ask for disallowances by referring to witness Castello's proposal to remove $80 million from the GRC request.[487] As discussed in Opening Brief, RPA's 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.[488] 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."[489]

Although members of RPA at times engaged in political activities or lobbying, their primary job responsibilities are those described in direct testimony.[490] As testified by Ms. Walker during cross examination, "any lobbying work that public affairs performs is not requested for

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485 Ex. SCG-204 (Walker/Quezada) at 40-41.

486 Cal Advocates OB at 57.

487 *Id.* at 402. Mr. Castello's testimony proposes $0.794 million compared to SoCalGas's request of $3.970 million. Ex. CA-23 (Castello).

488 SCG/SDG&E OB at 106.

489 Tr. V5:1074:24-1075:25 (Walker).

490 Ex. SCG-04-R-E (Aguirre/Walker/Quezada) at 63-66.

recovery in our testimony."[491] In addition to RPA charges that were booked directly to FERC account 426.4, which is automatically excluded from SoCalGas's revenue request, the workpapers for Gas Distribution also identify where manual adjustments were made to remove costs for lobbying, civic, and related activities and other nonallowable expenses.[492] Further information on SoCalGas's robust efforts to remove costs from its GRC request that should not be borne by ratepayers is addressed in Section 48.2.

10.3 SDG&E's Request

10.3.1 CEJA's Recommendation to Reduce SDG&E's Request Related to Purging Costs Should be Rejected

SDG&E's New Business budget code includes forecasted costs for the purging of customer house lines, an activity not impacted by the elimination of line extension allowances in D.22-09-026.[493] CEJA recommends that the Commission "find that purging costs are a collectible expense from the project applicant and reduce SDG&E's new business request by an additional $569,000."[494] The purging of customer house lines prior to initiating gas service is a RAMP activity, and provides vital customer and public risk mitigation. Purge orders are issued to promote customer safety by confirming customer owned gas houselines are safe and leak-free and the odorant in the gas is readily detectable. Purge orders usually involve large gas meter installations and customer owned gas systems for multifamily residential, commercial, and industrial customers.[495] As testified by Mr. Kinsella, purging costs are a safety issue, not only for the applicant of a new business project, but for the surrounding community. Specifically, Mr. Kinsella testified: "These are very complex systems. And by us performing this, it ensures that

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491 Tr. V5:1064:25-1065:1 (Walker); *see also id.* at V5:1068:9-1068:14 ("I know in 2021 the public affairs organization put together checks and balances to make sure costs were accurately recorded to below-the-line, above-the-line accounts to make sure that any advocacy costs were not charged to ratepayers."); *Id.* at V5:1072:18-1073:8 ("Our team worked very closely with public affairs team to – they had a process where they went through the calendars of all the public affairs managers and looked at where their time was spent. They removed any costs related to mileage with any activities that could be deemed questionable. They removed any labor hours associated with time spent doing those activities and any nonlabor costs associated with them as well. . . . It was a manual and very through process").

492 *See*, *e.g.*, Ex. SCG-04-WP-R-2E at 115.

493 Ex. SDG&E-204 (Kinsella) at 21-23.

494 CEJA OB at 23.

495 Ex. SDG&E-204 (Kinsella) at 22.

these systems are purged into service appropriately and safely."[496] He also testified that, "every aspect of this – of purging of systems appropriately into service is – affects everybody's safety."[497]

Given that this is an important safety issue benefiting the community, CEJA's recommendation should be rejected.

10.3.2 UCAN's Recommendations Should be Rejected

For the most part, UCAN's recommendations in its opening brief are the same as those presented in UCAN's intervenor testimony and were fully addressed by SDG&E in Mr. Kinsella's rebuttal testimony.[498] UCAN has not offered any meaningful response to the points raised in SDG&E's rebuttal and its recommendations should be rejected. SDG&E briefly discusses UCAN's recommendations below.

SDG&E disagrees with UCAN's recommendation for a blanket 30% reduction to SDG&E's Gas Distribution O&M and Capital requests.[499] UCAN's proposal continues to primarily rely on concerns about declining gas demand. As discussed in Opening Brief, however, 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. 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.[500]

Further, 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. As Mr. Kinsella testified, unless a given distribution asset can feasibly be retired,

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[496] Tr. V9:1551:1-3 (Kinsella).

[497] Tr. V9:1570:11-13 (Kinsella).

[498] Ex. SDG&E-204 (Kinsella).

[499] *See* UCAN OB at 70.

[500] SCG/SDG&E OB at 93.

continuing evaluation, maintenance, and, if necessary, replacement activities, are imperative.[501] Mr. Kinsella also 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.[502]

For the above reasons, and contrary to the suggestion by UCAN, 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.

In addition, the data relied on by UCAN to support its 30% reduction does not in fact support its position. UCAN attempts to support its recommended reduction is based on an incorrect assessment of SoCalGas's Electric Generation demand forecast and SDG&E's electric generation demand forecast.[503] As discussed in Mr. Kinsella's rebuttal testimony, SDG&E electric generation demand data does not reflect demand on the Gas Distribution system. The actual trend for SDG&E's Gas Distribution growth is best illustrated by the following quote from the California Gas Report:

> SDG&E's gas demand forecast is largely determined by the long-term economic outlook for its San Diego County service area. San Diego County's total employment is forecasted to grow on average just over 1% annually from 2021 to 2035; the subset of industrial (mining and manufacturing) jobs is projected to grow an average of 0.1% per year during the same period. The number of

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501 Ex. SDG&E-204 (Kinsella) at 9-10.

502 Tr. V9:1568:22-1569:9 (Kinsella). UCAN incorrectly states that this statement by Mr. Kinsella is contradictory to Mr. Kinsella's testimony that certain cost categories are driven by customer growth. UCAN OB at 71. However, Mr. Kinsella's testimony specifically calls out where cost drivers for a particular cost category include customer growth and does not state that the entire Gas Distribution request is driven by customer growth. *See e.g.*, Ex. SDG&E-04-R-E (Aguirre) at 81.

503 UCAN OB at 82.

> SDG&E gas meters is expected to increase an average of about 0.8% annually from 2021 through 2035.[504]

Additionally, UCAN itself highlights the SDG&E Summer High Sendout Day Demand Forecast report for core gas customers from the 2022 California Gas Report (CGR) and 2023 CGR Supplemental (CGR-S),[505] that shows only a 3.4% decline in gas demand over 5 years in the 2022 CGR and only a 2.1% decline in gas demand over 7 years in the 2023 CGR-S. SDG&E recognizes that gas demand is likely to decline in the future, however, for this rate case cycle SDG&E's Gas Distribution request is still needed to operate, maintain, and construct 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.

UCAN also confusingly states that "Mr. Kinsella's testimony does not justify SDG&E's recommended spending levels in major part because the testimony proposes capital costs and expense activities that are unsupported[.]"[506] SDG&E strongly disagrees with this statement. SDG&E has provided substantial justification and evidence supporting its request, including, testimony, workpapers, and responses to numerous data requests. Notably, Cal Advocates does not oppose SDG&E's Gas Distribution O&M and Capital requests.[507]

10.3.3 Response to EDF Regarding SDG&E Gas Distribution' Hydrogen-Related Requests

In its Opening Brief, EDF argues that SDG&E left out certain costs related to hydrogen in its Hydrogen Roadmap exhibit that was submitted in this proceeding.[508] The Hydrogen Roadmap is a "mapping document" which includes a list of all direct hydrogen-related projects, O&M, and related exhibits as well as the associated dollars.[509] In response to SDG&E's Hydrogen Roadmap, EDF presents its own table (*i.e.*, "Table 4: Hydrogen Expenditures Identified by EDF,") and claims there are three distinct hydrogen-related requests included in Mr. Kinsella's Gas Distribution

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504 Ex. SDG&E-204 (Kinsella) at 10 (*quoting* from California Gas and Electric Utilities, *2022 California Gas Report* at 203).

505 UCAN OB at 79.

506 *Id.* at 70.

507 Cal Advocates OB at 61-62.

508 EDF OB at 75-76.

509 Ex. SCG-322/SDG&E-320.

request that should have been included in the SDG&E Hydrogen Roadmap.[510] All three requests are discussed below. SDG&E agrees with EDF with regard to two of Gas Distribution's requests and removes those requests from its TY 2024 GRC request. SDG&E offers clarification on the third request.

10.3.3.1 Engineering for H2 Products

SDG&E included a request for a single engineer focused on hydrogen blending.[511] SDG&E inadvertently did not include this labor request for one "H2 Blending" engineer in the Hydrogen Project Roadmap and is now removing this request from SDG&E Gas Distribution's TY 2024 GRC request. Since SDG&E's GRC Application was submitted, the Commission has issued D.22-12-057, which directs a Joint Utility Hydrogen Blending Pilot application with pilot projects that will help the Commission understand, among other things, the impact that real-world blending of hydrogen at various percentages (5-20%) can have on the integrity and safety of the common carrier natural gas system. Thus, SDG&E's request for labor costs associated with hydrogen blending is better addressed as part of the Joint Utility Hydrogen Blending Pilot application. Accordingly, SDG&E removes its capital expenditure forecast related to this labor request in the amount of $108,000 for 2022, $108,000 for 2023, and $108,000 for 2024 from its total capital funding request. For the O&M expenditure, SDG&E removes $12,000 for TY 2024 related to this labor request from its total O&M funding request.

10.3.3.2 Kearny CNG (Compressed Natural Gas) Station Decommissioning

SDG&E included a funding request related to the decommissioning of an existing CNG fueling station at Kearny. In SDG&E's workpapers this project was mislabeled as "Kearny CNG Replacement/Hydrogen Integration" and identified as "labor, services and materials to improve or upgrade a natural gas alternative fueling station infrastructure for use by company fleet vehicles and the public."[512] SDG&E clarifies that this funding request is related solely to the decommissioning of an existing yet defunct CNG station at the SDG&E Kearny Constructions and Operations (C&O) Center. The request for the cost to construct the Hydrogen Fueling Station itself at Kearny is in Ex. SDGE-23 and was correctly included in SDG&E's Hydrogen Roadmap.

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510 EDF OB at 34.

511 Ex. SDG&E-04-R-E (Kinsella) at 58.

512 Ex. SDG&E-04-CWP-R at 259.

10.3.3.3 Capital Project Management

SDG&E included a funding request related to a single project manager focused on hydrogen blending. SDG&E inadvertently did not include this labor request for one "H2 Blending" engineer in the Hydrogen Project Roadmap and is now removing this request from SDG&E Gas Distribution's TY 2024 GRC request. For the same reasons as discussed above with regard to the Engineering for H2 Projects, SDG&E's request for labor costs associated with hydrogen blending is better addressed as part of the Joint Utility Hydrogen Blending Pilot application. Accordingly, SDG&E removes its capital expenditure forecast related to this labor request in the amount of $135,000 for 2022, $125,000 for 2023 and $125,000 for 2024 from its total capital funding request.

10.4 SoCalGas and SDG&E Already Addressed Remaining Arguments

For the most part, the intervenors commenting on Gas Distribution in opening brief repeated their original positions from intervenor testimony. Intervenors' briefs did not tend to address SoCalGas or SDG&E's rebuttal testimony nor any testimony during hearings. Thus, these arguments were addressed in SoCalGas and SDG&E's rebuttal testimony and/or Opening Brief and the Company will not repeat those arguments here. The issues already addressed include:

- UCAN, CEJA, TURN, and EDF continue to argue that declining gas demand should result in funding reductions in the Gas Distribution area, but fail to address the fact that declining gas demand does not necessarily equate to decreased customers or, more importantly, to an impact to the Companies' infrastructure, which the Companies have regulatory and legal obligations to maintain and operate in a safe and reliable manner.
- For SDG&E's Gas Distribution, CUE continues to recommend higher funding recommendations to support the removal of Pre-1934 threaded steel pipe, underperforming 1934-1965 steel pipe, and underperforming post-1965 steel pipe. As discussed in the Opening Brief,[513] SDG&E has fully justified its funding request for these three RAMP programs. 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.
- CEJA argues for an arbitrary and baseless reduction from 50% to 100% to the Pressure Betterment cost category for SoCalGas and SDG&E given anticipated decline in gas demand and new business. This recommendation should be rejected. Pressure Betterment projects are not solely driven by new business and a reduction

[513] SCG/SDG&E OB at 118.

risks jeopardizing SoCalGas and SDG&E's ability to provide sustainable, safe, and reliable service to their existing natural gas customers.

- Several parties addressed the Companies proposed Locate and Mark Balancing Account (LMBA) and Litigated Project Cost Memorandum Account (LPCMA) and recommended they be denied.[514] For the reasons discussed in Opening Brief,[515] these two regulatory accounts should be approved.

- Cal Advocates' recommendation to adopt a 2022 adjusted forecast amount of $19.7 million for SoCalGas's Locate and Mark cost category should not be adopted for the reasons discussed in Opening Brief, including because it would not provide adequate funding for these important safety activities which are mandated.[516]

- Cal Advocates' proposed reductions to SoCalGas's Control Center Modernization project should not be adopted.[517]

- For SoCalGas's Gas Distribution, TURN's recommendation that the Commission disallow the recovery of approximately $3.318 million in costs for hiring 40 additional leak survey technicians should be rejected.[518] As discussed in Opening Brief, none of the expenses associated with the Leak Survey workpaper are increased as a result of the hiring of these leak survey technicians and the hiring of the leak survey technicians allows SoCalGas to reallocate other, higher paid and more versatile employees to other tasks in the Gas Distribution department.[519]

- For SoCalGas's Gas Distribution, TURN recommends the adoption of a revised Main Maintenance O&M forecast based on a 5-year historical average, which results in a disallowance of $3.086 million. TURN's recommendation would risk not providing the necessary funding to cover these important compliance activities and should be rejected.[520]

- TURN's concern of "crossover issues with SB 1371 expenditures" and Business as Usual (BAU) activities funded via the GRC is unfounded for the reasons discussed in Opening Brief.[521] The entirety of SoCalGas and SDG&E's respective requests

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514 FEA OB at 16-17; TURN OB at 109; Cal Advocates OB at 59.

515 SCG/SDG&E OB at 94-95.

516 *Id.* at 102.

517 *Id.* at 110.

518 TURN OB at 3.

519 SCG/SDG&E OB at 103.

520 *Id.* at 104.

521 *Id.* at 96-97.

> for Leak Survey are related to federally mandated leak survey activities, and not to costs incurred related to SB 1371.[522]

In the interest of conserving the Commission's resources, SoCalGas and SDG&E direct the Commission to the corresponding portions of their Opening Brief and referenced rebuttal testimony, which comprehensively address and rebut intervenors' arguments for each of these areas.

11. Gas System Staff and Technology

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. Cal Advocates was the only party that submitted an Opening Brief addressing Gas System Staff and Technology. Cal Advocates does not oppose either SoCalGas's or SDG&E's forecast for Gas System Staff and Technology. Thus, SoCalGas's and SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

12. Gas Transmission Operations

SoCalGas and SDG&E Gas Transmission organizations 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. The organization provides a number of functions that are critical to the operation of the natural gas system.[523]

The costs for Gas Transmission Operations are largely unopposed. Although PCF appears to contest the entirety of SoCalGas and SDG&E's requests, Air Products, CalPA, and TURN make targeted oppositions to certain aspects of the requests.

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[522] 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 Methane Leak Proceeding (R.15-01-008) program scope.

[523] SCG/SDG&E OB at 126.

12.1 SoCalGas (O&M)

Other than PCF (see below), no party opposes any part of SoCalGas's O&M request except for Cal Advocates and TURN, which only oppose the costs related to staffing Gas Control operations in relation to the CCM project.

12.1.1 SoCalGas has Presented Substantial Evidence of the Staffing Needs for Gas Control and Should Receive Approval

With respect to the CCM project and related staffing for Gas Control operations, Cal Advocates recommends a forecast of $4.1 million for the Test Year while TURN recommends $3.5 million (a reduction from the $6.7 million included in the forecast).[524] The basis for both is that Cal Advocates and TURN believe that the increase in FTEs necessary to perform Gas Control activities is overstated. SoCalGas includes an increase in FTEs from 25.2 to 59.2, while Cal Advocates and TURN recommend smaller increases. The evidence presented shows that the amount requested by SoCalGas is necessary and should be approved because the increase in FTEs for the Gas Control Center is necessary to take advantage of the advancements implemented by the CCM project.

Although "TURN generally supports the CCM as a project that should improve operations and create efficiencies,"[525] it largely makes the same argument it made in testimony that, similar to Cal Advocates' argument, SoCalGas has not sufficiently justified its need for the requested FTEs. As explained in the Opening Brief, SoCalGas has included extensive evidence explaining the need for the additional FTEs. The CCM project will increase the scope of Gas Control's role. These scope increases will require the organization to hire additional FTEs in order to: incorporate distribution field assets and new transmission field assets; integrate data from an additional 7,514 field assets; require additional regulator station monitoring and control functionality on the distribution system, OPM stations, and HCA methane sensors; allow routing and monitoring of distribution system electronic pressure monitors and customer meter data; monitor alarm response, incident response, and maintenance activities related to field assets; facilitate coordination with distribution, dispatch, transmission, and emergency management organizations; and perform data analysis through new platforms introduced through the CCM technologies.[526]

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524 Cal Advocates OB at 64-65; TURN OB at 112-115.

525 TURN OB at 113.

526 SCG/SDG&E OB at 133.

In addition to these responsibilities, SoCalGas considered "external factors such as PHMSA-CRM regulations and the importance of effective management of fatigue and operator alertness contributed to the organizational structure."[527] SoCalGas further noted in rebuttal testimony that the FTE needs were developed by internal subject matter experts, but also "was developed … working in tandem with an experienced 3rd party contractor who has helped 20 other utilities worldwide define their resource requirements and modernize their control centers."[528] Setting aside this substantial showing, TURN argues that the CCM must provide additional cost efficiencies[529] and argues that the FTE increase should be capped at 20%. This 20% increase is apparently arbitrary and not tied to any analysis. On the whole, creating a new Gas Control Center (which is not opposed) that is understaffed would not be able to take advantages of the benefits that flow from the new safety-related technology enhancements.[530]

Cal Advocates states that SoCalGas's request should be reduced because (1) SoCalGas did not provide certain documentation for the increased FTEs, and (2) SoCalGas will continue to "deploy and integrate transmission assets into the Gas Control Center through 2028."[531] As to the first point, Cal Advocates does not apparently cite any evidence that is in the record. Furthermore, as discussed above, there is extensive evidence, including in the document Cal Advocates cites, explaining the need for the additional FTEs to run control center operations.[532] As to Cal Advocates' second argument, SoCalGas addressed the bulk of the argument in our Opening Brief,[533] and therefore does not address the argument again here.

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[527] Ex. SCG-206 (Chiapa, Hruby, Garcia) at 6.

[528] *Id.* at 4, fn.8.

[529] TURN misunderstands that the efficiencies for the project are not simply cost efficiencies, but also time and other efficiencies, such as quicker detection and response processes. (*See* Ex. SCG-206 (Chiapa, Hruby, Garcia) at 6.)

[530] D.19-09-051 at 130 ("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. SoCalGas also demonstrated that the current system for monitoring pressure in the distribution system is unable to provide continuous monitoring and is unable to monitor multiple units at once making it difficult to triangulate and determine where the actual problem is in the distribution system.")

[531] Cal Advocates OB at 65.

[532] *See* SCG/SDG&E OB at 133-134; Ex. SCG-06-2R-E (Chiapa, Hruby, Bell) at 34-41, Appendices D-F.

[533] SCG/SDG&E OB at 133-134, 139-140.

The FTEs needed to support "expanded safety, reliability, sustainability, and operational roles," should not be underfunded.

12.2 SoCalGas Capital

Other than PCF (*see* below), no party opposes any part of SoCalGas's capital request except for Cal Advocates and TURN, which only oppose certain costs related to the CCM project.

12.2.1 SoCalGas has Demonstrated that the Costs of the CCM Project Are Just and Reasonable and Should Not Be Capped or Relitigated in the Next GRC

Cal Advocates and TURN both recommend reductions to SoCalGas's Capital requests with respect to the CCM project. Cal Advocates recommends SoCalGas's capital costs for the CCM project related to field assets that will be deployed on the SoCalGas transmission system, specifically the optical pipeline monitoring (OPM) stations and high consequence area (HCA) methane sensors, be limited to $2.04 million for 2022, $2.04 million for 2023, and $2.04 million for TY 2024 (compared to the requested $2.038 million, $2.608 million, and $3.746 million, respectively).[534]

Cal Advocates argues that SoCalGas did not spend the amount authorized for the CCM from the last GRC.[535] SoCalGas addressed the argument in our Opening Brief[536] and, therefore, does not address it again here.

TURN does not recommend any reduction but has certain recommendations and caps it proposes with respect to the CCM building costs as a whole. Specifically, TURN recommends "that the Commission mandate that the Company present a holistic accounting of the capital costs of the CCM, inclusive of costs approved in the TY2019 rate case that were reallocated to the CCM and ancillary costs for the CCM," and that the Commission "cap cost recovery at the comparable facility costs on a per square foot basis (*i.e.*, the PG&E control center)."[537] TURN cites what it describes as cost inconsistencies and the expansion of the CCM to argue that the Commission "mandate… a holistic accounting" and cap cost recovery at a similar per-square-foot basis as

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534 Cal Advocates OB at 65-67.

535 *Id.* at 67.

536 SCG/SDG&E OB at 139-140.

537 TURN OB at 114.

comparable facilities.[538] TURN's proposal should be denied because (1) there is no inconsistency, as has already been explained, and (2) SoCalGas has already presented substantial evidence justifying the need and cost of the CCM Building and it should not be subjected to re-litigation.

First, TURN's alleged "inconsistencies" were not inconsistencies, and were already explained in testimony. TURN claims that the cost of the CCM Building was stated as $51.2 million in one area of testimony, but $77 million[539] in another area of testimony. However, the direct testimony clearly explains that the $51.2 million number is the additional cost beyond what was requested in the last GRC: "Although the expanded scope for the new facility to house Gas Control, the EOC, and the ancillary office space *will increase the previous GRC authorized request by $51,200,000*, the increase will be mostly offset by annual average O&M lease savings of $1,440,000."[540] The $51.2 million is therefore the *additional* cost beyond what was presented in the TY2019 GRC. This analysis was also discussed in the rebuttal testimony of Brenton Guy.[541] SoCalGas used this $51.2 million to explain that *the additional costs requested in this GRC* would largely be offset by savings from decreased rents.[542] The effective additional cost beyond the last GRC would essentially be reduced by annual O&M lease savings of approximately $1.44 million annually over 33 years. This savings amounts to 33*1.44, or $47.5 million, or 92.8%[543] of the additional project costs.[544] TURN's alternative calculation of 61.5% is the illustrative savings from the entire cost of the CCM Building.

Second, and most importantly, this number presented was an example of potential savings for the CCM Building, and not the driving force or primary justification for the project. As explained in extensive evidence presented by SoCalGas, the CCM project offers significant

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538 *Id*.

539 Note that this total cost number was reduced to $75.592M as explained in the Rebuttal Testimony of Brenton Guy. Ex. SCG-219-E (Guy) at 13 n.24 ("Due to errors discovered when responding to various data requests and in the course of review, the escalation amount of $776,670 in 2023 and $847,276 in 2024 for a total of $1,623,947 will be removed from CCM Building forecast in Revised testimony and Capital Workpapers."

540 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell), Appendix D at 9.

541 Ex. SCG-219-E (Guy) at 13.

542 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell) at 116-117, Appendix D at 9.

543 TURN inexplicably flips the numbers presented by SoCalGas and refers to the savings as "shortfalls." (TURN OB at 113-114.) These costs are not "shortfalls" in any way. TURN's terminology and changing of numbers adds unnecessary confusion to straightforward calculations.

544 Ex. SCG-06-2R-E (Chiapa, Hruby, Bell), Appendix D at 9.

benefits to the gas system. SoCalGas's request is supported by over 40 pages of direct testimony and workpapers explaining costs, details about the operations of the CCM, and the project benefits to safety and reliability. It is likely the reason why "TURN generally supports the CCM as a project that should improve operations and create efficiencies."[545] TURN's request to have some undefined "holistic accounting" in the next GRC for the CCM project is vague and unnecessary. SoCalGas is making its request in this GRC, and if intervenors oppose the costs for the project, this is the place to raise such issues. Mandating that SoCalGas again present its costs after it has done so in this GRC is unnecessary and burdensome. Having to litigate this issue a second time is a burden on the Commission and does not provide SoCalGas with the clarity it needs in completing the CCM project. Furthermore, mandating some project "cap" that will be imposed in the next GRC that is tied to "comparable facility costs on a per square foot basis,"[546] is vague and also forces a second litigation of the costs for the CCM project. TURN has not presented a cap, or costs of particular projects that could form the basis of a cap that would present a "like for like" comparison – as explained in rebuttal testimony.[547] If TURN's position is that costs from the project would not result in just and reasonable rates, this GRC is its opportunity to make those arguments. TURN's proposal should be disregarded.

12.3 PCF's Opposition to all Transmission Requests Is Baseless

PCF is the only party to challenge the entirety of SoCalGas's and SDG&E's requests, and the only party to challenge the forecast methodologies. In a scant 11 lines, PCF argues the entire request is unsubstantiated,[548] a bold claim considering just the 173 pages of direct testimony and 293 pages of workpapers for this witness area. It appears that PCF did not actually review any of the workpapers in making its claim that the Utilities did not "provid[e] the Commission with any way to check the Utilities' claims"[549] with respect to which forecast methodology was selected – the basis for its complete disallowance. As SoCalGas and SDG&E explained under cross-examination, the workpapers and testimony include discussions of forecast methodologies.[550]

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545 TURN OB at 113.

546 *Id*. at 114.

547 Ex. SCG-219-E (Guy) at 12.

548 PCF OB at 45-46.

549 *Id*.

550 *E.g.,* Tr. V9 at 1609:15-1613:1 (Chiapa).

Instead of identifying any particular forecast it found to be inaccurate or unsubstantiated, PCF simply argues SoCalGas and SDG&E did not meet their burden across the board because they are able to select between different methodologies. However, as the workpapers show, SoCalGas and SDG&E selected the appropriate methodology for their forecasts, and no other intervenor opposed any forecast methodology. In fact, in several instances SoCalGas selected the forecast methodology which resulted in a lower forecast than other methods would. As just one of many examples, in SoCalGas's capital work papers for Gas Transmission Pipeline Replacements, SoCalGas selected a 5-year average methodology.[551] As SoCalGas explained in that workpaper, for this significant activity (2021 adjusted record costs were $54.926 million): "The base year recorded, as well as the historical average forecast methodologies provide excess funding for the anticipated work during this GRC forecast period and are therefore not effective as choices for this cost category."[552] In other words, SoCalGas selected a 5-year average forecast, but *every other forecast methodology* (base year, 4-year average, 3-year average, 5-year linear trend, 4-year linear trend, and 3-year linear trend) would have resulted in a *higher* forecast.[553] PCF's argument is baseless and should be disregarded.

12.4 Air Products Opposition to the ARE Component at Moreno Misunderstands that the Component Will Be Providing Energy Onsite for SoCalGas's Facilities

Air Products briefly explains in its Opening Brief that for the ARE component for the Moreno facility "the Commission should make clear… that the projects are unauthorized utility activities, and the Sempra Utilities should cease planning and development of the ARE projects."[554] As explained elsewhere in this brief (*see* Section 16), similar to other proposals in this GRC, the ARE components are not a method of engaging in wholesale of hydrogen or blending it into the gas system. Instead, as APD must recognize, the ARE component is solely on premises and "includes the integration of green hydrogen into the fuel stream for combustion in the new CGTs, the use of green hydrogen to fuel company fleet vehicles, and the use of green hydrogen to power fuel cells to power the station's administrative and auxiliary loads during peak

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551 Ex. SCG-06-CWP-R at 15.

552 *Id*. at 16.

553 *See Id.* at 55, 65, 88 for other examples of SoCalGas selecting forecasts that were lower than others.

554 Air Products and Chemicals OB at 29.

power demand hours or as a backup during failure of the electric grid."[555] There is no reason why this type of use of hydrogen must require the CPUC to clarify that it is exercising jurisdiction over hydrogen "ventures" entirely.[556] This limited use, similar to others proposed in this GRC, is a way that SDG&E (and SoCalGas) can incorporate hydrogen at SDG&E's facilities to reduce GHGs while making the Moreno Compressor Station more resilient.

12.5 The LPCMA Addresses

Cal Advocates opposes the LPCMA for Gas Transmission related expenses. For the reasons discussed in Opening Brief,[557] this regulatory account should be approved.

13. Gas Engineering

SoCalGas and SDG&E have fully justified approval of their reasonable TY 2024 Gas Engineering O&M and capital costs for 2022, 2023, and 2024, as fully shown in testimony and in SoCalGas's Opening Brief.[558] SoCalGas seeks $32.910 million for O&M and $61.139 million in its 2022-2024 capital forecast. No party opposed SDG&E's 2022-2024 capital request of $885,000.

The parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have previously presented. SoCalGas's Opening Brief addressed the issues contested by Intervenors and is incorporated by reference herein to avoid repeating the same arguments.[559] This reply addresses only certain details on the same arguments raised by Intervenors on the same contested issues.

13.1 SoCalGas Has Fully Justified the Reasonableness of its Capital Forecast for Supervision and Engineering Overhead Pool

13.1.1 Cal Advocates' Opposition to the Incremental $3 Million in TY 2024 Appears to Unjustifiably Disagree with the Level of Detail for the Reasonable Explanation Provided

Cal Advocates' Opening Brief continues to take issue with SoCalGas's TY 2024 capital forecast for Supervision and Engineering Overhead Pool, alleging lack of details and supporting

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555 Ex. SDG&E-06 (Chiapa, Hruby), Appendix B at 8.

556 Air Products and Chemicals OB at 32.

557 SCG/SDG&E OB at 94-95.

558 SCG/SDG&E OB at 144-158.

559 *Id.*

documentation, such as contracts and invoices, to justify the $3.0 million increase for TY 2024.[560] As addressed in SoCalGas's Opening Brief, SCG has sufficiently justified the $3 million incremental amount for TY 2024.[561] An adequate and reasonable explanation regarding the Construction Organization's shifting costs to the Overhead Pool account has already been provided and additional detail/documentation is unnecessary to justify the driver in more recent years.[562] Moreover, neither Cal Advocates nor TURN questioned the witness on this point during hearings if they desired more details. Nor did these parties rebut the explanation for incremental funding as baseless. Based on the record, SoCalGas has justified its request and the full capital funding level should be approved.

13.1.2 TURN's $6.825 Million Disallowance Appears to Similarly and Unjustifiably Disagree with the Level of Detail for the Reasonable Explanation Provided

TURN similarly questions the level of detail provided for the Construction Organization's shifting costs to the Overhead Pool account.[563] Additionally, TURN believes a five-year average is more appropriate than SoCalGas's three-year average.[564] As explained above, additional detail was not necessary. The driver explaining why more recent years are relevant should be sufficient. The changes in 2020 (*i.e.*, the Construction Organization's shifting costs) warrant using historical

560 Cal Advocates OB at 69-70.

561 SCG/SDG&E OB at 153 (explaining the Construction Organization settling to the Overhead Pool account).

562 *See, e.g.*, Ex. SCG-207-E (Martinez), Appendix B at 2, Response to DR PAO-SCG-099-MPS Response 3(a) ("SoCalGas notes that there is an increase from 2019 to 2020 adjusted recorded amount from $10,927 and $17,308, respectively. This increase occurred because in 2020, overhead pool costs from the Construction organization began settling to the overhead pool resulting in an increase from prior years. The increase from 2020 to 2021 was $17,308 to $19,463, respectively."); see also *Id.*, Appendix B, at MTM-B-4, Response to DR PAO-SCG-099-MPS Response 3(c) ("In 2024, SoCalGas estimates $3.0 million for non-labor consultant costs to address estimated increase in volume of capital infrastructure projects (See Ex. SCG-R-CWP at page 34)."); *See* Ex. SCG-07-CWP-R (Martinez) at 34 ("Upward adjustment to BC 908 for non-labor consultant costs to address increased volume of capital infrastructure projects."). To the extent Cal Advocates requested contracts and invoices, SoCalGas provided the relevant response in Exhibit SCG-207-E (Martinez), Appendix B, at MTM-B-5, Response to DR PAO-SCG-099-MPS Response 3(d) ("SoCalGas performed a diligent search and reasonable inquiry for documentation responsive to the request. As a result of that effort, SoCalGas was not able to locate documentation responsive to the request in its possession at this time."). Cal Advocates did not follow up on Response 3(d).

563 TURN OB at 116-117.

564 *Id.* at 116.

data from the more recent years since that change took effect. Nothing further is needed to substantiate the use of a three-year average methodology. TURN fails to provide any evidence to justify why the years prior to this change in 2020 would be relevant and sufficient to reflect SoCalGas's more recent needs and why the Commission should disregard this driver of increased costs.

TURN also provided no support for its claims regarding the Commission's treatment of a longer-term average.[565] Moreover, SoCalGas did in fact provide a "substantive rationale that only more recent costs are representative of the future,"[566] which is actually in line with TURN's own argument about when the Commission would support a shorter-term average. TURN appears to simply disagree with the level of detail for the explanation, which is not necessary for the rationale.

13.2 SoCalGas Has Reasonably Justified its Fleet Vehicle Additions for Gas Engineering

TURN continues to take issue with SoCalGas and SDG&E's showing that establishes the reasonableness of their vehicle additions forecast.[567] While SoCalGas and SDG&E's showing is explained in more detail in the Fleet Services Section at pages 577-586 of their Opening Brief, as well as in this Reply Brief's Fleet Services Section 24, this reply focuses on the assertions specific to Gas Engineering vehicle additions. SoCalGas already addressed the reasonableness of the Gas Engineering incremental vehicle request in its Opening Brief, including the business justification in the direct testimony of Maria Martinez.[568] This includes the explanation of the Aviation Services team's use of company vehicles to transport drones and other related equipment to the field to assist with historically challenging inspections. These areas "are remote, difficult to access, or hazardous to patrol and perform leak surveys or emergency response."[569] TURN's incorrect assertion that certain incremental vehicle requests like Gas Engineering are "marginally

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565 *Id.* at 117 ("Where costs fluctuate greatly, the Commission has recognized that it is appropriate to use a longer-term average, unless there is any substantive rationale that only more recent costs are representative of the future.").

566 *Id.*

567 TURN OB at 288-292.

568 SCG/SDG&E OB at 150-151; Ex. SCG-207-E (Martinez) at 5-6.

569 SCG/SDG&E OB at 151, n.894.

developed" did not seem to fully understand this explanation.[570] SoCalGas's employees would not be well-equipped to respond to such challenging safety conditions during inspections, which is a straightforward justification. TURN ignores that Gas Engineering also demonstrated the need for incremental vehicle additions within the EAC and Measurement and Regulations teams.[571] Accordingly, TURN's request to exclude 100% of the vehicle additions request on the basis of "insufficient justification" is meritless and should be rejected.

13.3 SoCalGas's Pre-2019 ROW Renewal Costs in MROWMA are Wholly Justified for Recovery

TURN-SCGC mischaracterize SoCalGas's argument and the procedural record as to why it is appropriate for SoCalGas to recover costs incurred to renew expiring Morongo Rights of Way (ROW) in this GRC. TURN-SCGC's 10 pages of its Opening Brief dedicated to this topic[572] only obfuscate what is a very simple and direct legal and factual basis for SoCalGas's recovery: the prior TY 2019 GRC (D.19-09-051) authorized the MROWMA to record costs related to renewing rights-of-way, and SoCalGas did incur pre-2019 renewal costs for this purpose.[573] As plainly explained in SoCalGas's Opening Brief,[574] there was no limitation on that authorization to only apply to the test year 2019 and beyond, as TURN-SCGC claims. A plain reading of D.19-09-051 supports SoCalGas's interpretation:

> "As of the date of this decision, negotiations to renew the ROWs are still ongoing and an agreement can still be reached regarding renewal of the expired ROWs. However, in light of the important role these pipelines provide to system reliability and because renewal of the ROWs remains uncertain, we find that costs associated with considering alternatives to renewing the ROWs are necessary and appropriate. In addition, SoCalGas specifically excluded such costs from its TY2019 forecast and we agree that the costs are difficult to predict. Therefore, we find that SoCalGas' requests to establish the MROWMA should be authorized.
>
> With respect to the MROWBA, the costs are specifically excluded from any of SoCalGas' forecasts in this GRC and we also agree that the costs are difficult to predict. Thus, we disagree with TURN's proposal to include these costs in Gas Transmission and Major Projects. We also have no objections for the costs to be

570 TURN OB at 290-291, fn.962 (TURN acknowledges this Aviation Services activity by citing to Workpaper 2EN003 for Gas Engineering and Ex. SCG-7-R at 17:18-20).

571 *See e.g.*, Ex. SCG-07-R (Martinez) at 10, 17, and 22-23; Ex. SCG-07-WP-R at 15.

572 TURN-SCGC OB at 2-12.

573 D.19-09-051, at 140-141, 764, COL 28.

574 SCG/SDG&E OB at 154-156.

tracked. However, we agree with ORA that the costs should be tracked in a memorandum account as opposed to a balancing account to allow the Commission the opportunity to conduct a reasonableness review of the costs to be recovered. The testimony submitted in the proceeding does not include sufficient details as to the activities to be performed or the costs that will be incurred and whether these are necessary and reasonable. In addition, negotiations regarding renewal of the ROWs are still ongoing and an agreement may still be reached and so the activities to be performed are uncertain. Thus, we find it more appropriate for these costs to be tracked in a memorandum account where the Commission will be afforded an opportunity to review the costs incurred.

We therefore find it reasonable to deny the requested authority to establish the MROWBA. Instead, the costs that are being requested to be recorded in the proposed MROWBA should be tracked in the MROWMA being authorized in this decision. Recovery of the tracked costs may then be requested by SoCalGas in its next GRC proceeding which the Commission can then review for reasonableness thereof. In its next GRC filing, SoCalGas should include testimony confirming any costs associated with Morongo ROW negotiations and/or resolution if an agreement is reached."[575]

The Decision clearly adopted ORA's recommendation for "the establishment of a MROWMA that will track ***all costs*** relating to the expiring ROWs with recovery of costs being subject to a reasonableness review."[576] The Decision recognized that pre-2019 costs were being incurred[577] and there was no limitation to tracking and recording of costs to be requested for recovery in the "next GRC filing" to those only incurred in 2019 and going forward.

TURN-SCGC's attempts to muddle the record on the MROWMA's purpose under D.19-09-051 with respect to renewal costs are unavailing. First, TURN-SCGC's continued focus on A.16-12-011[578] and SoCalGas's withdrawal of the request to track renewal costs in response to a motion to dismiss is a red herring. As stated in SoCalGas's response to that motion, withdrawal of the requested relief simply meant that SoCalGas would "not ask or require the Commission to make that determination today."[579]

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575 D.19-09-051 at 140-141.

576 *Id.* at 136 (emphasis added).

577 *Id.* at 137-138 ("The four ROWs have been renewed at various points in time but are currently set to expire as follows: Line 2000 – expires on March 29, 2018; Line 5000 – expires on August 21, 2018; Gas Distribution System – expires on August 21; 2018 Line 2001 – expires on March 22, 2020."); *Id.* at 138 ("SoCalGas has been negotiating with Morongo for the renewal of the four ROWs since July 2015. . . .").

578 TURN-SCGC OB at 9-11.

579 A.16-12-011, Response of SoCalGas to Motion of TURN, ORA, and SCGC for Dismissal of the Application (February 6, 2017) at 5.

That withdrawal does not prejudge nor predetermine what the Commission ultimately authorized more than a couple years later in D.19-09-051 with respect to tracking *all* renewal costs. Indeed, the ALJ Ruling denying the motion notes that the renewal costs were removed in the Amended Application that led to D.18-04-012's determination, supporting SoCalGas's argument here that the scope of that decision was limited only to pre-construction costs.[580] Thus, TURN-SCGC's own references to the motion to dismiss procedural history provide support for the fact that D.18-04-012 is irrelevant to the disputed renewal costs at issue in this GRC.

Second, TURN-SCGC fundamentally misunderstands the ratemaking aspects of the Morongo ROW renewal costs over several GRC cycles and is simply incorrect that such costs were recovered in prior GRCs.[581] As explained in SoCalGas's Opening Brief, the $4.6 million of pre-2019 expenses in dispute relate to obtaining rights-of-way and were not previously recovered in prior GRC cycles.[582] Moreover, consistent with ratemaking principles, since SoCalGas capitalizes such costs, it has not recovered the associated revenue requirement in prior GRC cycles, contrary to TURN-SCGC's arguments that these costs were already reflected in prior authorized GRC revenue requirements.[583] SoCalGas appropriately followed Commission directives in D.19-09-051 by only including revenue requirement incurred as of January 1, 2019, the effective date of the MROWMA.[584] Additionally, TURN-SCGC 's interpretation of the prior GRC decisions to argue against SoCalGas's capitalization of the pre-2019 ROW renewal direct and overhead expenses[585] would be inconsistent with FERC capitalization policy. As noted in SoCalGas's Opening Brief, capitalization of such costs is in line with Code of Federal Regulations

580 *See* A.16-12-011, Administrative Law Judge's Ruling Denying Motion To Dismiss Application, April 4, 2017, at 2 (In the Amended Application, "SoCalGas removed its request for the memorandum account to track costs of, and incurred during, negotiations with and payment to Morongo for the renewal of four existing rights-of-way, and costs incurred during the renewal process, which may include costs to access, relocate, and/or modify segments of the gas transmission pipelines and the distribution system to accommodate Morongo's plans within Reservation. . . . Upon review of the arguments raised by all parties, we find that the joint motion to dismiss filed by TURN, ORA and SCGC should be denied.").

581 *See* TURN-SCGC OB at 4.

582 SCG/SDG&E OB at 155.

583 TURN-SCGC OB at 11 ("GRC revenue requirement is intended to cover 'all of the activities and associated costs of providing service during the period covered by the [GRC] forecasts,' unless the Commission authorizes a different procedure.").

584 Ex. SCG-238 (Yu) at 13.

585 TURN-SCGC OB at 11.

(C.F.R.) Part 202, Section Gas Plant Instructions #71 for Land Rights for labor and expenses in connection with securing rights of way.[586] TURN-SCGC also appears to misunderstand that SoCalGas did not "earn a return on O&M and overhead costs"[587] in those prior GRC cycles because negotiations were still pending, therefore, the asset was not placed in service and was not included in rate base.

Finally, it is worth reiterating that Cal Advocates performed a financial examination of the costs recorded to the MROWMA and had no recommended adjustments.[588] The rebuttal testimony of Rae Marie Yu elaborated that as part of their examination, SoCalGas provided the same list of expenses to Cal Advocates that was provided to TURN-SCGC.[589] Those expenses included the pre-2019 ROW renewal costs in dispute by TURN-SCGC.[590] Accordingly, there is no merit to TURN-SCGC's arguments, and the Commission should agree with Cal Advocates that adjustments to SoCalGas's recovery of MROWMA costs are not necessary.

13.4 PCF's Opposition to SoCalGas and SDG&E's Hydrogen-Related Proposals Appears to Be Ideologically Driven and is Not Aligned with State Policy

Although PCF did not submit an opening brief section specific to Gas Engineering, PCF refers in part to Maria Martinez's testimony in its footnote 234 when stating: "The Utilities seek ratepayer funding for various hydrogen related proposals, but have wholly failed to justify their expensive proposed hydrogen-related programs."[591] As stated in SoCalGas/SDG&E's Opening

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586 SCG/SDG&E OB at 155.

587 TURN-SCGC OB at 11 ("The problem with selecting capitalization in this instance is that SoCalGas already recovered O&M and A&G costs related to gas transmission rights-of-way through the TY 2012 and TY 2016 GRCs. SoCalGas's approach would allow it to earn a return on the O&M and overhead costs that it already collected in rates. This is unfair to ratepayers.").

588 SCG/SDG&E OB at 154.

589 Ex.SCG-238 (Yu) at 13-14.

590 *See* Ex. CA-19 (Chia/Lee) at 34-35, Spreadsheets Vol. 22 at 3934 ("Regarding SoCalGas's Regulatory Accounting testimony (Ex. SCG-38), three balancing accounts were selected for audit: (1) Safety Enhancement Capital Cost Balancing Account (SECCBA) $98,673,000.00, (2) Safety Enhancement Expense Balancing Account (SEEBA) $6,915,000.00, and (3) Morongo Rights-of-Way Memorandum (MROWMA) $21,151,000.00. Cal Advocates requested a breakdown of recorded capital expenditures and expenses for these three regulatory accounts. . . . Based on the audit procedures performed, Cal Advocates makes no recommended adjustments to the balances of the selected regulatory accounts.")

591 PCF OB at 49, n.234 and n.235.

Brief, PCF's position is not consistent with State policy supporting the use of hydrogen to combat regional air pollution and climate change.[592]

Moreover, PCF makes several statements about Gas Engineering's clean fuel activities and testimony that are not accurate or appear to take statements out of their full context.[593] For example, citing Maria Martinez's hearing testimony, PCF erroneously claims: "The Utilities fail to refute PCF's evidence that hydrogen fuel is not, in fact, clean. Indeed, the Utilities admit that when they use the term 'clean,' they are including products that are composed of methane, a highly potent greenhouse gas."[594] Yet PCF omitted to cite the part of Ms. Martinez's hearing testimony indicating that the context for her use of the term "clean" and "methane" is in reference to renewable natural gas (RNG) being produced from a cleaner renewable fuel reprocessed from RNG dairy pilots, not hydrogen. Ms. Martinez testified: "My term when used 'clean,' is the fact that it's renewable. And it was made from a renewable -- it was reprocessed from a methane dairy farm."[595] Thus, PCF misstates Gas Engineering's testimony in several places.

Sections 8 and 18 of SoCalGas and SDG&E's Reply Brief further address PCF's arguments related to hydrogen proposals.

14. SoCalGas and SDG&E Pipeline Safety Enhancement Plan (PSEP)

As explained in the Opening Brief, the Pipeline Safety Enhancement Plan (PSEP) is a safety driven, Commission approved program that uses a risk-based prioritization methodology to test or replace pipelines in the utilities' services areas. SoCalGas and SDG&E are obligated to replace or pressure test all natural gas transmission pipelines in California that have not been tested or for which reliable records are not available. This work must be performed expeditiously, as the Commission has stated that such work must be done "as soon as practicable."[596] SoCalGas has a proven record of effectively running the PSEP and having costs approved for it.[597] In this GRC,

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592 SCG/SDG&E OB at 149-150; *see also id.*, Sections 8 (at 45-56) and 18 (at 244-280).

593 *See, e.g.*, PCF OB at 53 (misunderstanding Maria Martinez's testimony clearly indicating: "[M]y request is not looking to blend into the system. I -- my request is specific to understanding whether you can, and what the impacts of that would be.").

594 *Id.* at 54.

595 Tr. V9:1682:4-7 (Martinez).

596 SCG/SDG&E OB at 160-161 (citing D.11-06-017 at 18).

597 Ex. SCG-208 (Kostelnik) at 15; SCG/SDG&E OB at 161-163.

SoCalGas proposed capital and O&M work, and both SoCalGas and SDG&E included projects for reasonableness review.

Three parties provided arguments in Opening Briefs with respect to SoCalGas and SDG&E's PSEP requests. No party opposes SDG&E's O&M or capital requests. For SoCalGas, Cal Advocates does not oppose any of SoCalGas's request other than to argue SoCalGas's Capital Technology request should be normalized over the 4-year GRC cycle – a proposal SoCalGas agreed to in its Rebuttal Testimony and Opening Brief.[598] The other two parties, TURN and SCGC, jointly oppose the contingency factor costs that are individually calculated for each forecasted PSEP project or, in the alternative, propose a flat 10% cap on contingencies. No party opposed SoCalGas's PSEP or Dairy Pilot reasonableness review costs presented in this GRC.

14.1 PSEP SoCalGas

14.1.1 SoCalGas Agrees with Cal Advocates' Capital Technology Cost Normalization

Cal Advocates does not oppose SoCalGas's Capital PSEP request.[599] Cal Advocates also does not oppose SoCalGas's O&M request, other than its recommendation that the Commission normalize SoCalGas's Capital Technology Cost request over the four-year GRC cycle to reflect the O&M costs more accurately in rates.[600] As stated in the Opening Brief, SoCalGas agrees with this recommendation and has adjusted its request accordingly.

14.1.2 TURN-SCGC's Elimination of Contingency or Reduction to an Arbitrary Amount Would Dispose of an Important Cost Component that SoCalGas has Specifically Determined for Each Project

The only other parties opposing any of SoCalGas's PSEP forecast request[601] are TURN and SCGC. TURN-SCGC only contest one aspect of SoCalGas's request: the contingency factor that is applied on an individualized basis to each PSEP project. TURN-SCGC argue that SoCalGas's contingency factors should be eliminated for all project costs, or limited to a 10% contingency across all pipeline projects, because (1) the Commission is generally "skeptical" about contingency

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598 SCG/SDG&E OB at 174.

599 Although Cal Advocates included other arguments in testimony that were addressed in the SCG/SDG&E OB, it appears that Cal Advocates has abandoned those arguments.

600 Cal Advocates OB at 70-74.

601 TURN-SCGC did not oppose SoCalGas's revenue requirement request associated with previously completed projects presented for reasonableness review.

factors, and (2) SoCalGas has experience with estimating project costs for PSEP projects.[602] These are the same arguments raised by TURN-SCGC in the last GRC where the CPUC ultimately approved a contingency rate consistent with SoCalGas's request here.

It must be emphasized that no party has opposed any of the forecasted project costs for any of the PSEP projects other than the contingencies. SoCalGas has provided substantial, individual analysis for each of the proposed projects, and even provided contingencies specific to each project. As stated in rebuttal (page 13), SoCalGas conducts extensive work to determine each individual project's risk profile based on their specific scope definition, attributes, and project level risks that are deliberated in detail during risk assessments.[603] Indeed, conducting these risk assessments and calculating project-specific contingencies are part of prudent cost and project management that SoCalGas has demonstrated in multiple reasonableness reviews. The application of a flat contingency amount as proposed can have a potential impact of negating the risk analysis on the projects. Because of the substantial record supporting PSEP's projects, which it otherwise does not oppose, TURN-SCGC is left only able to make a broad, generalized critique of contingency factors. TURN-SCGC does not attack *any* specific contingency for any project and does not present any evidence of any specific contingency cost being improper for a project.

It must also be emphasized that, as discussed below, contingency is not simply an adder on top of an estimate, but "the definition of an estimate necessarily includes the contingency element, as established by AACE."[604] Consistent with industry standards, SoCalGas performed individual risk assessments for each project, just as with other cost components.[605] These contingencies do *not* protect against all risk. As set forth in the industry guidance, an appropriate contingency is set at an amount "to achieve a 50% probability of project cost overrun versus underrun…."[606] Removing contingencies would result in a greater risk of cost overruns than of underruns.[607]

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[602] TURN-SCGC OB at 12-28.

[603] Ex. SCG-208 (Kostelnik) at 13

[604] Ex. SCG-208 (Kostelnik) at 12:14-13:15.

[605] *Id.*

[606] Ex. SCG-208 (Kostelnik) Appendix B, at 6.

[607] TURN-SCGC mention the PSEP Memorandum Account (PSEPMA) as protecting against additional cost overruns. TURN-SCGC OB at 24. SoCalGas must still show that any such costs are reasonable and would be subject to further review.

TURN-SCGC's first argument that contingencies should be denied outright (or limited to 10%) is unavailing because in the most relevant authority the Commission approved a contingency close to the average contingency across projects presented in this GRC, and regardless, the Commission does not have a standard opposition to contingencies. To be clear, the Commission has never stated it is "skeptical" about contingencies – this is TURN-SCGC's conclusion. In each instance that the Commission has discussed contingencies it has given an individual analysis to the proposal and explained its reasoning for the contingencies it has approved.

The most relevant authority for this proceeding is the last GRC where, similar to here, SoCalGas included PSEP projects of similar scale and scope it anticipated doing over the GRC cycle. As in this GRC, SoCalGas presented substantial evidence supporting its PSEP request for each project. In the last GRC, the Commission stated its approval of contingencies (risk assessment component) for SoCalGas's PSEP:

> 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.[608]

SoCalGas had similarly done an individual analysis for each PSEP project, which had resulted in an average contingency of approximately 25%. Although this was well-within the AACE contingency range of 15-30%, the Commission ultimately required SoCalGas to reduce its estimated contingencies by 10 percentage points because Phase 2A and 1B PSEP projects were "subject to a lesser degree of unpredictable variables…."[609] In doing this reduction to an average of 15%, the Commission pointed out that "information from AACE shows that a contingency range of 15 percent to 30 percent is appropriate for these types of projects."[610]

Here, SoCalGas's individual analysis for each project resulted in an average contingency of 16% for hydrotest projects (and 15% for capital pipeline projects).[611] This is approximately a 10% reduction from the proposed costs in the last GRC and is consistent with what the Commission

608 D.19-09-051 at 205.

609 *Id*.

610 *Id*.

611 SCG/SDG&E OB at 170.

approved in the last GRC. Commission precedent is directly in line with SoCalGas's PSEP costs presented here.

The other authorities relied on by TURN-SCGC are readily distinguishable from the projects and costs presented in this GRC and affirm the point that the Commission takes a fact-specific approach to determinations on contingencies. Many of the authorities were previously cited in the last GRC, and were not compelling in eliminating the contingency entirely, or reducing it to 10%.[612] TURN-SCGC once again cites D.14-08-032, D.10-04-027, D.10-02-032, D.06-11-048, and D.03-12-059 for their position. D.14-08-032, the decision in PG&E's TY 2014 GRC, actually supports SoCalGas's request here. Although the Commission denied certain requests for contingencies in that decision, it also *approved* of certain contingencies included in PG&E's costs, including a 20% contingency for Distribution System Operations costs.[613] Although CalPA opposed the 20% contingency, the Commission approved of its inclusion.[614] In D.10-04-027, the Commission denied SoCalGas's request for a 10 percent contingency for the AMI capital project – but the Commission also granted a 7% contingency and afforded a balancing account to allow for SoCalGas to increase recovery for costs incurred.[615] For D.10-02-032, TURN-SCGC acknowledge that the Commission approved of separate 7.9% and 12.9% contingencies for two requests, the amounts proposed for the projects. For the project that the Commission denied contingencies for, it still allowed PG&E to later recover costs "in excess of the forecasted amount" in a reasonableness review.[616] TURN-SCGC also cite D.06-11-048 and D.03-12-059 to show that the Commission has approved 5% contingencies for power plant projects – but TURN-SCGC do not show why power plant projects proposed 20 years ago have any bearing on contingencies here. The 5% contingencies were the amounts proposed by the utilities in seeking recovery. The Commission precedent from these various decisions shows that the Commission takes an individualized look at a utility's request. TURN-SCGC's reliance on them to show "skepticism" or that certain contingency percentages are inappropriate is misplaced.

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612 *See* A.17-10-008, TURN-SCGC Opening Brief, September 21, 2018, at 29-30, fns. 86-92.

613 D.14-08-032 at 216, 218.

614 *Id*. at 214, 218.

615 D.10-04-027 at 38-39, 53.

616 D.10-02-032 at 128-129.

The new decisions cited by TURN-SCGC are similarly unavailing. TURN-SCGC first cite D.21-08-036, the decision in SCE's general rate case where the Commission ruled on SCE's Seismic Assessment and Mitigation Program, which includes assessment of SCE's electric and nonelectric facilities, generation infrastructure.[617] The costs under consideration there are in stark contrast to what is presented here. The estimating methodology utilized by SCE relied on a third-party estimate, which SCE then "significantly increase[ed]" to "account[] for cost uncertainties," then applied an *additional* blanket contingency factor on top of that increase.[618] In some instances, the contingency factor was responsible for a "240 percent difference between the SCE estimate and the third-party engineering firm estimate."[619] In contrast, here, SoCalGas utilized a dedicated estimating department that worked with project teams and subject matter experts to produce and build estimates from the ground up. To quantify the contingency, risk assessments were performed for each specific subject matter area based on the expertise and experience of professionals working in the field. As explained in rebuttal, this rigorous approach is why SoCalGas was able to achieve an average 15-16% contingency, which is at the bottom of what AACE considers to be appropriate at the Class 3 level of SoCalGas's estimates (compared to the much higher 35% figure for SCE's projects cited by TURN-SCGC).[620] In utilizing the above described methodology, SoCalGas has demonstrated the reasonableness of the contingency element of its forecasts, which is a necessary part of the estimating process. Furthermore, even in this SCE GRC decision, the Commission acknowledged past approval of a 20% contingency in another area, and actually allowed SCE to request funding beyond the amount previously allowed even with a contingency.[621]

TURN-SCGC also extensively rely on D.19-05-020, the Decision in SCE's TY2018 GRC. This reliance is unavailing because the Commission emphasized in that Decision that it was deciding on contingencies for *software* projects. The statements were not a broad pronouncement on contingencies in general, as the Decision clarifies: "We recognize, as SCE argues, that

617 D.21-08-036 at 326-328.

618 *Id*. at 328.

619 *Id*. at 327.

620 Ex. SCG-208 (Kostelnik) at 9-13; SCG/SDG&E OB at 170.

621 D.21-08-036 at 94-99 ("in SCE's 2018 GRC decision the Commission limited further E&P Tool funding to SCE's requested 20 percent contingency adder.").

budgeting for contingencies may be routine for software projects. We, however, do not agree that *budgeting for contingencies for* ***software projects*** *is necessarily appropriate in a general rate case*."[622] Moreover, the Decision on SoCalGas's GRC, which came several months after D.19-05-020, affirmed contingency costs for PSEP projects, demonstrating that the result of D.19-05-020 was not a broad prohibition on contingencies in GRCs, but limited to the software projects proposed by SCE.

Finally, with respect to D.19-09-025, the Decision in PG&E's Gas Transmission and Storage rate case, PG&E was requesting contingency costs for right-of-way maintenance in order to address changes to policies for tree removals or changes to regulations requiring additional vegetation management.[623] The Commission denied that request, not because contingencies are broadly inappropriate, but because "we find that the memorandum account that this decision directs PG&E to established to seek recovery of costs incurred to comply with any new federal or state regulations or rule will is more appropriate to address this issue."[624] These authorities cited by TURN-SCGC do not establish that contingencies are not prohibited or "skeptically" viewed at the Commission.[625]

TURN-SCGC's second argument for eliminating the contingency factor is that "SoCalGas Is Well Positioned to Accurately Forecast PSEP Costs in This GRC."[626] TURN-SCGC argue that because SoCalGas has experience with estimating costs for PSEP projects, the contingency should be eliminated or reduced.

TURN-SCGC starts by arguing that because SoCalGas has had approximately 10 years of experience with PSEP projects, the contingency factor is no longer needed. As discussed in the Opening Brief and testimony, SoCalGas's estimating process has improved.[627] SoCalGas has

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622 D.19-05-020 at 150.

623 D.19-09-025 at 229-230.

624 *Id.* at 230.

625 Other decisions support contingencies outside of those discussed by TURN-SCGC. As just one example, in Cal Water Service Co.'s 2007 GRC decision, the Commission approved a partial settlement between Cal Advocates and CalWater concerning contingencies for capital projects. (D.07-12-055 at 18, fn 29.) Although Cal Advocates pushed for lower contingencies, the Commission ultimately approved project contingencies ranging from 12.5% up to 22.5%. (*Id.*, Attachment 1 (Settlement Agreement) at 8-23.)

626 TURN-SCGC OB at 19.

627 SCG/SDG&E OB at 165.

undertaken extensive continuous improvement over time to arrive at accurate estimates for PSEP projects,[628] which may be why not a single party opposes SoCalGas's estimates other than the contingency. But that does not eliminate "foreseeable and unforeseeable conditions that may affect project costs."[629] To be clear, SoCalGas has improved its estimating of contingency as well. In this GRC SoCalGas is proposing an average contingency of 15-16%, the bottom end of the range provided by AACE and essentially the amount found appropriate by the Commission previously. In fact, of the 30 forecast projects included in this GRC, 12 have a contingency even below 15%, lower than the bottom end of the range provided by AACE, with some as low as 12%.[630] Notably, TURN-SCGC do not even address the fact that their proposal would put the estimates below industry standards. SoCalGas's experience with PSEP is already incorporated into its PSEP proposals in this GRC and the costs, including the contingencies, should be approved.

TURN-SCGC also point to SoCalGas's costs for certain Phase 1A projects that were subject to reasonableness review being, on average, greater than estimated. TURN-SCGC argue that SoCalGas therefore overestimated some PSEP costs in the past and should not be allowed the contingency cost in this GRC.[631] However, TURN-SCGC's argument is a misdirection. TURN-SCGC do not dispute that SoCalGas's cost estimating has improved; in fact, it is essential to their argument that the contingency cost should not be included. It is this same improved estimating that should lead to estimated costs (including a contingency) that should be closer to the exact cost – whether higher or lower – than it would have been for project costs that were estimated, on average, about seven years ago. If TURN-SCGC believed that costs for projects were inaccurate or over-estimated, then it could have identified projects where they disagreed with the costs. They did not, and no other party did either. In addition, although the average cost across the 21 projects cited by TURN-SCGC was 10% lower than estimated, TURN-SCGC acknowledge that costs for 5 projects were higher than the estimated amount.[632] In fact, the three greatest variations by

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628 Ex. SCG-08 (Kostelnik) at 20-24.

629 SCG/SDG&E OB at 165.

630 TURN-SCGC OB at 19; Ex. SCG-208 (Kostelnik) at 8-9.

631 To be clear, the costs TURN-SCGC refer to are from a reasonableness review – meaning that SoCalGas did not receive more than the actual costs of the projects.

632 TURN-SCGC OB at 19.

percentage and the greatest deviation by dollar amount were for costs that went over the estimate.[633]

TURN concludes by stating that the Commission should disallow contingencies "in order to hold SoCalGas to its burden of demonstrating the reasonableness of every dollar requested…."[634] However, as explained in testimony, contingency is not simply an adder on top of an estimate, but "the definition of an estimate necessarily includes the contingency element, as established by AACE."[635] Consistent with AACE-recommended practices, SoCalGas performed risk assessments for every project, and developed a project-specific contingency for each one, just as with other cost components.[636] The contingency does not protect against all risk. Instead, an appropriate contingency is set at an amount "to achieve a 50% probability of project cost overrun versus underrun…."[637] Removing the contingency would therefore mean there is a greater risk of cost overruns than of underruns.[638] As stated by AACE: "Identifying risk and determining an appropriate amount of contingency is a challenge that must be addressed to ensure accurate information is available *to base critical financial decisions upon.*"[639] This is why the estimating approach employed by SoCalGas, including the inclusion of contingency following a robust risk assessment methodology, is appropriate for financial budgeting and utility ratemaking. Including a contingency therefore meets the professed concern of TURN-SCGC to "strike a fair balance between the interests of ratepayers in avoiding excessive costs and of shareholders in having a reasonable opportunity to benefit during the rate case cycle…."[640]

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633 Ex. TURN-SCGC-03 (Yap) at 6, Table 2.

634 TURN-SCGC OB at 22.

635 Ex. SCG-208 (Kostelnik) at 12-13.

636 *Id*.

637 Ex. SCG-208 (Kostelnik) Appendix B, at 6.

638 TURN-SCGC mention the PSEP Memorandum Account (PSEPMA) as protecting against additional cost overruns. (TURN-SCGC OB at 24.) SoCalGas must still show that any such costs are reasonable and would be subject to further review.

639 AACE, *2009 AACE International Transactions*, RISK 08 at RISK.08.01 (Defining Risk and Contingency for Pipeline Projects).

640 TURN-SCGC OB at 22.

Dismissing the contingency that is already on average at the bottom of the industry standard, or lowering it to an arbitrary 10%,[641] would be inappropriate. Given SoCalGas's imperative to complete PSEP "as soon as practicable,"[642] and commitment to perform an executable level of PSEP work during this GRC cycle, SoCalGas's proposed contingencies in this GRC should be approved.

14.2 PSEP SDG&E

No party opposed SDG&E's PSEP reasonableness review costs in this GRC.[643] Therefore, SDG&E requests that the Commission approve recovery of those costs as reasonable.

15. Gas Integrity Management Programs

SoCalGas and SDG&E have fully justified approval of their reasonable TY 2024 Gas Integrity Management Program O&M and capital costs for 2022, 2023, and 2024, as fully shown in testimony and in SoCalGas and SDG&E's Opening Brief.[644] 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.[645] 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.[646] 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.[647] 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.[648] The Intervenors' Opening Briefs raised many of the same

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641 Instead of doing any sort of analysis, which it has not done with respect to any of the PSEP projects presented in this GRC, TURN-SCGC essentially admits that the 10% cap is arbitrary. In its OB, TURN-SCGC says nothing more about this cap other than it represents an amount that is "significantly lower than those authorized in the TY 2019 GRC." (TURN-SCGC OB at 24.)

642 SCG/SDG&E OB at 160-161 (citing D.11-06-017 at 18).

643 *See* Cal Advocates OB at 74-75 (explicitly not opposing SDG&E's PSEP request).

644 SCG/SDG&E OB at 198-219.

645 *Id.* at 200.

646 *Id.* at 201.

647 *Id.* at 213.

648 *Id.*

issues, arguments, or proposals that parties had previously presented. SoCalGas's Opening Brief addressed many of the issues contested by Intervenors and is incorporated by reference herein to avoid repeating the same arguments.

15.1 SoCalGas Has Fully Justified the Reasonableness of its Forecasted Costs for the Transmission Integrity Management Program and Maintaining the TIMPBA

Cal Advocates takes issue with SoCalGas's request for Transmission Integrity Management Program (TIMP) assessment and remediation costs.[649] While Cal Advocates agrees with the number of assessments and remediations for 2024, Cal Advocates contends that, when compared to historical unit costs, SoCalGas's unit cost to perform the assessment and remediation is higher.[650] Cal Advocates argues that SoCalGas has not adequately explained why the unit cost for ECDA and ILI is higher than previous years.[651] TURN and SCGC argue that the Commission should base the TY 2024 O&M forecast for assessment and remediation on five years of historical assessment and remediation costs with two adjustments, one for increased Material Verification and Crack Management Tool Run costs and another for the incremental number of validation digs in TY 2024 compared to the BY 2021.[652] TURN-SCGC further contend that SoCalGas's forecast for Preventative and Mitigative Measures, Data & GIS, Program Management & Support, and Risk & Threat should be forecasted to equal the five-year average.[653]

Integrity management activities vary over time and are not fully predictable based on assessment history alone.[654] Threat and risk analyses, which are subject to change, are updated annually based on industry trends, assessment findings, and regulatory requirements.[655] Moreover, the number and type of assessment tools utilized to inspect pipeline segments, and the findings that result from those assessments, are not static and can vary from pipeline to pipeline and from year to year.[656] Since the inception of the TIMP, the tools and procedures used to execute the

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649 Cal Advocates OB at 79.

650 *Id.*

651 *Id.* at 80.

652 TURN-SCGC OB at 32.

653 *Id.* at 41.

654 Ex. SCG-209-E (Sera/Razavi) at 7.

655 *Id.*

656 *Id.*

program's projects have evolved, and advanced tools are being deployed at an increasing rate, resulting in additional assessment and remediation activities and costs that are not reflected in historical spending.[657] Additionally, existing tools and analytics continue to improve and result in a higher volume of increasingly complex assessments and more remediations.[658] These changes are generally expected to increase the resources (*e.g.*, employees, contractors, vehicles) needed to manage new findings.[659]

SoCalGas has demonstrated that historical spend alone is not the best predictor of future spending needs because: (1) infrastructure continues to change and evolve (*e.g.*, aging, environmental changes such as earth movement or weather related outside forces); and (2) continuous improvement of assessments and results through on-going program modifications (*e.g.*, technological and process improvements, new regulatory requirements such as the recent Gas Transmission Safety Rule (GTSR), and resulting changes to threat identification and repair requirements).[660] For example, new threat identification requirements and process improvements regarding the management of Stress Corrosion Cracking (SCC) have added over 1,000 miles of HCAs identified with a high or moderate susceptibility to SCC that now require cracking assessment.[661]

It is not reasonable to assume that assessment activities, inspection tools, and remediations are static and fully reflected in past assessments.[662] While SoCalGas's forecast is informed by historical projects, unit costs were developed with SME input to account for future changes to the program.[663] As an example, the addition of a crack detection tool on a 2019 assessment increased costs by 1000% compared to the assessment that was conducted in 2012.[664] Due to the additional

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657 *Id.*

658 *Id.*

659 *Id.*

660 *Id.*

661 *Id.*

662 *Id.*

663 *Id.* at 7-8.

664 *Id.* at 8.

cost of the tool and evaluations resulting from the increased number of anomalies detected and reported by this tool, the 2012 costs were not reflective of the 2019 costs.[665]

TURN-SCGC also argue that the expansion of TIMP as a result of GTSR Part 1 would not affect the unit cost of assessment and remediation costs.[666] The federal requirements for outside-of-HCA assessments did not drive increases to the TY 2024 TIMP O&M activities and forecast; the increases are driven primarily by changes to risk and threat identification and assessment processes.[667] As SoCalGas and SDG&E identify and evaluate additional threats and TIMP assessment data and use new or additional tools on pipelines, the possibility of a tool re-run or the added use of an alternate assessment method in the case of an unsuccessful tool run have increased as a consequence of increasing the amount of data that must be gathered and evaluated (*i.e.*, running more tools may result in more tool run issues). In addition to the requirements of GTSR Part 1, Part 2 specifies more than forty threat-related data points that operators must consider and integrate for both covered and non-covered segments; PHMSA requires that operators gather and integrate "pertinent information" on an entire pipeline (*i.e.*, covered and non-covered segments) that could be relevant to a covered segment.[668] Although TURN-SCGC agreed that the additional costs for running crack management tools are necessary, crack data represents a small portion of the data that must be gathered, integrated, and evaluated. Authorizing only these additional costs (as well as the additional costs to perform material verification) as TURN-SCGC recommends would hinder SoCalGas and SDG&E from fully complying with federal requirements. There have been instances when, despite a successful tool run in a prior assessment cycle, tools have collected insufficient data or have become lodged in a pipeline, prompting additional tool runs or the use of alternate assessment methods (*e.g.*, Stress Corrosion Cracking Direct Assessment [SCCDA]). These cost risks – as well as the impacts that additional data gathering and threat evaluation will have on non-Assessment and Remediation cost categories (*e.g.*, Preventative and Mitigative Measures, Data and GIS) – have been factored into SoCalGas and SDG&E's respective TIMP cost forecasts and are not considered in TURN and SCGC's proposal to use historical cost averages.

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[665] *Id.* at 8.

[666] TURN-SCGC OB at 35.

[667] Ex. SCG-209-E (Sera/Razavi) at 12.

[668] 49 C.F.R. § 192.917(b).

Cal Advocates also mistakenly argues that the expansion of assessments due to GTSR Part 1 is not additional work activity for the Test Year but is something SoCalGas has already been addressing.[669] New federal requirements increase the number of miles and segments currently included within the TIMP scope.[670] Regardless, as described above, the increase in O&M expenses is primarily driven by the changes and advancements in processes and tools.[671] TURN-SCGC also argue that the TY2024 forecast for validation digs should be reduced because PG&E's forecasts were less per validation dig.[672] It is impracticable to compare the excavation costs of SoCalGas and PG&E since the manner in which the companies estimate excavation costs likely differs (*i.e.*, an apples to oranges comparison).[673] For example, in addition to the cost to remove the soil surrounding the pipeline, SoCalGas's costs include those associated with traffic control, post-excavation site restoration, coating removal, shoring, and NDE activities performed on the exposed pipe.[674]

TURN and SCGC recommend the Transmission Integrity Program Balancing Account (TIMPBA) be converted from a two-way balancing account to a one-way balancing account with a new memorandum account.[675] TURN and SCGC also recommend that the provision that permits a Tier 3 advice letter to seek recovery of TIMP costs that result from spending up to 35 percent more than the total authorized TIMP O&M and capital expenditures be eliminated.[676] SoCalGas and SDG&E strongly oppose this recommendation because the conversion of a two-way balancing account to a one-way balancing account may inhibit SoCalGas's ability to both comply with evolving regulations and manage the safety and reliability of its infrastructure. In D.13-05-010, the Commission found that "a two-way balancing account for SoCalGas to recover the costs of complying with TIMP is appropriate due to the cost of compliance, and possible changes in pipeline inspection requirements in the future," and that "a two-way balancing account to recover

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669 Cal Advocates OB at 77-80.

670 Ex. SCG-209-E (Sera/Razavi) at 8.

671 *Id*. at 8.

672 TURN-SCGC OB at 40.

673 Ex. SCG-209-E (Sera/Razavi) at 10.

674 *Id.*

675 TURN-SCGC OB at 28-29.

676 *Id.* at 29.

the costs of complying with TIMP will ensure that SoCalGas has sufficient funds to carry out all necessary TIMP-related work to ensure that its gas transmission system remains safe and reliable."[677] With the continual authorization of the TIMPBA since the TY 2012 GRC, the Commission has acknowledged that the TIMP and SoCalGas's management of system safety and reliability, are subject to change.

TURN-SCGC also attempt to undermine the value of SoCalGas and SDG&E's TIMPs with a brief mention of Risk Spend Efficiency (RSE), citing a RSE cost ratio of 0.1 that was calculated by TURN using TURN's methodology.[678] As discussed in the rebuttal testimony of Mr. Flores and Mr. Pearson and in SoCalGas and SDG&E's Opening Brief, TURN's methodology is not appropriate for the TY 2024 GRC proceeding and the resulting calculations should not be used in preference to SoCalGas and SDG&E's calculated RSE scores.[679] SoCalGas and SDG&E have also explained that an RSE score should not be the only data point considered when evaluating risk mitigation activities.[680] Moreover, for some of the RSEs that TURN-SCGC take issue with the work is mandated compliance work[681] – the RSEs are therefore of particularly minimal value.

While TIMP costs have increased, these increases are not due to inefficiencies or a lack of incentive.[682] In the last several years, based on existing processes and tools alone, SoCalGas has continued to see increases to costs due to contract increases.[683] Advances in assessment tools and processes have also increased the number of activities associated with TIMP assessments.[684] The primary factors driving the increase in SoCalGas's requested O&M funding are the use of additional inspection tools focused on the detection and characterization of cracks and the continuous improvements to business processes as well as regulatory changes (*e.g.*, threat and risk analyses).[685] The use of additional tools increases inspection costs, excavation costs, and project

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677 D.13-05-010 at 1056 (FOF 202-203).

678 TURN-SCGC OB at 49.

679 Ex. SCG-203-E/SDG&E-203-E at 7-8; SCG/SDG&E OB at 72.

680 Ex. SCG-03-2R-E/SDGE-03-2R-E, Chapter 2 (Flores/Pearson) at 14-15; SCG/SDG&E OB at 71.

681 *See* 49 C.F.R. Part 192, Subpart O.

682 Ex. SCG-209-E (Sera/Razavi) at 13.

683 Id.

684 *Id.*

685 *Id.*

managements costs for each assessment that requires the use of crack-detection tools.[686] As the inspection tools and assessment methodologies continue to mature, more sophisticated and complex analyses also tend to yield more reliable defect detection and characterization that in turn drives more effective mitigations. The TIMPBA recovery mechanism currently has ratepayer protections in place.[687] SoCalGas is required to file a Tier 3 advice letter for an undercollection up to 35% of the total O&M and capital expenditures authorized.[688] The undercollection cannot be recovered without Commission approval and the Commission may audit SoCalGas's costs prior to approval.[689] Furthermore, SoCalGas is required to file an application for an undercollection greater than 35% and this application is subject to reasonableness review.[690]

In an attempt to support its flawed position, TURN-SCGC argues that SoCalGas should be able to forecast the TIMP projects as it does the PSEP projects. TIMP projects are more complex in scope than PSEP hydrostatic pressure tests and pipeline replacements.[691] The TIMP program management team uses many of the same cost estimating tools as those used for the PSEP, however, it is more challenging to accurately estimate the final cost of a TIMP project than a PSEP project.[692] The vast majority of PSEP projects do not result in pressure test failures and, therefore, result in more predictable project outcomes.[693] By contrast, TIMP outcomes are based on findings that often must be addressed within established timeframes per code requirements.[694] As a result, TIMP projects are subject to variability dependent upon inspection discoveries that can increase costs more regularly than would occur with PSEP projects.[695] This fundamental activity (*i.e.*, threat assessment and remediation) of the TIMP drives the need for a two-way balancing account, which the Commission has continually approved in recognition of the inherent variability in TIMP

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686 *Id.*

687 *Id.*

688 *Id.* at 13-14.

689 *Id.* at 14.

690 *Id.*

691 *Id.*

692 *Id.*

693 *Id.*

694 *Id.*

695 *Id.* at 14-15.

project work.[696] 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."[697] Most recently, the Commission again approved the continuation of the TIMPBA as a two-way balancing account in D.19-09-051.[698]

In general, there are fewer high-cost variables in PSEP projects and PSEP projects have more scheduling flexibility to mitigate the impact of planning or execution challenges to a project, such as difficulty accessing a proposed work area.[699] Additionally, the PSEP allows more latitude in selecting work areas for segments of pipe.[700] TIMP projects, on the other hand, require direct examinations at locations discovered through assessments regardless of access or work site complications.[701] TIMP projects also have regulation-mandated deadlines, so delays must be expeditiously resolved, sometimes regardless of cost.[702] As a result, when compared to PSEP, TIMP forecasts should be expected to exhibit greater variability since the project activities are inherently much more dynamic.[703]

15.2 SoCalGas and SDG&E Has Fully Demonstrated that the Vintage Integrity Plastic Plan is Justified and Reasonable

TURN takes issue with the Vintage Integrity Plastic Plan (VIPP)[704] and erroneously argues that it is a discretionary program, that Aldyl-A does not pose a significant risk, and that plastic is less leaky than other distribution pipe.[705] While TURN recommends a disallowance for VIPP, it recommends a significant increase in scope for Bare Steel Replacement Plan (BSRP).[706] TURN also contends that VIPP is not required by regulation and that it is discretionary, but then goes on

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696 *Id.* at 15.

697 D.13-05-010 at 387.

698 D.19-09-051 at 694-695.

699 Ex. SCG-209-E (Sera/Razavi) at 15.

700 *Id.*

701 *Id.*

702 *Id.*

703 *Id.*

704 TURN OB at 119.

705 *Id.* at 121.

706 *Id.* at 120.

to concede that federal regulations require SoCalGas and SDG&E to assess and evaluate the risks on its system.[707] The VIPP is a multifaceted project based on a foundation of safety and system risk reduction driven by the principles identified in C.F.R. 49 Part 192 Subpart P, the Gas Distribution Integrity Management rule.[708] Pursuant to this regulation, an operator must demonstrate a knowledge of their system, identify threats on their system, evaluate and rank risks, and identify and implement measures to address risks.[709] VIPP addresses pipe, weld or joint failure, incorrect operations and natural force damage threats to early vintage plastic mains and services installed from 1969 to 1985 manufactured by DuPont with the moniker Aldyl-A.[710] TURN's proposed disallowance of the VIPP should be dismissed because it eliminates a necessary safety-driven integrity management activity and the recommended moderate increase to BSRP would not adequately address those segments that exceed the SoCalGas established risk thresholds.[711] SoCalGas's has justified the proposal of VIPP and BSRP levels of activity which are 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.[712]

TURN inappropriately references leak data to argue the risks associated with VIPP are negligible. As SoCalGas has demonstrated, the percentage of leaks on Aldyl-A pipe is not negligible.[713] More importantly, while leak repair information is important for input for assessing risk, leak count and leak rates alone are insufficient for properly assessing risk.[714] 49 C.F.R. Part 192 Subpart P requires operators to consider both the likelihood of a failure and the potential consequence of such a failure when assessing risk.[715] TURN's evaluation of "risk" did not consider the potential consequence of a failure. To determine potential consequence, SoCalGas considers historical incidents that have occurred in the service territory as well as across the

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707 *Id.* at 122.

708 Ex. SCG-09 (Kitson/Sera/Razavi) at 42.

709 *Id.*

710 *Id.*

711 Ex. SCG-209-E (Sera/Razavi) at 28.

712 *Id.*

713 *Id.* at 26-27.

714 *Id.* at 27.

715 49 C.F.R. § 192.1007(c).

industry.[716] SoCalGas considers numerous inputs that assist in the assessment of risk, as further described herein.[717] These analytics target higher risk pipelines using quantitative results that enable strategic replacement in lieu of wholesale replacement.[718] SoCalGas provided the results of these risk analytics to TURN in response to a data request in SoCalGas's 2021 RAMP proceeding.[719]

SoCalGas developed, as part of the DIMP, a segment-specific quantitative risk assessment (QRA) model for medium pressure mains that uses a combination of internal datasets and external publicly available data sources.[720] SoCalGas uses this QRA model to estimate safety risk of vintage plastic and bare steel medium pressure mains, where risk is defined as the product of probability of failure and its associated consequence (*i.e.*, probability of a hazardous leak and resulting life-safety consequence).[721] PHMSA's white paper titled "*Pipeline Risk Modeling Overview of Methods and Tools for Improved Implementation,*" published on February 1, 2020, describes the merits and limitations of various risk models.[722] PHMSA describes quantitative risk models as robust and able to measure risk in standard units; they provide greater risk insight than relative risk models to support risk-related decision making.[723] SoCalGas has leveraged the insights gained from the QRA to evaluate risk of the medium pressure distribution mains and identify necessary vintage plastic and bare steel pipeline replacements.[724] This approach supports the overall reduction of risk in the pipeline system and increases safety.[725]

SoCalGas has established that locations along the medium pressure distribution mains system with an annual probability of a serious incident greater than 6×10^{-6} should be targeted for

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716 Ex. SCG-209-E (Sera/Razavi) at 27.

717 *Id.*

718 *Id.*

719 *See* Ex. SCG-209-E (Sera/Razavi) at Appendix B, TURN-SEU-037, Q16.

720 Ex. SCG-209-E (Sera/Razavi) at 27.

721 Ex. SCG-209-E (Sera/Razavi) at 27.

722 PHMSA, *Pipeline Risk Modeling Overview of Methods and Tools for Improved Implementation*, February 1, 2020, *available at:* https://www.phmsa.dot.gov/sites/phmsa.dot.gov/files/2020-03/Pipeline-Risk-Modeling-Technical-Information-Document-02-01-2020-Final.pdf.

723 Ex. SCG-209-E (Sera/Razavi) at 28.

724 *Id.*

725 *Id.*

replacement.[726] Vintage plastic and bare steel medium pressure mains with QRA results that exceed this threshold are targeted for replacement under the VIPP and BSRP.[727] SoCalGas is continuously improving its risk evaluations to consider not just the current state of risk in the system, but also the projected long-term risk since the threats affecting these vintage materials are time-dependent (*e.g.*, corrosion) and the associated risk can escalate at different rates (*e.g.*, corrosion vs. material degradation rates).[728] For example, if risk projections were to indicate that a high mileage of bare steel pipe would exceed the risk threshold in a future year, SoCalGas may increase the replacement rate of bare steel pipe to effectively target segments for replacement before the risk threshold is exceeded.[729] However, SoCalGas also considers it prudent to first address the segments with the current highest risk (*i.e.*, those exceeding SoCalGas's safety threshold) which is driving the current replacement strategies of the VIPP and BSRP.[730] TURN also attempts to support its flawed position by arguing the RSE for VIPP does not justify the activities request but, in the same breath, argues that BSRP with a relatively low RSE should be accelerated.[731]

CUE strongly supports VIPP and recommends the Commission reject TURN's proposal.[732] CUE provides how early vintage Aldyl-A pipe failures can cause catastrophic harm to life and property.[733] CUE explains that VIPP investment mitigate such risks, including removing and replacing these pipes.[734] CUE describes how TURN's data analyses and arguments against VIPP are unreliable and contain numerous factual inaccuracies.[735] CUE highlights that, "TURN downplays serious safety risks posed by Aldyl-A pipes and misrepresents findings and conclusions in the Commission's Hazard Analysis and Mitigation Report on Aldyl A Polyethylene Gas

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726 *Id.*

727 *Id.*

728 *Id.*

729 *Id.*

730 *Id.*

731 TURN OB at 129.

732 CUE OB at 20.

733 *Id.*

734 *Id.*

735 *Id.* at 20-21.

Pipelines in California (Aldyl A Report) to support its ill-conceived recommendations. The evidence demonstrates that risks posed by Aldyl-A plastic pipes warrant significant mitigation investment, including pipe main removal and replacement."[736]

In addition, CUE describes how TURN's evaluation of Aldyl-A pipe risk on leak frequency ignores risk magnitude.[737] CUE cites to various incidents illustrating TURN's failure to address the magnitude of the risks.[738] CUE also explains how TURN has misrepresented the recommendations in the Aldyl A Report.[739] CUE states, "TURN's expert opines that gas utilities 'have or are able to meet or exceed the recommendations of this report without the VIPP,' but fails to mention that the first solution discussed in the report is pipe replacement."[740] As CUE notes, in past GRCs, the Commission has approved investments to remove and replace Aldyl-A pipes, and the Commission should do the same here.[741]

15.3 SoCalGas Has Fully Justified its Forecasted Costs for the Distribution Riser Inspection Program Costs

Cal Advocates takes issue with SoCalGas's increase for the Distribution Riser Inspection Program (DRIP) expenses.[742] Cal Advocates disputes the drivers increasing DRIP expenses—higher contract rates and DIMP management costs.[743] Cal Advocates' proposed reduction for the DRIP is not appropriate since, as fully demonstrated, the increase in expenses is necessary to maintain the level of remediation.[744] As SoCalGas has demonstrated, anodeless risers have shown a propensity to fail before the end of their useful lives and the consequence of this component failing can be significant since risers are attached to meter set assemblies, which are typically located next to a residence.[745]

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736 *Id.* at 21.

737 *Id.*

738 *Id.* 21-22.

739 *Id.* at 22.

740 *Id.*

741 *Id*. at 23.

742 Cal Advocates OB at 82.

743 *Id.* at 83.

744 Ex. SCG-209-E (Sera/Razavi) at 17.

745 Ex. SCG-09 (Kitson/Sera/Razavi) at 39.

The increases in DRIP costs are driven by: (1) economic conditions, and (2) the increasing number of non-standard remediations that will require additional resources. The agreements SoCalGas has with its DRIP vendors have shown to be non-competitive in the current California market.[746] These agreements were established under 2019 rate schedules with previously standard annual increases.[747] In 2022, one vendor declined to continue with their DRIP contract because SoCalGas was not able to accommodate an increase in rates.[748] SoCalGas's recent experience with its current agreements indicate there will be significant price increases in the proposals received from vendors.[749]

Additionally, the increasing number of non-standard remediations will require additional resources.[750] For example, SoCalGas encounters situations where anodeless risers are not accessible due to concrete installed around the gas riser, making it infeasible for the technician to employ remediation measures (*i.e.*, installation of a protective wrap).[751] The cost to perform these more complex mitigations is also approximately ten times greater than the cost to perform the standard mitigation.[752] SoCalGas has fully demonstrated that this additional funding, which is driven by increases to vendor costs and the need to hire additional resources dedicated to this work, is reasonable and justified.

15.4 SoCalGas and SDG&E Have Justified the Need for the Facility Integrity Management Program

TURN and Cal Advocate take issue with FIMP. TURN contends that the management of SoCalGas's and SDG&E's existing facilities is an integral and essential part of routine utility activities and cannot be incremental and separate from maintenance activities already funded through rates.[753] TURN and Cal Advocates suggest that these activities be included within existing programs and routine operation and maintenance activities.[754] Cal Advocates also

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746 Ex. SCG-209-E (Sera/Razavi) at 17.

747 *Id.* at 17.

748 *Id.*

749 *Id.*

750 *Id.*

751 *Id.*

752 Id. at 18.

753 TURN OB at 142.

754 *Id.* at 142-144; Cal Advocates OB at 83-86.

misinterprets SoCalGas's use of existing departments and procedures to perform inspections in 2022 and 2023 that will be used to inform FIMP[755] and argues SoCalGas failed to substantiate the cost elements of FIMP.[756]

SoCalGas and SDG&E have demonstrated that FIMP is a comprehensive inspection process *beyond* existing routine maintenance to systematically address the integrity of equipment located at its facilities.[757] SoCalGas's and SDG&E's existing integrity management programs were developed and are based on regulatory requirements.[758] These applicable regulations and corresponding programs do not incorporate integrity-related activities for the types of equipment currently being proposed for inclusion in FIMP.[759] The objective of FIMP is to promote and support the safety and integrity of equipment *not* currently incorporated into existing integrity management programs or routine O&M activities.[760,761] Moreover, FIMP reaches beyond routine activities and compliance through systematic implementation of risk mitigation activities which enhance safety, integrity, and reliability.[762] FIMP is essential because it addresses integrity in a comprehensive, systematic, and integrated way.[763] While SoCalGas and SDG&E are currently leveraging existing resources to gather information to develop FIMP,[764] the scope of these exploratory pilot activities are limited.[765] SoCalGas and SDG&E plan to utilize the information to inform and develop FIMP.[766] While existing resources are being leveraged for these pilot activities, SoCalGas would not be able to continue to use the same level of resources to implement

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755 Cal Advocates OB at 85.

756 *Id.*

757 Ex. SCG-209-E (Sera/Razavi) at 19.

758 *Id.* at 20.

759 *Id.*

760 *Id*. at 20.

761 TURN incorrectly states SoCalGas and SDG&E included FIMP under the DIMP chapter. TURN also seems to misunderstand the Integrity Management and Asset Risk Strategy departments which fall under one organization that currently manages TIMP, DIMP and SIMP.

762 Ex. SCG-209-E (Sera/Razavi) at 20.

763 *Id.* at 21.

764 *Id.*

765 *Id*.

766 *Id.*

the FIMP and the activities proposed under that program.[767] SoCalGas has demonstrated the need for FIMP and has also substantiated the cost elements of FIMP. SoCalGas provided a detailed cost breakdown of the activities included in the program by work description, unit quantity, and unit cost in its response to PAO-SCG-036-DAO.[768]

15.5 SoCalGas and SDG&E Have Demonstrated the ISEP Forecasted Costs and the GSEPBA are Justified and Reasonable

TURN and SCGC argue that the mileage covered by the Integrated Safety Enhancement Plan (ISEP) should be reduced.[769] TURN and SCGC recommend that the Commission direct SoCalGas to reconfirm 50 percent of the 550 miles of transmission pipeline for which reconfirmation is required by the PHMSA regulations, leaving the remaining 50 percent of the 550 miles for reconfirmation by 2035 during the SoCalGas TY 2028 and TY 2032 GRC cycles.[770] TURN-SCGC further recommend that the remaining ISEP miles be reconfirmed with SoCalGas's PSEP Phase 2B "as soon as practicable" requirement through future GRCs.[771] In addition, PCF erroneously argues that SoCalGas and SDG&E did not quantify the ratio or breakdown between the two drivers of ISEP (GTSR Part 1 and D.19-09-051).[772]

SoCalGas's *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.[773] The segments that remain are then reviewed for traceable, verifiable, and complete (TVC) test records and any segments lacking elements that would render them non-TVC are further evaluated to determine an appropriate action.[774] The *technical decision tree* in Appendix D of direct testimony, on the other hand, is a separate process used to evaluate DOT-T pipeline segments through an analysis of available test data and pipe characteristics to determine whether a pressure test is appropriate.[775] This evaluation was developed to comply with

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767 *Id.*

768 *Id.* at 22 and Appendix B, Response to PAO-SCG-036-DAO.

769 TURN-SCGC OB at 52.

770 Id. at 29.

771 *Id.*

772 PCF OB at 46.

773 Ex. SCG-209-E (Sera/Razavi) at 30.

774 *Id.*

775 *Id.*

Ordering Paragraph 15 of D.19-09-051 and is unrelated to the new federal requirement, which is based on record-keeping.[776] TURN found that the basis for determining the scope and proper testing method under the ISEP was reasonable.[777]

Using both processes, SoCalGas scoped the proposed ISEP and, at the time of filing, 1,108 miles were identified as possible ISEP scope.[778] Based on continuous updates to SoCalGas's database, the forecast assumed a future ISEP scope of approximately 750 miles of DOT-T pipeline segments and focuses on the 550 of those miles subject to 49 C.F.R. § 192.624.[779] SoCalGas has continued to review records and update its database to refine the scope, and at the time of rebuttal testimony, approximately 750 miles of DOT-T pipeline segments remain in scope for the ISEP.[780] SoCalGas anticipates that this number may decrease further as the company continues to review records and refine the scope.[781] Of the estimated 550 miles of scope subject to 49 C.F.R. § 192.624, SoCalGas determined that approximately 518.5 miles would need to undergo initial planning during the TY 2024 GRC cycle at a minimum, to meet the 50% and 100% compliance deadlines per the federal requirements.[782] SoCalGas would need to undergo this initial planning during the TY 2024 GRC since, due to external and internal factors such as permitting, environmental studies, or operational limitations, a hydrotest or replacement project can take years to complete.[783] TURN-SCGC's proposal would risk compliance with federal requirements.[784]

TURN and SCGC also take issue with the Gas Safety Enhancement Plan Balancing Account ("GSEPBA").[785] TURN and SCGC argue that there is no statutory requirement for the GSEPBA, that SoCalGas has long experience with activities for which costs will be recorded in

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776 *Id.*

777 *Id.* at 6.

778 *Id.* at 30.

779 *Id.*

780 *Id.*

781 *Id.*

782 *Id.* at 31.

783 *Id.* at 31.

784 *Id.*

785 TURN-SCGC OB at 59.

the balancing account such as PSEP, and that most of the costs would be associated with hydrotesting which has a very low RSE.[786] TURN and SCGC also state that, if the Commission allows cost recovery, the ISEP forecasted costs should be included in base rates with SoCalGas being permitted to establish a memorandum account in which SoCalGas would record for this GRC cycle only any spending in excess of its forecast for recovery by application in a subsequent proceeding.[787] SoCalGas is conducting the validation of ISEP scope as stated in direct testimony and had, at the time of rebuttal testimony, decreased the ISEP scope by approximately 350 miles.[788] SoCalGas continues to anticipate that the number may decrease further as it reviews records against federal requirements.[789] SoCalGas developed the TY 2024 GRC forecast based on an assumption that the primary method of reconfirmation would be pressure testing of pipeline segments. However, as cited in direct testimony, 49 C.F.R. § 192.624 allows six methods of reconfirmation. A two-way balancing account would protect ratepayers should SoCalGas find opportunities for cost reduction while also enabling SoCalGas to recover costs incurred to comply with federal mandates should a more costly method become necessary.

In addition, TURN-SCGC also take issue with the inclusion of future gas rules and regulation costs in the GSEPBA[790] and argue that SoCalGas should not be permitted to recover 35% above authorized expenditures through an advice letter filing.[791] While SoCalGas has almost a decade of experience with the PSEP, the pipeline segments in scope for the ISEP have only been recently identified.[792] In fact, the ISEP forecasts detailed in supplemental workpapers are preliminary estimates informed by PSEP historical costs and, because there was no project definition at the time of forecasting beyond the number of miles and AACE's prescribed level of project definition for Class 5 estimates is 0-2%, these estimates could only be considered Class 5

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786 *Id*. at 60.

787 *Id*. at 63.

788 SoCalGas identified approximately 1,100 miles of ISEP scope in Ex. SCG-09. In Ex. SCG-209-E (Sera/Razavi), SoCalGas provided an updated scope of approximately 750 miles.

789 49 C.F.R. § 192.624.

790 TURN-SCGC OB at 64.

791 *Id.*

792 Ex. SCG-209-E (Sera/Razavi) at 31.

estimates at best.[793,794] Due to the timing of TY 2024 GRC filing, it would be unreasonable to expect SoCalGas to provide Class 3 estimates for new scope that is still being evaluated when the projects under the PSEP are simply more mature.[795] Even with the higher amount of project definition that accompanies a Class 3 estimate (10-40%),[796] such as those utilized to forecast PSEP activities, there is still the potential for cost variances associated with uncertainties that are beyond the ability of an estimator and project teams to account for at the time the estimate is produced.[797] The Commission's granting of a memorandum account to track potential PSEP cost overruns in D.19-09-051, even with the higher level of confidence in the project scope typical of a Class 3 estimate, suggests that the use of a two-way balancing account as proposed for the GSEPBA is reasonable and consistent with previous, similar Commission findings.[798]

To comply with the deadlines, SoCalGas anticipates an increase to both internal and external resources (*e.g.*, labor, vehicles, materials) to support the expedited level of activity of the ISEP as it is executed in parallel with the previously authorized phases (Phase 1A, 2A, and 1B) of the PSEP to meet compliance deadlines.[799] Additionally, in the initial years of the ISEP, the imposition of the aforementioned deadlines associated with 49 C.F.R. § 192.624 effectively limits SoCalGas's ability to shift projects if issues arise during the planning and/or execution stages.[800] As projects are planned and released, SoCalGas will need to execute them as planned and should issues arise (*e.g.*, a replacement becomes necessary due to operational needs), there is no option to defer and avoid the added costs without impacting SoCalGas's ability to comply with 49 C.F.R. § 192.624.[801]

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793 *See* Ex. SCG-209-E (Sera/Razavi) at Appendix C – AACE International, Recommended Practice No. 97R-18, Cost Estimate Classification System – As Applied in Engineering, Procurement, and Construction for the Pipeline Transportation Infrastructure Industries (2020).

794 PSEP data used to forecast the ISEP was considered Class 5 at the time; however, ISEP projects were not defined – miles were preliminary assumptions and other project details were not known and could not be taken into consideration (*e.g.*, pipe diameter, location).

795 Ex. SCG-209-E (Sera/Razavi) at 31.

796 *Id.*

797 *Id*. at 31.

798 *Id.* at 31-32.

799 *Id.* at 32.

800 *Id.*

801 *Id.*

At the same time, 49 C.F.R. § 192.624 also establishes six different methods that can be used to reconfirm in-scope pipeline segments.[802] While SoCalGas's forecast is primarily based on hydrotesting pipeline segments for the ISEP, SoCalGas plans to further evaluate each project during detailed planning to determine the most appropriate reconfirmation method. Should the decision be made to use pressure reduction, Engineering Critical Assessment (49 C.F.R. § 192.632), or replacement rather than hydrotesting, the cost of a project could change substantially.[803] 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.[804] TURN-SCGC purport that the "tremendous cost over runs" of the TIMPBA is a basis for denying the two-way balancing mechanism for the GSEP, explaining that it would "provide very poor incentive for SoCalGas regarding cost control."[805] However, TURN-SCGC attempts to compare two very different programs and scopes and the Commission should evaluate these programs under separate criteria.[806]

The impending publication of new rules and regulations is not uncertain and, based on currently available information from PHMSA, there will be new requirements with which SoCalGas must comply during the TY 2024 GRC cycle.[807] SoCalGas would seek Commission approval to create new subaccounts in order to record costs incurred associated with future gas rules and regulations as they are published through a Tier 2 Advice Letter.[808] Upon approval of the creation of a new subaccount, SoCalGas would still be subject to the same cost recovery mechanisms as the other integrity management balancing accounts.[809]

16. Gas Storage Operations and Construction

SoCalGas has fully justified approval of its Test Year (TY) 2024 Gas Storage Operations and Construction O&M and capital costs for 2022, 2023, and 2024, as shown in testimony and in

802 *Id.*

803 *Id.*

804 *Id.*

805 Ex. TURN-SCGC-04-E (Yap) at 31.

806 Ex. SCG-209-E (Sera/Razavi) at 33.

807 *Id.* at 34.

808 *Id.*

809 *Id.*

SoCalGas's Opening Brief.[810] SoCalGas's funding request is reasonable and represents the necessary O&M expenses and capital investments for the company 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. SoCalGas seeks $47.782 million for O&M and $516.024 million in its 2022-2024 capital forecast. Notably, none of the briefs filed by parties provide any additional information or evidence that would rebut SoCalGas' evidence as set forth in its Opening Brief which is incorporated by reference herein.

16.1 SoCalGas Has Demonstrated That the Honor Rancho Compressor Modernization (HRCM) Project is Justified and Reasonable

The HRCM Project is a compliance driven project developed to conform with Regional Clean Air Initiative Market (RECLAIM) Sunset requirements (Rule 1110.2[811] and Rule 1100[812]) and consists of two components—the Principal component and the Advanced Renewable Energy (ARE) component.[813] The Principal component includes the installation of the new compression equipment to comply with South Coast Air Quality Management District (South Coast AQMD) Rule 1110.2 and Rule 1100. The Honor Rancho storage facility is required to operate in accordance with a combined Title V and RECLAIM air permit issued by South Coast AQMD.[814] As the South Coast AQMD transitions facilities from RECLAIM to command-and-control rules, the compressor gas lean-burn engines at Honor Rancho are subject to Rule 1110.2 and Rule 1100.[815] The ARE component involves installation of green hydrogen equipment (electrolyzers, storage vessels, blending equipment) and a green hydrogen fueling station for fleet vehicles.[816] The ARE component is designed to reduce GHG emissions and support climate conservation goals

810 SoCalGas/SDG&E OB at 219-237.

811 SCAQMD Rule 1110.2, "Emissions from Gaseous- and Liquid-Fueled Engines" (Amended November 1, 2019).

812 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.

813 Ex. SCG-10-R (Bittleston/Hruby) at 10-11, 21.

814 *Id*. at Appendix E – Honor Rancho Compressor Modernization Supplemental Project Description.

815 *Id.*

816 Ex. SCG-10-R (Bittleston/Hruby) at 23.

by blending green hydrogen with natural gas as the combustion fuel for the new compressor gas lean-burn engines, using green renewable electricity as the power source to produce green hydrogen for the project, and utilizing green hydrogen for company fleet vehicles (replacing automotive conventional internal combustion engine (ICE) and compressed natural gas (CNG) engines).[817] Modernization of Honor Rancho storage field's compression assets allows SoCalGas to not only maintain compliance with these South Coast AQMD's emissions rules, but also serves to reduce emissions, reduce peak grid electricity demand, and maintain the operational reliability of the facility.[818]

16.2 ARE Component

Air Products and TURN-SCGC mistakenly argue that the HRCM Project's ARE component is outside the scope of the company's services.[819] TURN-SCGC's flawed positions seem to be based on a fundamental misunderstanding of the ARE component. SoCalGas's ARE component will *not* introduce green hydrogen into SoCalGas's transmission system, distribution system, or storage field for customer use.[820] SoCalGas proposes to utilize green hydrogen production from the ARE component for company operations only.[821] Indeed, the green hydrogen production would be located onsite and piped *directly* to a blending skid to fuel the new compressor lean-burn engines.[822] Moreover, the ARE produced green hydrogen would be a fuel source for *company* vehicles.[823] As explained further in Section 3, SoCalGas should be permitted to perform this type of work that is directly tied to the operation of its system. Air Products further contends that SoCalGas should issue a request for third-party providers to execute the ARE component.[824] SoCalGas employs a multi-pronged approach to the engineering associated with capital projects of the size and complexity of the HRCM Project. SoCalGas uses: 1) SoCalGas Gas Engineering Department supplemented with third party engineers (Owner's Engineer); 2)

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817 *Id.* at 11.

818 *Id.* at 23.

819 Air Products OB at 31-32; TURN-SCGC OB at 71.

820 Ex. SCG-210 (Bittleston/Hruby) at 12.

821 *Id*.

822 *Id*. at 11-12.

823 *Id.* at 12.

824 Air Products OB at 32.

Third-party engineering firm for Front End Engineering & Design (FEED); and 3) third-party firm responsible for Engineering, Procurement and Construction (EPC). In addition, specialty engineering expertise is employed throughout the project, as needed.[825]

As explained herein, the ARE component includes a green hydrogen fueling station for fleet vehicles. CEJA makes a conclusory statement that the hydrogen fueling station should be rejected;[826] but fails to support its position and merely states it should be rejected for the same reasons as the Pico Rivera refueling station—a separate and distinct project.[827] *See* Section 18 (Clean Energy Innovations), Section 24 (Fleet Services) and Section 25 (Real Estate, Land Services, and Facilities Operations). TURN-SCGC argue that SoCalGas has not demonstrated a need for the hydrogen fueling station nor that it is cost effective.[828] SoCalGas is committed to decarbonizing its fleet of vehicles and its equipment to help reduce GHG emissions to 40% below 1990 levels by 2023 and aligning with the Governor's executive orders related to zero emission vehicles.[829] In addition to the vehicles and equipment at Honor Rancho, SoCalGas has fleet vehicles and equipment operating out of distribution and transmission bases in the Santa Clarita Valley.[830] The on-site green hydrogen production and fueling facility at Honor Rancho provides the necessary infrastructure to support company fleet vehicles and equipment.[831]

Air Products contends the project should be disallowed until the Commission has considered whether it is safe to undertake hydrogen blending in existing utility gas infrastructure.[832] As SoCalGas has explained, the blending of hydrogen is not an unproven or novel process.[833] It is a conventional method used in various heavy industries as well as in industrial production facilities, refineries, and chemical complexes.[834] Blending of ARE produced

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825 Ex. SCG-10-R (Bittleston/Hruby) at Appendix E - Section VIII Project Execution.

826 CEJA OB at 26.

827 *Id.*

828 TURN-SCGC OB at 70-71.

829 Ex. SCG-210 (Bittleston/Hruby) at 12.

830 *Id.* at 11.

831 *Id.* at 12; *see also* OB at Sections 24, 25, and *infra* Sections 24 and 25.

832 Air Products OB at 32.

833 Ex. SCG-210 (Bittleston/Hruby) at 12.

834 *Id.*

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. SoCalGas is proposing to blend green hydrogen up to 10% by volume, which is below the engine manufacturer's operating recommendation.[835]

In addition, it is important to note that, as part of Rulemaking 13-02-008, the Commission approved D.22-12-057 Directing Biomethane Reporting and Directing Pilot Projects to Further Evaluate and Establish Pipeline Injection Standards for Clean Renewable Hydrogen.[836] In that decision, the Commission ordered the Investor Owned Utilities (IOUs) to file a joint application proposing pilot programs to test hydrogen blending in the natural gas system within two years from the issuance of the decision.[837] SoCalGas is currently collaborating with UCI to design a project that demonstrates how electrolytic hydrogen can be safely blended into existing natural gas infrastructure on the university's campus.

While TURN-SCGC argue that ratepayer benefits related to the ARE component have not been shown, the blending of green hydrogen as a fuel source reduces use of hydrocarbon-based fuel and reduces emissions.[838] Aligning SoCalGas's capital activities with its sustainability goals and investing in the ARE component will support long-term value for the environment and our customers.[839] 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, the ARE component is one of several initiatives the company is proposing in this GRC to support these efforts.[840] Accordingly, the Commission should disregard the proposals of Air Products, TURN-SCGC and CEJA.

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835 *Id.*

836 D.22-12-057.

837 *Id.* at 34, 60 (COL) 4.

838 Ex. SCG-10-R (Bittleston/Hruby) at Appendix E – Honor Rancho Compressor Modernization Supplemental Project Description.

839 Ex. SCG-210 (Bittleston/Hruby) at 12.

840 *Id.* at 12-13.

16.2.1 Principal Component - Microgrid

TURN-SCGC argue that the microgrid should be excluded from the Principal component of the HRCM Project.[841] The microgrid and fuel cell/capacitor storage system is a development and modernization of the existing on-site electric generation system providing improved operational flexibility, emissions reductions, and interconnection with the electric grid, and should be approved as part of HRCM Project's Principal component.[842] TURN-SCGC believe that the microgrid is not necessary for reliability, that its savings do not justify its expenditure, and that it has not been shown that existing onsite electrical generation would be insufficient to supply administrative and auxiliary load.[843]

Construction of the microgrid is an essential component of the HRCM project, and TURN-SCGC fail to consider the operational *need* and ratepayer *benefits* resulting from it.[844] On-site electric generation is necessary for operations at Honor Rancho, and 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.[845] Construction of the microgrid will also support the increased administrative and auxiliary equipment electric loads which continues to be updated as the design process continues, increasing the administrative and auxiliary equipment electric load needs substantially since the preliminary estimate was created in 2021.[846] Uninterrupted electric supply to administrative and auxiliary systems is necessary for the safe and reliable operation of gas injection and withdrawal equipment, control valves and instrumentation, plant emergency shut down (ESD) devices, and other critical equipment power loads.[847] The new fuel cell/capacitor storage system will allow SoCalGas to transition from existing, undersized gas-fueled engines used

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841 TURN-SCGC OB at 3, 66-67.

842 Ex. SCG-210 (Bittleston/Hruby) at 17.

843 TURN-SCGC OB at 66-68.

844 Ex. SCG-210 (Bittleston/Hruby) at 10.

845 *Id.*

846 *Id.*

847 *Id.*

for onsite electric generation to lower emission solid oxide fuel cells to meet Honor Rancho's increased administrative and auxiliary power loads following the HRCM project completion.[848]

The electric grid in California relies on the flexibility of dispatchable electrical generation provided, in part, by natural gas fired generators.[849] Natural gas storage enables these generators to both ramp up (storage withdrawal) and ramp down (storage injection).[850] The need for this flexibility, and accordingly, a resilient compressor system at Honor Rancho, can coincide with events that disrupt local electric power (*e.g.*, PSPS events and critical calls for grid demand reductions).[851] While the new fuel cell/capacitor storage system is designed to meet Honor Rancho's increased day-to-day administrative and auxiliary equipment electric loads critical for safe and reliable operation of the facility, it will *also* be capable of providing electricity to these systems in the event of planned or unplanned electric-grid service interruption.[852]

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.[853] While TURN-SCGC argues that SoCalGas has not experienced any power outages at the Honor Rancho station within the last five years that have disrupted operations, that does not mean that SoCalGas has not experienced *any* power outages.[854] Moreover, as wildfires become more prevalent, the capability of Honor Rancho to generate and distribute electricity independent of the electric grid is more critical now than ever.[855] 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.[856] Moreover, the development and modernization of the microgrid and fuel cell/capacitor storage system provides Honor Rancho the ability to transition to and from grid

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848 *Id.*

849 *Id.*

850 *Id.*

851 *Id.* at 10-11.

852 *Id.* at 11.

853 *Id.*

854 TURN-SCGC OB at 67.

855 Ex. SCG-210 (Bittleston/Hruby) at 11.

856 *Id.*

power.[857] The system may also help avoid peak hour electric pricing by utilizing electricity generated on-site from the microgrid and fuel cells during peak periods.[858] In addition, the microgrid and fuel cell/capacitor storage system allows SoCalGas the ability to provide electricity to the grid if electric demand is minimal at Honor Rancho.[859] SoCalGas has justified the need for the HRCM Project, including the microgrid portion of the Principal component. Accordingly, the Commission should approve the HRCM project in its entirety.

16.2.2 The Aliso Canyon Turbine Replacement Project Costs are Justified and Reasonable

SoCalGas is seeking authorization to proceed with cost recovery of $21.6 million in capital expenditures incurred to complete the Aliso Canyon Turbine Replacement Project (ACTR).[860] SoCalGas presented this request in two areas of testimony: (1) In Ex. SCG-10-R, SoCalGas provided detailed information on the costs incurred to demonstrate the reasonableness of the $21.6 million; and (2) in Ex. SCG-38-R, SoCalGas requests to recover the ending balance as of December 31, 2023 in the Aliso Canyon Memorandum Account (ACMA) which is the capital-related cost (*e.g.*, depreciation, return, taxes) associated with the capital expenditures of $21.6 million.[861] The Commission established a framework for SoCalGas to recover reasonably incurred costs of completing the ACTR Project, if those costs exceed the amount authorized by the Commission.[862] Specifically, the Commission established that ACTR Project costs in excess of $275.5 million are to be reviewed for reasonableness in SoCalGas's GRC.[863] D.19-09-051 provided that, "[w]e also find that the request to continue the Aliso Canyon Memorandum Account (ACMA) to record additional capital-related costs in excess of $275.5 million is reasonable. Any recovery sought for such amounts should be subject to a reasonableness review in SoCalGas's next GRC."[864]

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[857] *Id*.

[858] *Id*.

[859] *Id*.

[860] *Id*. at 14.

[861] *Id*.

[862] *Id*.

[863] *Id*. at 14-15.

[864] D.19-09-051 at 173-174.

Cal Advocates argues for a reduction of $12.6 million from SoCalGas's requested $21.6 million for the Aliso Canyon Turbine Replacement (ACTR) Project.[865] Cal Advocates takes issue with only two cost elements of the $21.6 million of costs incurred to complete ACTR: Company Labor ($1.8 million)[866] and Overheads ($2.2 million)[867] totaling $4.0 million of its $12.6 million disallowance recommendation.[868] Cal Advocates does not address the additional $8.4 million in their disallowance recommendation.

The Commission should reject Cal Advocates' recommendation and argument on the treatment of Company Labor as it is inconsistent with Federal Code of Regulations, Generally Accepted Accounting Principles and historic Commission treatment of company labor on large capital projects.[869] Moreover, the Commission should reject Cal Advocates' recommendation on the treatment of Overheads as it is inconsistent with the methodology established by the Federal Energy Regulatory Commission (FERC) and the Commission authorized methodology for treatment of overheads on large capital projects.[870] In compliance with D.19-09-051, SoCalGas presented evidence in this GRC establishing the reasonableness of $21.6 million in additional capital related costs to complete ACTR. Accordingly, the Commission should authorize cost recovery of the $21.6 million incurred to complete ACTR.

PCF confusingly states that there are questions about whether SoCalGas's storage forecasts were appropriately reduced so as to reflect the fact that the ACTR was completed in 2020 and should not be used in forecasts for future years.[871] It seems PCF is confusing the costs to construct the ACTR project versus the ongoing costs to operate and maintain ACTR.

16.2.3 PCF's Opposition to Aliso Canyon Costs is Wholly Unsupported, Outside the Scope of this Proceeding, and Should Be Rejected

PCF mistakenly claims that Aliso Canyon is no longer necessary for natural gas reliability in the Los Angeles Basin and misrepresents that the facility could be permanently closed before

865 Cal Advocates OB at 24, 89.

866 Ex. CA-03 (Phan) at 27-28.

867 *Id*. at 29.

868 Cal Advocates OB at 92.

869 Ex. SCG-210 (Bittleston/Hruby) at 15-16.

870 *Id.* at 16.

871 PCF Opening Brief at 49.

the winter of 2023/2024.[872] Based on that, PCF contends that ratepayers should not be required to pay for operating Aliso Canyon.[873] First, PCF's recommendation is outside the scope of this GRC and involves issues scoped in another open proceeding before the Commission.[874] 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 region.[875] 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.[876] Second, the Commission has found that Aliso Canyon is currently needed for reliability.[877] 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."[878] Moreover, contrary to PCF's position that the facility could be permanently closed before the winter of 2023/2024, on August 31, 2023, the Commission found that the facility was needed this winter and *increased* the maximum storage level at the facility from 41.16 billion cubic feet (Bcf) to 68.6 Bcf to help support energy reliability and to protect against high natural gas and electric prices this winter.[879] The Commission also recently found that PCF's analysis in I.17-02-002 related to the need for Aliso Canyon had limited to no value because it was unrealistic given existing circumstances and did not rely on PCF to find that Aliso Canyon was needed for reliability.[880] PCF also contends that

872 *Id.* at 48.

873 Ex. SCG-210 (Bittleston/Hruby) at 6.

874 *Id.*

875 *Id.*

876 *Id.*

877 *Id.* at 7.

878 *Id.* at 6-7.

879 D.23-08-050.

880 D.23-06-046.

SoCalGas has not justified expenditures related to Aliso Canyon.[881] As SoCalGas has explained, costs generally relate to all storage fields and are by type of activity and are not specific to a particular storage field and are presented at an aggregate level.[882] SoCalGas has fully justified approval of its TY 2024 Gas Storage Operations and Construction O&M and capital costs for 2022, 2023, and 2024, which includes costs for Aliso Canyon, and PCF's recommendations, which are not only outside the scope of this GRC, but also wholly unsupported, should be rejected.

17. Procurement

17.1 Gas Acquisition

No intervenor, including Cal Advocates, raised a material objection to SoCalGas's TY 2024 O&M funding request of $5.247 million.[883] Thus, for the reasons stated in Applicants' Opening Brief, SoCalGas requests that the Commission adopt its request as reasonable.

17.2 Energy Procurement (SDG&E Only)

In its Opening Brief, Cal Advocates repeats the recommendations set forth in its direct testimony and does not meaningfully address the arguments set forth in SDGE's rebuttal testimony. Cal Advocates recommends two downward adjustments to SDG&E's O&M forecast. First, Cal Advocates recommends use of a five-year average methodology for Origination & Portfolio Design's (O&PD) labor costs instead of SDG&E's proposed forecast methodology of BY 2021 plus incremental costs, which results in a downward adjustment of $600,000. Second, Cal Advocates recommends a downward adjustment for the Resource Planning function, from $1.203 million to $1.139 million based on use of a three-year average methodology for Resource Planning's labor costs instead of SDG&E's proposed five-year forecast methodology of BY 2021 plus incremental costs.[884]

These proposals are addressed in detail in the rebuttal testimony of SDG&E witness, Christopher A. Summers, as well as in SDG&E's Opening Brief.[885] As explained therein, the proposals offered by Cal Advocates are ill-conceived and unreasonable. Accordingly, the

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881 PCF OB at 48-49.

882 Ex. PCF-40 at 1.

883 In its Opening Brief, EDF referenced a data request response provided by SoCalGas and raised no objection to SoCalGas's O&M funding request. EDF OB at 78-79.

884 Cal Advocates OB at 94-95.

885 Ex. SDG&E-210 (Summers) at 4-11; SCG/SDG&E OB at 241-243.

adjustments recommended by Cal Advocates should be rejected and SDG&E's forecasts adopted as reasonable.

18. Clean Energy Innovations

18.1 Clean Energy Innovations (SoCalGas)

As explained in the Opening Brief, the costs included in this GRC for SoCalGas's Clean Energy Innovations provide support for the robust and ambitious policy goals for California and the United States to transition toward a clean energy future. The requests are limited in cost and targeted in a few areas, but set the groundwork for continuing this transition. Given the looming climate crisis, it is important for the Commission to adopt the proposals by SoCalGas in this GRC so that SoCalGas can take steps to help California and the Company itself progress our mutual climate goals.[886]

18.1.1 Sustainability

As explained in the Opening Brief, 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 throughout SoCalGas. Only CEJA opposes SoCalGas's request with respect to its Sustainability group. CEJA argues that "SoCalGas has not identified any concrete benefits that its spending on 'Sustainability' provides to ratepayers," and that the ASPIRE 2045 strategy is contrary to state policy.[887] These arguments were addressed in the Opening Brief and are also addressed in Sections 3 and 8 of this Brief.

18.1.2 Clean Fuels Infrastructure Development

The Clean Fuels Infrastructure Development area 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 explained in the Opening Brief, these programs and functions support moving forward with the energy transition in alignment with California's goals, reducing and offsetting SoCalGas's and its customers'

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886 Legal issues such as those related to jurisdiction, cost-causation, and affiliate transaction rules regarding clean fuels is discussed above in Section 3.

887 CEJA OB at 49.

emissions. Different intervenors oppose different areas of Clean Fuels Infrastructure Development, and their opposition is discussed in the relevant sections below.[888,889]

18.1.2.1 The Business Development Group Explores Potential Opportunities that Can Provide Decarbonization Benefits to Ratepayers.

The Business Development function broadly supports developing and deploying cost-effective and environmentally sustainable clean energy solutions, including clean fuels and carbon management, to serve SoCalGas's customers. CEJA and TURN-SCGC oppose SoCalGas's Business Development request.

CEJA discusses its issues with certain contracts that were included in the historical period. These contracts were generally addressed in the Opening Brief. CEJA goes further to argue that "these contracts also include spending designed to influence the decisions of public officials, which SoCalGas cannot properly recover from ratepayers."[890] One contract mentions, "Provide strategic advice and guidance for government relations efforts to make sure DOE receives appropriations and guidance."[891] Providing guidance and information to DOE does not indicate

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888 CEJA has confusingly addressed costs for the different Clean Fuels Infrastructure Development groups and functions by its own arguments instead of by the particular group or function. SoCalGas has addressed these arguments in the most relevant sections.

889 CEJA and TURN-SCGC argue that SoCalGas was not sufficiently clear in the "frustrated intervenors' ability to recommend specific adjustments to… work within Clean Fuels Infrastructure Development…." (CEJA OB at 33-34.) However, SoCalGas did provide substantial cost information, just not in the format CEJA and TURN-SCGC wanted. CEJA cites testimony and a data request response as the evidence for this argument. (CEJA OB at 34, fn. 121 [citing to Ex. CEJA-01, Attachment 3, Response to DR CEJA-SEU-013, Q. 17(a)].) In response to this cited data request, which asked for a breakdown of non-labor and labor expenses for Clean Fuels Infrastructure, SoCalGas stated that the forecasts for the focus activities were "not derived by splitting out cost estimates for the listed activities. Please refer to workpapers Exhibit SCG-12-WP-R pages 13 - 16 for more details on historical data and how incremental funding was determined." An examination of the workpapers provides substantial information about how forecasts were calculated over 20 pages, including those related to labor. (Ex. SCG-12-WP-R at 12-32.) For example, one section of the workpapers explains that a 0.8 FTE labor increase and additional non-labor expenses are "to support clean fuels power generation projects internally and externally," and will assist with "feasibility analysis of clean fuels power generation with intent to transition to clean fuels." (*Id*. at 14.) However, as the workpapers show, certain activities do not cleanly fall within any particular activity or group identified in the testimony, which is why a simple breakdown across groups and functions was not provided.

890 CEJA OB at 31.

891 Ex. CEJA-01, Attachment 5, at pdf p. 132 (contract provided in discovery with identifier CEJA-SEU-021, Attch Q1_A7 at page 11 of 18).

"influencing the decisions of public officials," and the contract was not for lobbying services.[892] As for the contract referencing communications with CARB, this was an issue that was not raised by CEJA at all in its intervenor testimony and was not an issue that was explored during cross-examination. Had this aspect of this one contract been identified as an area CEJA was opposing, SoCalGas would have provided further evidence explaining this aspect of the contract. Because it was not raised at all until CEJA's Opening Brief, SoCalGas is unable to fully address it. That said, the evidence does show that the issue CEJA complains of was a minor aspect of the contract at issue. The language appears as a single sub-bullet in a six-slide scope of work.[893] The bullet is one of approximately 85 separate bullets within the scope of work. Broken down by costs, this piece would be a small aspect of the total value of the contract. Thus, based on the evidence available, if the Commission determines the cost should not be included in rates, it would be a small fraction of the contract value.[894]

CEJA also argues that it was inappropriate to include costs for a contract because it mentioned a "shareholder-funded model" for a carbon dioxide pipeline system. However, the main objective of the work conducted under the engagement with Wood Mackenzie (CEJA-SEU-013, Attch Q23c_8) was to conduct a technical feasibility study for CO2 pipeline. This engagement also included other aspects such as feasibility of storage, and commercial models. The high-level analysis of the feasibility of commercial models included *comparing* the utility-owned model with other benchmarks from a cost of capital (discount rate) perspective.[895] This aspect of the project was minor in nature and is just one sub-bullet point of a subsection of a much larger, comprehensive technical and commercial feasibility study outline.[896]

CEJA also complains of membership dues to trade associations, stating SoCalGas's "non-labor costs include[] $561,789 in 'Membership' contributions to organizations like the Hydrogen Council."[897] CEJA goes on to cite one online article mentioning that the Hydrogen Council is a

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[892] 18 C.F.R. § 367.4264, FERC Account 426.4, Expenditures for certain civic, political and related activities.

[893] Ex. CEJA-01, Attachment 5, at pdf p. 43.

[894] *See Id.* at pdf p. 45 (pages 19 of 25 of CEJA-SEU-013, Attch Q23c_8) for a cost breakdown based on milestones.

[895] *Id.* at pdf p. 43 (pages 17 of 25 of CEJA-SEU-013, Attch Q23c_8).

[896] *Id.* at pdf p. 41-43 (pages 15-17 of CEJA-SEU-013, Attch Q23c_8 [Scope of Services]).

[897] CEJA OB at 32.

trade association that is also supported by companies like Shell and BP that "has used 'warped logic' and 'dubious' assumptions," as a basis for such costs being disallowed.[898] CEJA also uses this sole article to justify an ask that the Commission "direct SoCalGas to clearly disclose all contributions to trade groups in a single document in its next GRC."[899] CEJA's argument misses the mark in several respects. First, although CEJA mentions the entirety of historical non-labor costs, CEJA only identifies Hydrogen Council as a membership that it takes issue with, and the payment was for $25,477 (which CEJA knows as it cited the number in its testimony). Setting that aside, the only evidence provided by CEJA that the Hydrogen Council is not an appropriate group to be a part of is one online article of unknown repute. However, the evidence in the record shows that the Hydrogen Council is an important source of information relating to hydrogen, as demonstrated by their publications being referenced and cited throughout other research publications. For example, EDF includes in its exhibits at least three articles, including one of its own papers, which cite to the Hydrogen Council for their conclusions.[900] As for CEJA's recommendation of a document including memberships, such information is generally reported annually through SoCalGas's GO-77M reports. Although those numbers can moderately deviate from what is included in the GRC, they include the information CEJA is asking for.

TURN-SCGC also argue that the Business Development costs should not be allowed because "SoCalGas admits that the clean energy solutions are not part of SoCalGas's current utility services and that 'it is premature and speculative to surmise which specific clean energy solutions may be part of a future utility service.'"[901] SoCalGas is seeking authority to be involved with different clean energy solutions. Depending on that approval and other government actions, the specific "clean energy solutions" that may be a part of SoCalGas's future service is not certain. TURN-SCGC go on to argue that the Business Development group only explains that it performs services that are recovered outside of the GRC. That is not the case. SoCalGas mentioned in

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898 *Id.*

899 *Id.* at 33.

900 *E.g.,* Ex. EDF-01, Attachment 3, at pdf p. 121 (citation to Hydrogen Council at page 41 of EDF, *Managing the Transition, Proactive Solutions for Stranded Gas Asset Risk in California* (2019)); *Id.*, Attachment 4, at pdf p. 28 (citation to Hydrogen Council at page 9366 of Atmospheric Chemistry and Physics, Ocko & Hamburg, EDF, *Climate consequences of hydrogen emissions*, (2022)), at pdf p. 38 (citation to Hydrogen Council at page 8 of Nature Communications, Bertagni, Pacala, Paulot, Porporato, *Risk of the Hydrogen Economy for Atmospheric Methane* (Dec. 13, 2022)).

901 TURN-SCGC OB at 74.

testimony that the group supported the H2IE in its development and also does other work such as "market research and financial and business analytics to track clean energy market trends, techno-economic outlooks, and decarbonization trends in the energy and utility sectors."[902] SoCalGas's testimony goes on to explain the decarbonization benefits of the work this group does.[903]

18.1.2.2 The CCUS FEED Study Program Is a Further Step to Explore Benefits for all Gas Customers Which Is Ripe for Federal and State Funding

The CCUS FEED Study Program is for funding to conduct studies that are aimed at 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. TURN-SCGC, CEJA, and IS make several arguments in opposition to the CCUS FEED Study Program.

TURN-SCGC, CEJA, and IS argue that ratepayers would not benefit from the Program, the study amounts to cross-subsidization, and that it does not support the provision of safe and reliable service to the customers.[904] These arguments were already largely addressed in the Opening Brief, but additional arguments are addressed herein.[905]

First, CEJA and IS[906] put much stock in their argument that "On cross-examination, Mr. Infanzon was not aware of any potential impact this program might have on SoCalGas'[s] ability to transport and deliver natural gas to ratepayers between 2024 and 2027." However, Mr. Infanzon explained the benefits of the CCUS FEED Study Program to ratepayers:

> Q:· To your knowledge, is the proposal intended to help maintain SoCalGas' current ability to transport and deliver natural gas to customers?[ALJ clarification]THE WITNESS: Yes. Your Honor, our proposal for the CCUS focus on two components. The first one is for carbon removal from basically CO2 from the atmosphere, and also to support the hard-to-decarbonize sectors of our economy in our service territory. We working on different initiatives. Some of those initiatives are relaxing these benefits. ***A lot of these benefits are societal in nature by removing emissions, and also, as indicated by the Department of***

902 Ex. SCG-212 (Infanzon) at 15-16

903 *Id.* at 16.

904 TURN-SCGC OB at 78-79; CEJA OB at 27, 34; IS OB at 5-7.

905 OB at 252-258.

906 IS OB at 6 (when asked "whether the proposal might have an impact on the Company's ability to transport and deliver natural gas to ratepayers between 2024 and 2027, the Company's witness responded by saying 'I don't know'").

> ***Energy on the carbon based, there's a potential to remove NOx from some of these technologies from our communities that will benefit many members of those communities***. …
>
> Q: To your knowledge, is the proposal intended to help maintain SoCalGas' current ability to transport and deliver natural gas to customers? [Clarification from counsel and ALJ comment] THE WITNESS:· Yes. And some of the components proposed here will help some of our existing customers to find decarbonization solutions that currently use natural gas, for example, the cement industry. They utilize natural gas, and carbon management provide a solution for them to reduce emissions in support of State's decarbonization goals. ALJ LAKHANPAL:· Thank you. BY MR. HAFEZ: Q: Mr. Infanzon, if the proposed study were not approved in this rate case, are you aware of any potential impact SoCalGas' ability that might have on --it might have on its ability to transport and deliver natural gas to ratepayers between 2024 and 2027? And you can give a simple "yes," "no," or "I don't know." A: I don't know.[907]

Thus, as explained by Mr. Infanzon, there are longer-term benefits to ratepayers from pursuing the CCUS Feed Study program. Mr. Infanzon was asked whether a proposal for a FEED Study will impact SoCalGas's "ability to transport and deliver natural gas to ratepayers between 2024 and 2027." A Front End Engineering and Design (FEED) Study is an analysis to determine appropriate next steps and costs for a project.[908] Such analysis, even if it were for a natural gas pipeline, may not provide benefits in the next three years, or until anything is actually constructed. In addition, the phrasing of IS's question further diminishes CEJA's and IS's reliance on it. IS asked whether it would affect SoCalGas's "ability to transport and deliver natural gas" – this is not the standard or sole consideration for whether a cost should be approved in a GRC.[909]

CEJA and IS argue that Resolution E-5254 *requires* SoCalGas to put its expected projects that it may seek funding for in the IIJA Memorandum Account.[910] On the contrary, Resolution E-5254 created the mechanism for tracking costs and benefits because of the challenges with the timing for GRC cost recovery:

> Furthermore, in cases *where projects are not already included within an IOU's GRC*, the GRC cycle may not optimally align with the IIJA grant cycle.

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907 TR:13-2375:24-2377:18 (Infanzon).

908 *See* Ex. SCG-12R (Infanzon) at 22-25.

909 *See* SCG/SDG&E OB, Section 3.

910 CEJA OB at 51-52; IS OB at 7 (IS makes a similar argument but argues that because Resolution E-5254 is in draft form and SoCalGas should not get ahead of the Resolution. It appears IS was unaware that the Resolution has been final since April 10, 2023.)

> …
>
> Therefore, we adopt two procedural options through which the IOUs may request project funding: 1) a utility can seek prospective ratemaking treatment through its GRC, which occurs every three to four years; or 2) via a separate project stand-alone application if earlier cost recovery is needed.
>
> …
>
> [This GRC application or standalone] application process provides the appropriate forum to assess the reasonableness of IOU IIJA, IRA, or CHIPS project costs presented to the Commission because it is litigated in a public proceeding initiated by the requesting utility and includes robust public participation from stakeholders. These stakeholders propound discovery, review the details of the costs, submit briefs and testimony, cross-examine witnesses in evidentiary hearings, and may or may not propose settlements. Together, this information forms the evidentiary record on which the Commission will base its determination of whether costs are reasonable and therefore should be borne by ratepayers.[911]

Because SoCalGas was aware of CCUS funding opportunities at the time it filed this GRC, and because there was no memorandum account mechanism at the time, SoCalGas included its CCUS FEED Study Program in this GRC. Parties had the opportunity to (and did) conduct discovery, review costs, and cross examine the witness at hearings. Notably, no party appears to challenge the particulars of the costs or argues that they are inaccurate, inflated, or incorrectly estimated. Thus, presenting the CCUS Feed Study Program was appropriately included in this GRC, consistent with Resolution E-5254. Furthermore, the California Direct Air Capture Hub Consortium (of which SoCalGas is a member) was selected by DOE on August 11, 2023 to do a FEED study of an overall Direct Air Capture Hub, so the real opportunity for matching funds for the FEED Study Program is present.[912]

18.1.2.3 The Clean Fuels Operational Readiness Program

The only parties specifically challenging the Clean Fuels Operational Readiness Program are TURN-SCGC and CEJA. Other than issues already addressed in the Opening Brief, TURN-SCGC argue that R.13-02-028 should address "issues regarding open access to the SoCalGas system for [RNG] producers," and that "it is the responsibility of RNG producers, not the

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911 CPUC, Resolution E-5254, April 10, 2023 at 10 (emphasis added), available at: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M506/K016/506016078.PDF.

912 SCG/SDG&E OB at 25.

SoCalGas ratepayers, to bring their RNG to pipeline quality."[913] First, the fact that an issue is under consideration in a rulemaking does not mean that no internal expertise is needed for the issue – in fact, the opposite is true. In addition, TURN-SCGC's argument that there is no need for Clean Fuels Operational Readiness because RNG producers are responsible to bring their RNG to pipeline quality (something it says without any citation) suggests that there is no need for SoCalGas to internally have any understanding or expertise on that issue. It would be short-sighted to rely entirely on the RNG producers. For these reasons and those discussed in the Opening Brief, costs for Clean Fuels Operational Readiness should be approved.

18.1.2.4 The Clean Fuels Transportation Program

The Clean Fuels Transportation Program provides information, education and training related to Clean Transportation to a variety of stakeholders. SoCalGas provides information on how they or their businesses might employ low emission vehicles and zero emission vehicles, such as those that use RNG or Hydrogen. CEJA, TURN-SCGC and IS, oppose SoCalGas's Clean Fuels Transportation Program.

CEJA opposes the program because it "promot[es]" natural gas and hydrogen vehicles, methane customers should not fund education relating to hydrogen vehicles, and the program is only allowed to exist if it is tied to safety, reliability, or affordability pursuant to D.05-05-010.[914] With respect to the first argument, it is based on a false premise that the purpose of the program is to push the sale of hydrogen or natural gas or hydrogen vehicles. As explained in the Opening Brief, the program's focus is educational and helps with information sharing – there is no evidence to the contrary or that there is anything inappropriate about this activity.[915] Setting this false premise aside, CEJA believes the program should not be allowed because it is against hydrogen and natural gas vehicles. As explained in the Opening Brief, such vehicles provide substantial benefits and as long as they are being purchased, SoCalGas can be a useful source of information for customers.[916] CEJA's next argument, that natural gas customers should not provide funding for a program that provides information for natural gas and hydrogen vehicles is also already

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[913] TURN-SCGC OB at 80. TURN-SCGC make a similar argument with respect to synthetic natural gas (Syngas). (*Id.* at 80-81.)

[914] CEJA OB at 26-35.

[915] SCG/SDG&E OB at 260.

[916] *E.g.*, *Id.* at 259-260.

addressed in the Opening Brief – the Commission has determined that these programs provide value and has approved them in past GRCs.[917]

Finally, CEJA argues that D.05-05-010 requires that the Clean Fuels Transportation Program must be tied to safety, reliability, or affordability.[918] IS also contests the Clean Fuels Transportation Program on this basis. In the Opening Brief and testimony, SoCalGas explained how the Clean Fuels Transportation 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."[919] CEJA and IS argue that under that decision "the programs are only appropriate if they are related to safety, reliability, or affordability."[920] CEJA's and IS's argument is incorrect. The Decision explicitly makes the following Conclusions of Law:

> IOU's discretionary LEV programs may be ratepayer funded if such programs are shown to be in the ratepayer's interest. The interests of ratepayers, short- or long-term, includes both direct benefits that are specific to ratepayers in the form of safer, more reliable or less costly gas or electrical service, per P.U. Code Section 740.8, *in addition to* the "health and comfort" benefits gained from air quality improvements achieved through utility services and instrumentalities that facilitate LEV adoption throughout California, per P.U. Code Section 451.
>
> …
>
> While the IOUs discretionary LEV education and training programs should primarily serve to ensure safety, reliability and cost reductions for utility electricity and gas systems, IOUs are not prohibited from also including as part of their LEV education and training efforts program elements that incidentally *educate the public generally about the societal benefits* of clean air or LEVs in fulfillment of the utility's obligations under P.U. Code Section 451 to provide services promoting the health and comfort of their patrons and the public.[921]

As discussed in Mr. Infanzon's testimony, state policy encourages the adoption of LEVs in order to achieve regional air quality improvements and to mitigate climate change. The utility's LEV customer information, education and training programs focus on enhancing customer safety, reliability, and affordability as well as LEV adoption and associated environmental benefits.

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917 *Id*. at 260.

918 CEJA OB at 36-37.

919 SCG/SDG&E OB at 259.

920 IS OB at 8.

921 D.05-05-010 at 15-16, Conclusion of Law (COL) 1, 3 (emphasis added).

Finally, CEJA and IS assume that the program is unrelated to safety, reliability, or affordability. However, Mr. Infanzon explained in testimony, the program provides a variety of "customer information, education, and training."[922] The Clean Fuels Transportation Program is in alignment with both Commission and state policy.

TURN-SCGC simply argues that the program should not be funded because "selling hydrogen to vehicle owners is not part of the SoCalGas gas utility business."[923] Selling fuel to low emission vehicles owner/operators is an authorized part of the SoCalGas gas utility business. SoCalGas currently operates 16 public access CNG stations that offer customers renewable natural gas for use in vehicles.[924] However, SoCalGas is not in the business of selling natural gas vehicles, and, as discussed in the Opening Brief,[925] the Commission has found value in SoCalGas providing information on such vehicles to the public. As SoCalGas's fleet adds hydrogen vehicles, and the number of hydrogen vehicles increases, the need for the program will increase.

18.1.2.5 Clean Fuels Power Generation

TURN-SCGC argue that costs for the Clean Fuels Power Generation group should not be allowed because the services they offer are duplicative of the services provided by account representatives.[926] TURN-SCGC point specifically to the fact that Clean Fuels Power Generation provides information regarding line extension allowances to customers and argue that it should be handled by SoCalGas account representatives. However, as explained in testimony, "the highly cross-functional team that works in collaboration with Customer Energy Solutions Account Representatives to provide customer support in the deployment of clean fuel power generation to all customer segments…."[927] The Clean Fuels Power Generation group works with those account representatives to assist customers. TURN-SCGC also take a tortured reading of SoCalGas's testimony to seemingly conclude that all the group does is "'policy, technical, and economic feasibility analyses."[928] As explained in the Opening Brief and in much detail in testimony, Clean

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922 Ex. SCG-12-R (Infanzon) at 28 fn.66.

923 TURN-SCGC OB at 77.

924 Ex. SCG-19-R-2E (Guy) at 36.

925 SCG/SDG&E OB at 259.

926 TURN-SCGC OB at 75-76.

927 Ex. SCG-12-R (Infanzon) at 39.

928 TURN-SCGC OB at 76.

Fuels Power Generation is available to customers to provide information on technologies such as 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.[929] Costs for Clean Fuels Power Generation should be approved.

18.1.3 Clean Energy Innovations Project Management Office

TURN-SCGC argue that the costs for the Clean Energy Innovations Project Management Office (PMO) should not be approved. They argue that the PMO will not be necessary if the Commission denies all of the Clean Fuels Infrastructure Development functions and groups, and the PMO structure is "exceedingly wasteful."[930] TURN-SCGC more specifically states that "Ratepayers should not have to fund personnel being paid as managers *if the managers are not going to have any duties beyond managing one or two others*."[931] TURN-SCGC wrongly assume that the managers in the PMO will do nothing but manage one to two reports, which is unsupported by the evidence. As explained in testimony, the whole PMO organization has a number of responsibilities, and the group is divided into functional areas, each with a defined role that has specific non-duplicative responsibilities.[932] Nothing indicates that the only responsibility for the managers is to just manage one to two employees.

18.1.4 Research, Development and Demonstration

SoCalGas's RD&D program is a program that complies with Cal. Pub. Util. Code § 740.1 and supports the development of energy RD&D. SoCalGas's request includes execution of projects by third-parties, direct project expenditures, and management and administration costs. Three parties discussed SoCalGas's RD&D request in opening briefs: Cal Advocates, CEJA, and Air Products. In Cal Advocates' Opening Brief it again opposes the Clean Transportation research area along with the proposed Advice Letter approval change from a Tier 2 to a Tier 3 Advice Letter. CEJA argues the entirety of RD&D should be disbanded, specifically opposes a host of research areas in the gap analysis, and opposes the Advice Letter change.[933] In opening briefs, Air

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929 SCG/SDG&E OB at 262.

930 TURN-SCGC OB at 81-82.

931 *Id*. at 82.

932 Ex. SCG-212 (Infanzon) at 29.

933 CEJA OB at 37-40.

Products, which opted to stand on the sidelines throughout this entire proceeding until hearings and has not provided any questions or data requests on the RD&D group, has also voiced opposition to the Advice Letter change.[934]

18.1.4.1 SoCalGas's RD&D Program Should Continue and the Areas Included in the Research Gap Analysis Are Appropriate for the RD&D Program; Modifications Can Be Suggested Through Existing Processes

Cal Advocates' opposition to the Clean Transportation research area was largely addressed in the Opening Brief. Cal Advocates does make one additional argument: the 2021 Annual RD&D Report does not demonstrate a clear, quantifiable net benefit to ratepayers for Clean Transportation.[935] This argument is undone by the fact that the benefits are identified for every project in the Annual Report, and is further diminished by the fact that neither Cal Advocates nor any other party opposed Clean Transportation projects in the Advice Letter filing. First, the Annual Report identifies for every project the anticipated benefits. Consistent with Pub. Util. Code § 740.1, just for the Ingevity ANGP Ford F-150 Medium Duty Truck Demonstration project that Cal Advocates takes issue with, the Annual Report identifies a number of benefits such as "Reliability, Safety, Operational Efficiency, Improved Affordability, [] Reduced GHG Emissions, [] Improved Air Quality." It is therefore unclear what Cal Advocates means by benefits to ratepayers not being demonstrated. Finally, the Clean Transportation research plan for 2022, which includes the projects Cal Advocates broadly opposes, was not opposed in the Advice Letter filing and was approved for 2022.[936]

CEJA broadly argues that the entire RD&D program should be dismantled and that the CEC should solely handle gas RD&D. CEJA makes three general arguments along these lines: company interests do not align with ratepayer interests, it would be far more efficient for the CEC to run the program, and SoCalGas should only be responsible for gas operations research areas.[937]

934 Air Products OB at 33-34.

935 Cal Advocates OB at 99.

936 *See* CPUC, Resolution G-3586, March 22, 2022, available at: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M461/K921/461921821.PDF; Resolution G-3573, March 18, 2021, available at: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M372/K329/372329202.PDF; SoCalGas Advice No. 5824, June 21, 2021, Attachment A, Section 9 ("Clean Transportation"), available at: https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5824.pdf.

937 CEJA OB at 37-40.

In SoCalGas's last GRC, Sierra Club, represented by the same lead attorney as CEJA in this proceeding, made exactly the same recommendation that the Commission discontinue SoCalGas's RD&D program.[938] That recommendation was denied. As mentioned in the Opening Brief, the Commission explicitly found that:

> 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.[939]

The Commission did not find that the RD&D program should be subsumed by the CEC, was duplicative of the CEC work, or should be excluded from affordability (in fact, the Commission approved of the increase SoCalGas requested).

As for CEJA's argument that a utility running the program "invites mischief" because of the potential for non-alignment between company and ratepayer interests,[940] this issue was also already addressed in the last GRC. In the last GRC, the Commission instituted the Advice Letter process, annual reporting, and annual workshop presentations to provide more transparency into the RD&D program.[941] These additional transparency measures have provided stakeholders a wealth of additional information. Based on CEJA's comments, it appears that the entity still has not taken the time to really understand SoCalGas's RD&D program.[942] As shown by just a review

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938 *See* D.19-09-051 at 376.

939 SCG/SDG&E OB at 268 (citing D.19-09-051 at 745-746) (emphasis added).

940 CEJA OB at 38.

941 D.19-09-051 at 378-379. Ironically, these various measures that the Commission instructed SoCalGas to undertake in order to provide more transparency – which Sierra Club claimed was lacking in the last GRC – are the same measures that CEJA (represented by the same lead counsel) claims are a "burden" to be involved with in this GRC. (*See* CEJA OB at 42.)

942 One particular glaring example of CEJA's misunderstanding is that it dismissively states that the Advice Letter process is only "an after-the-fact Energy Division review." (CEJA OB at 48.) As explained in testimony and in SoCalGas's Advice Letters themselves, "After considering stakeholder comments during the workshop, SoCalGas files a Tier 3 Advice Letter with its research plan for the following calendar year." (Ex. SCG-12-R (Infanzon) at 49; *see also* CPUC, Resolution G-3586,

of the last resolution approving SoCalGas's Advice Letter filing, there is a wealth of engagement with and input from stakeholders for each year's RD&D program. The last resolution included 100+ pages of material prepared for the Commission's review – which is only part of the information provided to all stakeholders.[943] Included in those 100+ pages are descriptions of the process for project selection, explanations of criteria, relevant regulations and laws, descriptions of institutional collaborators (including the CEC, SCAQMD, CARB, universities, laboratories, businesses, and others), lists of organizations that were interviewed, workshop attendee lists (which includes Earthjustice), research area descriptions, and 35 pages of stakeholder questions and answers by the SoCalGas RD&D group.[944] There is extensive transparency with the program and stakeholders have opportunities to ask questions about proposed projects. Any concern for misalignment could be raised in that setting or through the Advice Letter process. There is no reason to dismantle the RD&D program, especially at this critical time in the clean energy transition where RD&D plays an even more important role than in the past.

As for CEJA's argument that the CEC running the program would be more efficient, there is simply no evidence that dismantling an entire program and re-assigning it to the CEC would be efficient. CEJA does not address this obvious issue. Moreover, as discussed above, the Commission already declined to eliminate or reduce the SoCalGas RD&D program in the last GRC because the CEC does gas related RD&D – there is no reason to now reverse course on that decision.

CEJA also points to EPIC and a settlement in PG&E's last GRC as a basis for reducing SoCalGas's RD&D funding or essentially disposing of the group. CEJA argues that SoCalGas's proposals should not be approved beyond those that are tied directly to gas operations. These proposals would similarly be at odds with the last GRC's findings and the approvals of the Annual Advice letters. In the last GRC, the Commission specifically approved of several research areas:

March 22, 2022 [approving Advice No. 5824, at Advice Letter p. 1 stating that on June 21, 2021 "Southern California Gas Company (SoCalGas) hereby submits this Tier 3 Advice Letter pursuant to Ordering Paragraph (OP) 30 of Decision (D.) 19-09-051 requesting approval from the California Public Utilities Commission (Commission or CPUC) to record 2022 Research Development and Demonstration (RD&D) expenses to the Research, Development, and Demonstration Expense Account (RDDEA)"] (emphasis added).) CEJA incorrectly assumed that because Mr. Infanzon mentioned that past results was discussed with CPUC staff, that was the extent of the review.

943 CPUC, Resolution G-3586, March 18, 2022 (approving Advice No. 5824, June 21, 2021).

944 SoCalGas Advice No. 5824, June 21, 2021, Attachment A, available at: https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5824.pdf.

> (a) Customer End-Use Applications which develop and commercialize technologies that improve efficiency, reduce environmental impacts of natural gas end-use applications, and support development and deployment of technologies that meet air emissions and efficiency goals; (b) Clean Generation which focuses on supporting the development of high-efficiency and low-emission distributed generation systems; (c) Clean Transportation which supports transportation infrastructure; (d) Gas Operations which develop technologies for public and employee safety, operational efficiencies, system reliability, and reduced environmental impacts; and (e) Low Carbon Resources which focus on technologies to improve biomethane production and use."[945]

CEJA has no explanation for what has changed to eliminate the benefits of SoCalGas's involvement in these areas outside of just "Gas Operations." All of these areas impact natural gas ratepayers and the consistent approvals of RD&D Advice Letters and robust stakeholder engagement shows the value of these programs. Eliminating or drastically diminishing the role of the nation's largest natural gas distribution utility would reduce efficiency and disregard all of the value that SoCalGas's program provides.

After recommending the elimination of SoCalGas's RD&D program, CEJA goes on to attack a host of areas that it alleges do not "Provide Reasonable Benefits to Ratepayers and That Violates the Commission's Direction on Proposing Hydrogen Blending Research."[946] These issues were largely addressed in the Opening Brief. However, CEJA also breaks its argument into "overarching themes" for its opposition. CEJA argues that: (1) the proposed research develops technologies that are not zero-emission, (2) the transportation research is "imprudent", (3) certain research is unconnected to methane utility service, and (4) hydrogen blending research "contravenes" Commission direction.[947]

Before discussing the individual arguments, it should be understood that CEJA is simply one stakeholder. SoCalGas's stakeholder engagement allows various stakeholders to weigh in on the research SoCalGas is proposing. CEJA may not find value in certain research, but research institutions and others may favor it.

CEJA's first argument that low emissions technologies should not be researched when zero emissions alternatives are available was largely addressed in the Opening Brief. CEJA does include an additional comment that "strategies like combusting biomethane and 'certified' fossil

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945 D.19-09-051 at 374.

946 CEJA OB at 41-42.

947 *Id*. at 42-48.

gas" are inappropriate.[948] As explained in rebuttal testimony, CEJA's pointedly anti-gas argument is contrary to state objectives and ignores benefits that could be achieved in reducing overall emissions: "research[ing] ways of reducing system emissions (including those associated with combustion equipment, like compressor stations) as a general objective that supports the State's decarbonization goals and regulatory requirements under the Low Carbon Fuel Standard, EO B-55-18, and Assembly Bill 32. RD&D should not be denied because incremental reductions in system emissions are necessary and can be both beneficial to the environment and cost-effective over the anticipated life of existing natural gas delivery systems."[949]

CEJA's second argument is that RD&D for vehicles should not be allowed.[950] SoCalGas explained in its Opening Brief the importance of vehicle research. SoCalGas's fleet and stations can benefit from vehicle related research, and CEJA's general opposition to hydrogen and natural gas vehicles is addressed in the Fleet and Facilities sections of this brief and the Opening Brief.[951] CEJA also argues that SoCalGas has somehow "done an end-around the Commission's policy against ratepayer funding for research on vehicles…."[952] However, the limitation discussed in the authority cited by CEJA was a 1995 limitation for SoCalGas spending over $20 million for a separate RD&D program (almost the entire amount requested annually for the RD&D program in this GRC) solely to develop *its own* engines, vehicles, and vehicle technology for natural gas – these would have been to develop new vehicles to compete with the private market.[953] Here, SoCalGas's vehicle-related RD&D is not intended to develop its own vehicles or engines, but to support development of improvements to low and zero emission vehicles. The citation is not a broad prohibition related to any vehicle research, as CEJA argues.

CEJA's third argument is that research that is "unconnected" to methane utility service should not be allowed. CEJA's arguments are addressed in the Opening Brief.[954]

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948 *Id*. at 44.

949 Ex. SCG-212 (Infanzon) at 36-37 (citations omitted).

950 CEJA OB at 44-45.

951 SCG/SDG&E OB at 272-273.

952 CEJA OB at 45 fn. 199.

953 *See* D.95-11-035.

954 SCG/SDG&E OB at 270-271, 273; *see also Id.*, Section 3, *supra*.

CEJA's fourth and final "overall theme" is that funding for hydrogen blending is against Commission direction. This argument is largely addressed in the Opening Brief.[955] However, it should be made clear that fulsome pilot projects in D.21-07-005 and D.22-12-057 are markedly different from the hydrogen-related research in the RD&D program.[956] Moreover, the last Resolution approving of SoCalGas's RD&D program in June of last year approved of SoCalGas's hydrogen research going forward, which SoCalGas described in part in the body of its Advice Letter filing: "Input from stakeholders led to a continued focus on hydrogen technologies to decarbonize the gas supply, transportation sector, buildings, and end-use equipment…."[957] CEJA's opposition on this point should be disregarded.

18.1.4.2 The Change to a Tier 2 Advice Letter Is Supported by the Record and Will Improve the Functionality of the RD&D Program

Cal Advocates, CEJA, and Air Products all argue against SoCalGas's request to change the Tier 3 Advice Letter Process to a Tier 2 Advice Letter. SoCalGas has largely addressed the points raised by intervenors in its Opening Brief but addresses two misunderstandings and one new argument. The first misunderstanding is that "the requirement of a Tier 3 Advice Letter has increased stakeholder engagement and feedback…."[958] On the contrary, because no party has commented on the Advice Letters that have been filed, they do not appear to have increased any engagement or feedback from stakeholders. Instead, it has been the workshops and annual reviews that have fostered increased collaboration.[959] Second, Air Products claims that the RD&D process "sets the course for the company's longer-term planning."[960] This is not accurate and the statement is made without any citation to any evidence. CEJA makes a new argument that the Advice Letter should not be changed to a Tier 2 because the CEC's RD&D Advice Letters are Tier 3.[961] However, the requirement for SoCalGas is a new requirement from the last GRC, while the

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955 *Id*. at 274.

956 *See Id.*

957 Advice No. 5824, June 21, 2021, at 4-5 (approved in Resolution G-3586, March 22, 2022).

958 Cal Advocates OB at 101.

959 *See* Ex. SCG-212 (Infanzon) 33.

960 Air Products OB at 35.

961 CEJA OB at 48-49.

CEC has a longer history of requiring oversight by the CPUC.[962] The Commission has now had four years and three Advice Letter filings to determine whether the Tier 3 Advice Letter is needed for SoCalGas. Given the lack of opposition to the Advice Letters and the real impacts and burdens that the Advice Letters are causing, SoCalGas believes it is appropriate to make this slight modification to the RD&D process, or any other modification that will reduce the lag for approval of annual RD&D budgets.

18.1.5 18.1.5 Capital Costs

18.1.5.1 Hydrogen Innovation Experience

CEJA specifically contests the H2IE costs, and does so in the Real Estate, Land Services, and Facilities Operations. The purpose for the project and its alignment with State goals is addressed here, while the discussion in Section 25 below addresses many of CEJA's arguments relating to the costs of the project.

CEJA makes a number of arguments that the H2IE should not be approved. The broader argument by CEJA is that the project "furthers SoCalGas' shareholder interest in distracting from the State's proper focus on building electrification and promotes its corporate image…."[963] This broad argument was already addressed in the Opening Brief. CEJA goes on to make several sub-arguments. First, CEJA argues that hydrogen homes are inconsistent with California climate, air quality, public health, gas system decommissioning, and equity objectives.[964] For this argument, and others, CEJA takes a myopic view of the H2IE, treating it as a project with the sole purpose of promoting hydrogen as a fuel for home appliances. This is not the case, but CEJA characterizes the project this way in order to hide the real value of the H2IE. As explained in the Opening Brief, the H2IE includes a number of technologies, including 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 makes clean energy tangible to visitors, but also functions as a "living lab" that allows for research and testing, an examination of the viability assessments, and promotes further innovation and adoption of future hydrogen technologies at

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962 D.04-08-010 at 32 (Acknowledging "We are responsible for adopting the R&D program, and for setting the surcharge to fund the R&D program; therefore, we must necessarily approve and resolve administration, funding, project approval, or other matters, and make a final decision.").

963 CEJA OB at 87.

964 *Id.* at 87-90.

scale. As just one example, "The H2IE project can demonstrate the role of clean renewable 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."[965]

CEJA's various citations to claim that "hydrogen homes" are not part of the clean energy future do not suggest that the many individual aspects of the hydrogen home are not part of the energy future. Nor does CEJA address any of the benefits from the H2IE with respect to research and testing. Moreover, CEJA is well-aware that the H2IE is a "first of its kind" project – such a project may need further analysis before it can be determined how it may fit into the future energy landscape. CEJA's critique that the project is "fundamentally misaligned with the Commission's ESJ Action Plan" is inapt.[966] SoCalGas explained in Exhibit CEJA-47 that "Current and future ratepayers benefit because the project will help demonstrate and advance the development and adoption of a portfolio of integrated sustainable energy solutions, provide end users with relevant energy choice options based on their individual requirements, and support local grid resilience and reliability needs as well as long-term affordability."[967] Better understanding the role that hydrogen, microgrids, and fuel cells can play in the future support long-term affordability – thus, citing the current price of the project is not relevant to the ongoing and future benefits.

CEJA's next argument, that the project does not benefit ratepayers,[968] is already addressed in the Opening Brief and above.

CEJA's final argument is that the entire H2IE project costs should be borne by shareholders because SoCalGas promoted the project.[969] CEJA cites several instances of SoCalGas publicly mentioning the H2IE through its website, videos, and other avenues. However, despite having cost information on each individual item, CEJA misleadingly suggests all expenses were ratepayer expenses. Whether by design, inadvertence, or indifference, CEJA obscures what is actually ratepayers funded, omitting DR responses that were provided to it showing what was actually attributed to ratepayers. By doing so, CEJA deceptively suggests that all these activities were improperly ratepayer funded. To be clear, the only activity CEJA actually states is ratepayer

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965 Ex. SCG-212 (Infanzon) at 44.

966 CEJA OB at 89.

967 Ex. CEJA-47 (SoCalGas Response Data Request CEJA-SEU-33 re Hydrogen Home, Q. 1, at p. 1).

968 CEJA OB at 90-91.

969 *Id*. at 91-92.

funded is the webpage itself – not the Fast Company work, not the consultant work, not the video, not the Rose Parade reference.[970] Setting that aside, SoCalGas has extensively and repeatedly explained the benefits of the hydrogen home. Raising awareness about the important project does not require that the entire underlying project costs must become shareholder funded.[971] CEJA's arguments regarding the H2IE should be disregarded.

18.1.5.2 Hydrogen Refueling Stations

The proposed Hydrogen Refueling Station (HRS), also discussed in Section 25, is opposed by Air Products (also addressed in Section 3), Cal Advocates (entirely addressed in Section 25), Clean Energy, Indicated Shippers, CEJA, PCF, and TURN.[972]

Air Products' arguments of general opposition to Hydrogen are addressed primarily in Section 3. Air Products also challenges SoCalGas's request to sell and disburse LCFS credits and makes several claims that disbursing such credits would be anti-competitive.[973] Air Products has no evidence to point to supporting its argument and it should be disregarded. Air Products attempts to head this off by arguing that it is SoCalGas's fault that it does not have any evidence to support its position because SoCalGas also raised the LCFS issue in the Cost Allocation Proceeding (A.22-09-015), and the Commission should consider Air Products testimony there. The argument is unfounded and borders on being misleading. First, SoCalGas is not requesting authority to sell and disburse LCFS credits in the Cost Allocation Proceeding – it is requesting that authority here. Second, the real issue for Air Products is that it has been entirely absent in this proceeding. Air Products was not a party to this proceeding until March of this year. It submitted no testimony. It submitted no data requests. It provided no entries for the Summary of Recommendations document prior to hearings. It was absent and did not provide any testimony to rebut SoCalGas's arguments regarding the LCFS credit proposal. Air Products claims that the Commission in this GRC should look to its testimony in the Cost Allocation Proceeding.

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970 *Id*. at 91.

971 To be clear, not all advertising must be shareholder funded. (*See* 18 C.F.R § 367.9301 (FERC account 930.1, which is above the line, and tracks, "General advertising expenses for associated companies").)

972 TURN-SCGC also makes a passing reference that SoCalGas should file a standalone application in order to be involved in hydrogen fueling. TURN-SCGC OB at 77. Such arguments are addressed for other intervenors within this Section (and in other areas of the Reply Brief and in the Opening Brief).

973 Air Products OB at 33-35.

However, in the Cost Allocation Proceeding, which was filed in September of 2022, Air Products was not a party until *June of this year*, and its testimony submitted after. Air Products' absence in these proceedings and belated arguments are disruptive to the regulatory process and should not be rewarded by allowing it to submit evidence via another proceeding (which it was also absent from for almost a year).

CEJA opposes the HRS because it argues (1) SoCalGas did not show that the station was necessary, (2) the HRS is against the ESJ Action Plan because it may use hydrogen made by Steam Methane Reformation (SMR), and (3) it gives a competitive advantage to SoCalGas.[974] With the first argument, CEJA largely argues that SoCalGas should not be investing in hydrogen vehicles and therefore the refueling station is unnecessary. This argument is addressed in Section 24. CEJA also makes the argument that the existing fueling network is underutilized. However, as SoCalGas has explained in its Opening Brief and elsewhere the need for an HRS that is located in an area that is most useful to the fleet.[975] CEJA's argument that the HRS will use hydrogen made through SMR is not relevant. The hydrogen used at the proposed HRS will meet CARB fuel requirements for carbon intensity consistent with state goals.[976] Finally, as discussed above (Section 3), the HRS proposed in this GRC would not unfairly compete.

Clean Energy appears to not oppose the propriety of the Hydrogen Refueling Station for SoCalGas's own fleet,[977] but it opposes the station being available to the public. Clean Energy argues that SoCalGas does not show that its involvement is necessary, the station would harm competition and innovation, and there should be a stand-alone application. First, Clean Energy claims that SoCalGas has not shown that its participation with hydrogen refueling is necessary. However, as explained in the opening brief, SoCalGas provided extensive testimony explaining the need for hydrogen refueling.[978] SoCalGas provides ten pages of testimony explaining the costs, regulatory and legislative history, market activity, and other relevant evidence regarding hydrogen

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[974] CEJA OB at 70-74.

[975] *See* SCG/SDG&E OB at 595 ("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.").

[976] Ex. SCG-19-R-2E (Guy) at 37 n.21.

[977] Clean Energy OB at 7 ("While this internal-facing infrastructure may be reasonable to meet SoCalGas's operational needs).

[978] SCG/SDG&E OB at 278.

refueling.[979] SoCalGas also conducted market research to determine the need for hydrogen refueling and found that 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.[980] This, coupled with requests concerning refueling stations increasing 16-fold from 2020 to 2021, and the government support for refueling stations, demonstrates a need for more stations.[981] As further explained in testimony:

> These findings are consistent with the most recent CEC AB 8 report on hydrogen refueling stations, which states "general barriers … to overall widespread FCEV commercialization and deployment remain" and include "high hydrogen fuel and FCEV prices, hydrogen station downtime due to equipment failures and other factors, and the lack of vehicle models and consumer options…. The need for a reliable hydrogen supply and reliable stations also presents a barrier to widespread FCEV commercialization and deployment, as does expanded geographic coverage of the stations. FCEV adoption may increase at a higher pace when these barriers are addressed."[982]

Clean Energy's claim that SoCalGas has only provided "shallow evidence" of the need for the HRS is without merit.[983]

Clean Energy next argues that the one HRS station would harm competition and innovation. As explained in Section 3, as a legal matter SoCalGas is not barred from allowing the public to make use of the hydrogen refueling station it intends to build to service its fleet. Separate from that, Clean Energy argues that this could "reduce[] customer choice" and "stifle innovation." For this Clean Energy only cites to testimony of others.[984] It appears that Clean Energy's real concern is the rates that would be charged for the hydrogen. However, Clean Energy *admits* that this issue is outside of the scope of this proceeding. Despite that, Clean Energy goes on to improperly make a number of factual arguments, stating, for example, that "non-utility operators

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979 Ex. SCG-12-R (Infanzon) at 28-38.

980 Ex. SCG-12-R (Infanzon) at 31.

981 *Id.*

982 *Id.* at 31:15-22.

983 Clean Energy OB at 9. Clean Energy also argues that operating the HRS is "outside the role of a gas utility." (*Id*. at 8.) This argument is addressed in Section 3.

984 *Id*. at 11.

would find it increasingly difficult to compete…."[985] SoCalGas objects to these inappropriate factual arguments that Clean Energy has attempted to slip into its Reply Brief. Clean Energy provided no testimony of its own for these arguments (or any testimony, despite being a party to this proceeding from the outset), and does not cite any facts from any other parties for these points. Clean Energy can raise its issues as appropriate in the Cost of Capital proceeding. Clean Energy goes on to discuss the issue of whether SoCalGas may disburse LCFS credits. However, once again Clean Energy makes factual allegations that there is no support for in the record, claiming that allowing SoCalGas to disburse LCFS would make it "difficult to compete with the monopoly utility's subsidized operations, and possibly be forced to shut down."[986] The argument is unfounded, not in the record, speculative, and should be disregarded.

Clean Energy's last argument is that the GRC is "not the appropriate venue" for SoCalGas's request. First, Clean Energy argues that "SoCalGas provides minimal support" for the request. The evidence in the record is to the contrary. Clean Energy also points to TURN-SCGC's argument that new services should be standalone applications, such as with biomethane conditioning services.[987] Here, SoCalGas already has public access fueling stations, and the tariff for the rates for hydrogen can be set in the TCAP. In the GRC, SoCalGas appropriately requested authority to construct the HRS for its fleet, which it is also seeking funding for. This is all markedly different from biomethane conditioning services, which was not directly connected to anything in the TY 2012 GRC and was a service that was solely offered to 3rd parties. Finally, Clean Energy also argues that it was too difficult to navigate three different areas of testimony.[988] SoCalGas does not believe three areas of testimony is too much for parties to follow. Were Clean Energy truly interested in understanding the proposal, it could have engaged more throughout the proceeding. In essence, Clean Energy sat on the sidelines throughout this proceeding, neither providing testimony nor conducting cross, and seeking to admit one exhibit weeks after hearings ended. Now that it is time for the Commission to render a decision, Clean Energy asks for a do-over. For efficiency of the regulatory process, the request should not be entertained.

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985 *Id.* at 11.

986 *Id*. at 11-12.

987 *Id*. at 12-14.

988 *Id*. at 13.

Finally, Indicated Shippers opposes SoCalGas's request relating to the public aspects of RNG stations and the HRS. Indicated Shippers states that the "costs are not related to the Company's provision of gas delivery services, and therefore should not be included in a revenue requirement to be funded by ratepayers…."[989] However, as explained in the Opening Brief: "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."[990] Indicated Shippers argument on this point should be disregarded.

18.2 Clean Energy Innovations (SDG&E Only)

In their Opening Briefs, Cal Advocates, TURN, CEJA, EDF, PCF, the Joint CCAs, and UCAN, address various matters regarding SDG&E's TY 2024 forecasts for O&M costs and capital costs for the forecast years 2022, 2023, and 2024 associated with the Clean Energy Innovations area for SDG&E. Several parties' Opening Briefs largely track the positions they set forth in their testimony – which SDG&E addressed in its rebuttal testimony and in its Opening Brief. For completeness, SDG&E will include its position on those issues in this Reply Brief and address any additional arguments or evidence that have been submitted.

18.2.1 Response to General Recommendation

18.2.1.1 Intervenors' Opposition to Hydrogen-Related Projects is Unfounded and Undermines California's Objectives

Hydrogen has many unique aspects 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, is a long duration energy storage medium, can be produced in a sustainable manner, and is scalable. Interest in hydrogen continues to grow and has developed over the course of the TY 2024 GRC proceeding, including strong support from Governor Newsom. For example, last month Governor Newsom directed the Governor's Office of Business and Economic Development (GO-Biz) to develop California's Hydrogen Market Development Strategy, employing an all-of-government approach to building up California's clean, renewable hydrogen market. "California is all in on clean, renewable hydrogen – an essential aspect of how we'll

[989] IS OB at 7-8.

[990] OB at 280.

power our future and cut pollution," said Governor Newsom.[991] This directive, accompanied by many other federal and state policies and incentives, and supported by major scientific institutions[992] has led SDG&E to create a proactive strategy to learn how to deploy hydrogen safely and effectively to support reliable electrification of our grid and transportation sector.

Notwithstanding this clear directive, several parties remain fundamentally opposed to any efforts to develop the use of hydrogen, and therefore, continue to raise unfounded attacks on projects aimed at expanding SDG&E's ability to grow and implement this resource. As the record has made clear, SDG&E's hydrogen requests are reasonable, prudent, will be used and useful, and will also serve to allow SDG&E, and California as a whole, to learn a great deal about hydrogen as it readies itself for the transition to 100% clean electricity. Learning now, by deploying relatively small amounts of capital, will inform decarbonization and reliability efforts in a prudent and proactive way.

Because these projects are pilot scale and the industry and policies around hydrogen are developing, these projects may not include 100% carbon free hydrogen. However, all projects utilize water as the source of the electrolytically produced hydrogen and all reserve options to utilize voluntary compliance instruments (such as Renewable Energy Credits) to meet the federal definition for "clean hydrogen."[993]

The main purpose of the proposed pilots is to learn in the short term so more sizeable solutions may be safely and effectively deployed broadly in SDG&E's service territory and across California in the long term. The purpose of the proposed projects is not to pass an ideological carbon emission purity test. The emissions impact of these small pilots in the short term will be negligible in the context of California's overall energy and transportation emissions, but these projects will set the stage for significant and meaningful multi-sectoral decarbonization in the coming decades.

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991 August 3, 2023 letter from Governor Gavin Newsom to Director Meyers, *available at:* https://www.gov.ca.gov/wp-content/uploads/2023/08/Letter-to-Director-Meyers.pdf. *See also* August 8, 2023 press release announcing development of California's hydrogen development strategy, *available at:* https://www.gov.ca.gov/2023/08/08/governor-newsom-announces-new-strategy-to-develop-a-hydrogen-economy-of-the-future/.

992 Ex. SDG&E 215 (Valero) at 16-17.

993 Infrastructure Investment and Jobs Act, Pub. L. No. 117-58, 135 Stat. 429 (2021), *available at:* https://www.congress.gov/bill/117th-congress/house-bill/3684/text.

18.2.1.2 EDF Hydrogen-Related Legal Issues

In its Opening Brief, EDF raises various overarching legal challenges to both SDG&E and SoCalGas's hydrogen related projects (*i.e.*, jurisdictional authority, affiliate transaction rules, etc.).[994] SDG&E and SoCalGas address these legal challenges (as well as other similar legal challenges raised by other parties) in Section 3.1 above.

18.2.1.3 EDF's Challenge to SDG&E's Hydrogen Roadmap

EDF argues that SDG&E left out certain costs related to hydrogen in its Hydrogen Roadmap exhibit (Ex. SCG-322/SDG&E-320) that was submitted in this proceeding.[995] The Hydrogen Roadmap is a "mapping document" which includes a list of all direct hydrogen-related projects and related exhibits as well as the associated dollars.[996] In response to SDG&E's Hydrogen Roadmap, EDF presented its own table (Table 4: Hydrogen Expenditures Identified by EDF), which EDF claims reflects all the direct and indirect costs related to hydrogen projects.[997] EDF claims SDG&E's hydrogen requests are "significantly higher than the hydrogen requests identified by [the Companies'] in their 2024 Hydrogen Roadmap prepared per instructions from Administrative Law Judge (ALJ) Manisha Lakhanpal during the evidentiary hearing of June 8, 2023."[998]

SDG&E disagrees with EDF's approach and table for various reasons as described below. EDF's table reflects a misunderstanding (or mischaracterization) of what SDG&E presented in testimony, leading to incorrect assumptions about the total amount of funding SDG&E is requesting related to hydrogen projects sponsored by Electric Generation (Baerman) and Clean Energy Innovations (Valero) in GRC TY 2024. SDG&E notes that it addresses EDF's arguments regarding the hydrogen-related projects sponsored by SDG&E's Gas Distribution witness (Kinsella) in Section 10.3.3 (Gas Distribution) above.

<u>*EDF's Direct Costs*</u> – EDF's table includes the following costs that are erroneous and should not be included in the Hydrogen Roadmap:[999]

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994 EDF OB at 52-62.

995 *Id.* at 75-76.

996 Ex. SCG-322/SDG&E-320.

997 EDF OB at 33-35.

998 *Id.* at 31.

999 *Id.* at 33-35.

- *H2 Fueling Stations - Kearny C&O Center*: This fueling center request had no O&M request associated with it, and the citation provided by EDF is incorrect. SDG&E does not know where EDF came up with its O&M value of $0.044 MM for this item. SDG&E did not request O&M for this project.
- *Hydrogen Strategy and Implementation Department:* EDF miscalculated and mischaracterized the funding request for the Department for years 2022 and 2023 which SDG&E addressed in rebuttal testimony.[1000] Therefore, the total O&M amount requested shown in EDF's table is incorrect. As SDG&E correctly identified in its roadmap, the request for the department is $1.01 MM for O&M in 2024.[1001]
- In addition, SDG&E notes that EDF's table attempts to inflate the hydrogen-related dollar amounts by including O&M for TY 2022 and TY 2023 (in addition to TY 2024). This is obviously inaccurate as SDG&E is only requesting O&M for TY 2024 in this proceeding. This is why SDG&E only included O&M for TY 2024 in its Hydrogen Roadmap exhibit.

<u>*EDF's Indirect Costs*</u> – Unlike SDG&E's Hydrogen Roadmap, which only presents the dollar amounts *directly related* to a hydrogen project, EDF's table attempts to artificially inflate the dollars by including items it claims to be *indirectly related* to hydrogen.

SDG&E urges the commission to disregard EDF's "Indirect Cost" approach due to its inherent flaws. For example, this approach could potentially expand the hydrogen funding request to include marginal or administerial activities that have no tangible relationship to the hydrogen projects and direct funding requests at issue. It is difficult and speculative to establish the limit of an indirect cost's relationship to hydrogen or any other single technology that SDG&E routinely deals with. For example, indirect costs could theoretically include an entire departmental budget of a team who only occasionally interacts with a hydrogen asset or policy issue. Indirect costs could also theoretically spread to departments such as Legal, IT, Accounting, Regulatory and Human Resource, whose services at some point support hydrogen projects, issues, or staff members of the Hydrogen Strategy and Implementation Department. Such a far-reaching approach is neither practical nor realistic. EDF's attempt to tie indirect costs to hydrogen and

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1000 Ex. SDG&E-215 (Valero) at 27-28.

1001 Ex. SDG&E-15-WP-E at 3-9.

present them to the Commission is not only flawed in its approach, but the costs they identified are a stretch, to say the least. It appears that EDF simply conducted a search for the word "hydrogen" across all testimony and workpapers and if it found an occurrence, it included that witness' entire budget as indirectly supporting hydrogen. Here are some examples of this flawed approach from the EDF table: [1002]

- *Energy Supply & Dispatch O&M ($6.479 MM)* – This is the departmental budget for the Energy Procurement team, including labor and non-labor requests. None of this request is allocated to or driven by hydrogen related projects or efforts, and no part of this request can or should be linked to the company's hydrogen expenditures.
- *CEI - Distributed Energy Resource Engineering* - This is the departmental budget for the Distributed Energy Resource (DER) team, which supports operations of emergency generator deployments across SDG&E's service territory as well as operations of four microgrids, including Borrego Springs Microgrid, of which the Hydrogen Energy Storage System (HESS) is a part, along with many other components. However, the HESS at Borrego is not driving any incremental DER departmental requests, and no part of this request can or should be linked to the Company's hydrogen expenditures.
- *Local Area Distribution Controller, Capital ($2.716 MM); Local Area Distribution Controller O&M ($0.532 MM)* - The Local Area Distribution Controller budget Physical Description states, "The LADC system will be deployed and configured at four new microgrid sites. . . In addition, the LADC system at Borrego Springs Microgrid will be upgraded to integrate a new energy storage systems [sic] that will be implemented at Borrego Springs Microgrid in 2023."[1003] Therefore it is not appropriate to surmise that the entire LADC budget is indirectly related to hydrogen, since the budget covers four microgrid sites, at which only one has a small hydrogen component.

<u>EDF's Attack on "Environmental Integrity" Lacks Merit</u> – Finally, in its discussion of the Hydrogen Roadmap, EDF seems to imply that SDG&E's proposed hydrogen projects lack

1002 EDF OB at 33-35.

1003 Ex. SDG&E-25-CWP-R (Exon) at 136.

environmental integrity as "the Sempra Utilities propose to use natural gas to fuel their own proposed hydrogen facilities."[1004] SDG&E disagrees, as all of its hydrogen-related requests are designed to utilize water as the source of the electrolytically produced hydrogen and all reserve options for carbon offsets.[1005] Therefore, SDGE requests that the Commission disregard EDF's request not to fund the hydrogen capital and O&M costs in SDG&E's GRC 2024 request.

18.2.1.4 PCF's Hydrogen Related Issues

PCF's Opening Brief restates concerns regarding adoption of hydrogen, claiming that hydrogen is not clean and noting its lower roundtrip efficiency compared to other energy storage options that have durations of 0-12 hours (with the exception of pumped hydro storage).[1006] This comparison with alternative energy storage technologies that are very time limited in duration is not meaningful, since hydrogen's niche in the clean energy future will likely be for long duration energy storage, lasting days to weeks and even months, and the technology types highlighted serve different grid needs.

PCF states that electrification out-competes green hydrogen even in "hard-to-electrify" sectors and claims that the utilities did not rebut this point. In fact, SDG&E did rebut this point in testimony, stating: "Hydrogen is not an alternative to electrification nor a competitor to electrification, but rather will be a critical enabler of a reliable electrified system as the state transitions to 100% clean electricity."[1007] By adopting hydrogen technologies now, SDG&E will be able to serve reliable, carbon free electricity to its customers in the future, thereby supporting electrification. PCF's argument demonstrates a lack of understanding of the role of hydrogen for dispatchable power generation, which is not the same thing as energy storage. For example, CARB's 2022 Scoping Plan states a need for 4 GW and 9.3 GW of hydrogen generation installed in the state by 2035 and 2045 respectively for reliability, in addition to 36.9 GW of battery storage. CARB's 2022 Scoping Plan understands there is a need for both.[1008]

[1004] EDF OB at 76.

[1005] *See generally* Ex. SDG&E-215 (Valero).

[1006] PCF OB at 54.

[1007] Ex. SDGE-215 (Valero) at 16.

[1008] Ex. SDG&E-215 (Valero) at 81; California Air Resources Board, *2022 Scoping Plan for Achieving Carbon Neutrality* (December 2022) (2022 Scoping Plan) at 203; *AB 32 GHG Inventory Sectors Modeling Data Spreadsheet 2022* (November 14, 2022) at "Electricity" Tab, *available at*:

Because PCF opposes SDG&E's proposed hydrogen projects based on overall misunderstandings of the science behind hydrogen as a carbon-free fuel and the benefits it can provide in terms of long duration storage on the scale of days, weeks and months, and its role in an electrified future for reliable, dispatchable, carbon free generation, SDG&E asks the Commission to disregard PCF's request not to fund the hydrogen capital and O&M costs in SDG&E's GRC 2024 request.

18.2.1.5 UCAN's Unfounded Concerns About CEI Funding Requests

18.2.1.5.1 UCAN's Arguments are Based on Alternate Facts That Have No Evidentiary Support

On numerous occasions in its Opening Brief, UCAN tries to discredit SDG&E witness Fernando Valero by taking responses said during evidentiary hearings out of context or spinning them to fit UCAN's false narrative that SDG&E is hostile to CSOM DER. For example, UCAN attacks Mr. Valero's knowledge of DERs by pointing to an exchange during cross-examination where UCAN asked generally if Mr. Valero was aware of the Commission's definition of DER without any context.[1009] As Mr. Valero correctly pointed out in his response, there are multiple types of DER: "I'm unaware of the definition as it relates from the Commission as to what the distributed energy resource is. There's – there's multiple types of distributed energy resources. Both exist in front of the meter and behind the meter."[1010] Not only was Mr. Valero's response appropriate, it was consistent with how the Commission itself approaches the definition of DER as it recognizes multiple definitions of DER: "This proceeding will use the terms DER or customer programs to refer only to behind-the-meter activities. The term 'distributed energy resources' as used elsewhere often includes small, distributed utility-scale generation."[1011] In another example, in attacking Mr. Valero's knowledge of CSOM BESS and Title 21 smart inverters, UCAN states in that in cross-examination "Mr. Valero confuses the record by introducing the topic of Public

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https://ww2.arb.ca.gov/our-work/programs/ab-32-climate-change-scoping-plan/2022-scoping-plan-documents.

1009 UCAN OB at 93.

1010 Tr. V8:1391:11-17 (Valero).

1011 R.22-11-013, Order Instituting Rulemaking to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, Data Use Access, and Equipment Performance Standards (issued November 23, 2022) at 2, fn. 1.

Safety Power Shutoff (PSPS) …"[1012] Yet a cursory review of the transcripts reveals that UCAN specifically asked Mr. Valero about Title 21 smart inverter equipment *in the context of PSPS events*: "Q Does SDG&E consider customer resiliency through use of Title 21 smart inverter equipment, which is required to be installed in California to provide power when the grid is down, a benefit to customers or <u>when PSPS is declared</u>?"[1013] While none of these unfounded attacks have any bearing on the substantive issues to be considered by the Commission, they reflect a pattern by UCAN of taking liberties with the evidence and hearing transcript to manufacture the false narrative that SDG&E is hostile to CSOM DER. However, as the evidence demonstrates and as explained in Section 20.2 (Electric Distribution – O&M) below, UCAN's assertions about SDG&E's supposed hostility to CSOM DERs are simply unfounded.

UCAN further tries to discredit Mr. Valero by incorrectly referencing to SDG&E's own Grid Modernization Plan (GMP) as proof of UCAN's point. Specifically, UCAN says "Mr. Valero also seems unaware that SDG&E's smart grid expert Mr. Swetek presents solutions that suggest reverse power flow on distribution will not be an issue."[1014,1015] SDG&E's GMP's reference to reverse power flow explains that with the increasing presence of reverse power flow, there is a need to have system protection settings calculated and updated dynamically so the distribution system continues to be operated safely and reliably.[1016] These types of technological solutions have nothing to do with the use of In-Front-of-the-Meter (IFOM) resources to resolve distribution-level constraints that may arise when the output of generators on a circuit exceeds the load on the circuit, including the example provided by SDG&E, where reverse flow (a circuit injects power at a substation rather than withdrawing power at the substation) leads to violations of facility capabilities. Because UCAN is referencing a technological solution that does not even mention storage, UCAN's argument against SDG&E's deployment of distribution-level IFOM storage is inapposite and should be disregarded.

1012 UCAN OB at 97.

1013 Tr. V8:1401:13-17 (Valero) (emphasis added).

1014 UCAN OB at 96-97.

1015 SDG&E notes that UCAN's OB at 97, footnote 290, incorrectly reference's SDG&E's Grid Modernization Plan to be in Ex. SDG&E-15. The correct Exhibit is Ex. SDG&E-12-R-E (Swetek) at Appendix C.

1016 Ex. SDG&E-12-R-E (Swetek) at 34.

In addition, throughout its Opening Brief UCAN attempts to cast doubt on the reasonableness of SDG&E's funding requests by posing a series of "unanswered questions" it claims should be answered before the Commission approves SDG&E's funding requests.[1017] However, UCAN conveniently ignores the fact that it had an extensive opportunity to seek answers to these and other questions (*i.e.*, through discovery or in hearings), but chose not to do so. In fact, UCAN had an opportunity to cross-examine Mr. Valero but elected to waive the full time allotted to it:

> [Mr. Woychik]: Your Honor, I don't think it's going to be productive for me to take your time -- take the time of the proceeding to further cross Mr. Valero. I'm concluded.
>
> ALJ Lakhanpal: So you waive the rest of your time?
>
> Mr. Woychik: Yes."[1018]
>
> It is disingenuous for UCAN to attempt to cast doubt on SDG&E's funding request based on a list of questions UCAN *wishes* it had asked SDG&E during the proceeding but chose not to.

18.2.1.5.2 SDG&E's Reliance on the Lazard's Study is Appropriate

UCAN argues that Mr. Valero's use of a Lazard's study of relative cost-effectiveness is uninformed.[1019] SDG&E disagrees. On a levelized cost of capacity and energy basis, Lazard's April 2023 update indicates the cost of residential solar PV plus storage is greater than 75% higher than full scale utility solar PV plus storage systems.[1020] Accordingly, UCAN's statements regarding CSOM's value appear contrary to publicly available cost comparison information. UCAN does not present a feasible or realistic 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. In response to UCAN's claim that customer battery storage "is available if SDG&E would only encourage its customers to acquire this technology," SDG&E served a data request on UCAN asking its key witness to describe in the "greatest detail" he was able, the capacity, cost, funding, dispatchability, and reliability of such resources. No specific information was provided, though

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[1017] *See, e.g.*, UCAN OB at 88-93.

[1018] Tr. V8:1403:6-12 (Valero).

[1019] UCAN OB at 94-95.

[1020] *See* Lazard's *Levelized Cost of Storage Analysis+* (April 2023) at 18-19, *available at*: https://www.lazard.com/research-insights/2023-levelized-cost-of-energyplus/.

UCAN did imply that customers would pay for the battery storage, without predicting how many would do so.[1021] Additionally, the Self-Generation Incentive Program (SGIP) already funds 85% for energy storage technologies[1022] from SDG&E's annual $22 million allocation of SGIP funding.[1023] 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.

18.2.1.5.3 SDG&E's CEI Projects Are Both Viable and Reasonable

UCAN argues that SDG&E's proposed CEI projects lack viability and market grounding.[1024] In support of this argument, UCAN asserts that "…more markets are available to CSOM DERs than to USOM DERs, which suggests, to repeat, CSOM DERs have greater option value, and thus greater total economic value than singly applied USOM BESS and microgrids."[1025] However, UCAN fails to support this statement with any facts. UCAN also states, "Mr. Valero fails to define whether capture of 'excess' solar PV energy from customers will be sold to CAISO, used solely for the benefit of SDG&E customers (to lower their costs), or given free to SDG&E's immediate BESS/microgrid customers."[1026] As a threshold matter, SDG&E notes that all net revenues from a CAISO-interconnected utility-owned USOM resource is passed back through to customers to offset all customer rates. As such, the excess energy is captured and sold to CAISO to the direct benefit of all SDG&E customers. In addition, there is no "free" power to microgrid customers as UCAN asserts.[1027] Whether in Island Mode or Blue-Sky Mode, the meter turns exactly the same and customers are charged the same applicable tariff rate. A microgrid simply allows those customers who would otherwise be without power to be energized by a resilient utility resource (*i.e.,* the microgrid and the resources within its boundary). Thus, it is clear that USOM resources do provide multiple benefits, and as SDG&E said in rebuttal, CSOM DERs,

1021 UCAN OB at 144; Ex. SDG&E-215 (Valero) at Appendix B, UCAN Response to SDG&E Data Request SCG-SDGE-UCAN-001, Question 4; *see also* Questions 5 and 7.

1022 D.20-01-021 at 2.

1023 *Id.* at 12.

1024 UCAN OB at 96.

1025 *Id.*

1026 *Id.*

1027 *Id.*

including those with storage, do not replace the need for IFOM utility-owned storage and SDG&E's other investments now.[1028]

UCAN further promotes CSOM DER, particularly when combined with CSOM battery storage, as a significant part of the future electric grid. UCAN generally 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.[1029] 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 IFOM utility-owned storage and SDG&E's other investments now. UCAN goes so far as to allege captured electricity by utility-owned storage and being sold into the market by "arbitrage" is for the utility's advantage,[1030] but UCAN fails to understand that utility-owned resources interconnected to CAISO follow Standard of Conduct 4, adopted by the Commission in D.02-10-062, which directs that "[t]he utilities shall prudently administer all contracts and generation resources and dispatch the energy in a least cost-manner."[1031] The least-cost dispatch approach rank-orders all available dispatchable resources, where the resource with the lowest operating cost is ranked first and subsequently dispatched first, and the second lowest cost resource is dispatch second, and continuing on up the stack of supply resources. This approach uses the most cost-effective mix of total resources resulting in a minimization of the cost of energy. As such, SDG&E's IFOM utility-owned resources are clearly following CAISO market signals and Commission rules to the benefit of the grid as a whole, and not just SDG&E.

UCAN's reliance on Title 21 inverters is also misplaced.[1032] A Title 21 smart inverter absent of an integrated electric generating resource (*e.g.,* PV and/or battery) does not provide "stored" energy contrary to UCAN's misguided statement that "…CSOM (customer) BESS with

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1028 Ex. SDG&E-215 (Valero) at 12.

1029 *See* Ex. UCAN-01-E (Woychik), *passim*. SDG&E asked Dr. Woychik to explain how his recommended 30% cut to SDG&E's electric and gas distribution investments would "enable" CSOM DER, and was told "As my statement quoted above was a conclusion in summary of my 300+ pages of testimony in support, I will not replicate those pages here but refer to the document in chief." Ex. Ex. SDG&E-215 (Valero) at Appendix B (UCAN Response to SDG&E Data Request SCG-SDGE-UCAN-001, Q.7).

1030 UCAN Opening Brief at 95.

1031 D.02-10-062 at 52, 74 (COL 11).

1032 UCAN OB at 97-100.

the required Title-21 inverter would be able to store electricity in the future so when the grid goes out it has power."[1033] 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 limits the ability of SDG&E to utilize CSOM assets.

18.2.1.5.4 UCAN's Single-Minded Focus on CSOM DER is Flawed

Much of UCAN's position in this proceeding is focused on advocating for the proliferation of CSOM DER at the expense of other necessary grid investments. However, UCAN's single-minded approach is flawed. For example, UCAN's broad assertion that "extensive battery storage can be provided by CSOM DERs" is not evidence that such CSOM DER is readily available for real world challenges and complexities. For example, such a broad assertion does not in reality mean that CSOM DERs with battery storage are available on the relevant circuits where the identified need exists, 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). As UCAN admits, "[c]ustomers acquiring distributed energy resources generally pay for CSOM storage,"[1034] but it is speculative both how many customers will do so on the relevant electrical circuits and the price, if any, at which they might be willing to guarantee electricity supply to the electrical grid when needed. SDG&E notes that significant growth in NEM PV in Borrego Springs has not been accompanied by NEM storage.[1035]

[1033] *Id.* at 96.

[1034] Ex. UCAN-01-E (Woychik) at 285.

[1035] SDG&E data re: adopted NEM and approved NEM applications for Borrego substation as of 4/26/23, for 2013-2023. NEM PV in Borrego Springs now represent 8.3 MW of generating capacity, with an

UCAN conjectures that "SDG&E seeks to control its distribution grid, reduce customer DERs, and ignore customer (inverter based) resiliency."[1036] This viewpoint again ignores the realities of what SDG&E is trying to achieve, and misunderstands the locational value of storage and how IFOM utility-scale storage actually enables the deployment and resiliency of CSOM DERs such as solar PV. For example, the Borrego Springs 3.0 is demonstrating microgrid based battery storage inverter resiliency to ensure that customer sited PV inverters do not trip during an outage, thereby better integrating them into the microgrid. With customers utilizing solar PV inverters of different vintages (all of which do not have "ride through" capabilities), IFOM utility scale storage assets mitigate a cascading collapse of customer-sited solar PV inverters.

Without adequate energy storage capacity 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 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). As seen in summer of 2020 and forward, there have been several heat events calling for "flex alerts" and "reduce your use" campaigns, and during periods of extreme heat, State of Emergency Proclamations from the California Governor. These events demonstrate the need for an "all-of-the-above" approach, which includes IFOM utility-scale energy storage resources.

18.2.2 Response to CEI Capital Proposals

18.2.2.1 Advanced Clean 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.[1037] The Advanced Energy Storage (AES) project continues the Company's strategic deployment of energy storage devices established in SDG&E's TY 2019 GRC, D.19-09-051,[1038] on distribution circuits with an

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additional 8.1 MW of approved customer NEM applications in the pipeline. With this additional 8.1 MW of NEM PV, only an additional 150 kW of storage has been requested and approved.

1036 Ex. UCAN-01-E (Woychik) at 4.

1037 Ex. SDG&E-15-R-E (Valero) at 18.

1038 *Id*.

abundance of solar photovoltaic (PV) penetration to effectively manage the reliability of the grid. For the current phase of AES, SDG&E is in the process of installing and integrating a 7.3 megawatt (MW)/14.6 megawatt-hour (MWh) Battery Energy Storage System (BESS) and a 0.25 MW/4 MWh Hydrogen Energy Storage System (HESS) to leverage excess PV at the Borrego Spring Microgrid.[1039]

SDG&E also notes that the Borrego Springs Microgrid is sited at the end of a single, long transmission line and is completely surrounded by a State Park which makes it an isolated community. Given the region is subject to extreme weather conditions including extreme heat, storms, high winds and flooding, and outages due to transmission pole replacements due to damage and/or compliance maintenance, the microgrid is crucial to ensuring reliable power to the Borrego Springs Community. SDG&E believes all customers are entitled to relatively equivalent levels of electric reliability, and SDG&E believes that the AES project is the appropriate solution to mitigate these reliability and resiliency issues and presents a timely and low-cost solution as compared to alternatives. Alternative solutions to the Borrego Springs Microgrid would require a new transmission line that interconnects into Borrego Springs from the opposite direction of the current tie line. This theoretical secondary tie line is not practical as it would require SDG&E to interconnect a roughly 26-mile tie line from an Imperial Irrigation District (IID) substation called Seville that would transverse through a State Park and would be co-located next to a scenic highway. SDG&E modeling assumptions for this theoretical tie line would require roughly 23-miles to be undergrounded due to the nature of where it would be built (*i.e.*, through a State Park and co-located next to a scenic highway). The final 3-miles would be assumed to be overhead as they leave the State Park and enter Borrego Springs. SDG&E notes the lead-time for a such a theoretical project of this magnitude is at least 7 years due to permitting, right-of-way needs, and environmental impact studies required to build this project. Also, SDG&E roughly estimates costs for such a theoretical secondary tie line would exceed $450 million to build. As such, SDG&E believes that AES and Borrego 3.0, which are enhancements to the existing Borrego Springs Microgrid, continue to be a more cost-effective solution to providing reliable electric service to the Borrego Springs area.

Cal Advocates - Cal Advocates' Opening Brief misrepresents the status and use of the AES project by stating funds were not spent until 2020, that SDG&E failed to demonstrate the

[1039] Ex. SDG&E-215 (Valero) at 39-40.

continued need for the AES project, and that SDG&E declined to provide evidence supporting the continued need.[1040] Cal Advocates is wrong on all points, and SDG&E thoroughly rebutted these points through extensive rebuttal testimony.[1041] As stated in rebuttal testimony, SDG&E's AES assets (*i.e.*, 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.[1042] As stated in SDG&E's discovery response and through rebuttal testimony, 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 6.5MW_{AC} PV installation."[1043] 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.[1044]

SDG&E addressed Cal Advocates' incorrect statement that funds were not spent on AES until 2020 through rebuttal testimony and the inclusion of a data response to Cal Advocates showing AES funds spent as far back as 2017.[1045] Finally, SDG&E notes that 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.[1046] In addition, as discussed further below, site grading work to accommodate the BESS and the HESS have been completed and the BESS could be online this year and the HESS is expected to be online mid-2024.[1047]

In terms of demonstrating the need for the AES project, as state above, the Borrego Springs Microgrid is sited at the end of a single, long transmission line. Given that the region is subject to extreme weather conditions including extreme heat, storms, high winds, and flooding, and outages due to transmission pole replacements due to damage and/or compliance maintenance, the microgrid is crucial to ensuring reliable power to the Borrego Springs Community. The following

[1040] Cal Advocates OB at 106-107.

[1041] Ex. SDG&E-215 (Valero) at 40-44.

[1042] *Id.* at 43.

[1043] Ex. SDG&E-215 (Valero) at 41; Appendix B, SDG&E response to PAO-SDGE-080-AMY, Question 1b.

[1044] *Id.*

[1045] *Id.* Appendix B, SDG&E response to PAO-SDGE-080-AMY, Question 1b.

[1046] Ex. SDG&E-215 (Valero)at 41.

[1047] *Id.*

table presents a list of historic islanding operations of the Borrego Springs Microgrid from 2020 to present. Microgrid support duration for these planned outages ranged from 1.5 hours to over 60 hours.[1048]

Borrego Spring Microgrid Islanding Operations 2020 to Present
DG = Diesel Generators, BAT = Li-ion Battery

Date	Event Type	Support Duration (h)	Borrego Resources Utilized	Notes
Feb 5, 2020	**Planned Outage – Relay Calibration & Transmission Pole Maintenance**	5	• 3.6 MW DG • 1MW/3MWh BAT	
Oct 26, 2021	**Planned Outage – Transmission Pole Replacements**	12	• 3.6 MW DG • 1MW/3MWh BAT	Additional 2.2MW of additional portable, manually operated DG required for island operation.
Oct 27 2021	**Planned Outage – Transmission Pole Replacements**	12	• 3.6 MW DG • 1MW/3MWh BAT	Additional 2.2MW of additional portable, manually operated DG required for island operation.
Oct 28 2021	**Planned Outage – Transmission Pole Replacements**	12	• 3.6 MW DG • 1MW/3MWh BAT	Additional 2.2MW of additional portable, manually operated DG required for island operation.
Oct 24 2022	**Planned Outage - Accommodate switching to transfer Borrego load to IID from SDG&E**	1.9	• 3.6 MW DG • 1MW/3MWh BAT	
Oct 31 2022	**Planned Outage - Accommodate switching to transfer Borrego load from SDG&E to IID**	1.5	• 3.6 MW DG • 1MW/3MWh BAT	

[1048] *Id.* at 41-43.

Date	Event Type	Support Duration (h)	Borrego Resources Utilized	Notes
Feb 9 – Feb 16, 2023	**Planned Outage – Compliance Transmission Maintenance**	61 total	• 3.6 MW DG • 1.5MW/4.5MWh BAT	Additional 6 x 220 kW portable, manually operated DG utilized as baseload support.
May 6, 2023 (pending)	**Planned Outage– Compliance Transmission Maintenance**	10 (estimated)	• 1.5MW/4.5MWh BAT	On-site 3.6 MW DG unavailable. 5 x 1250kW portable, manually operated DG required to support 10h microgrid operation.

SDG&E notes a few important microgrid islanding events at the Borrego Springs Microgrid:

- For the outages on October 26th through the 28th 2021, an additional 2.2 MW of portable diesel generators were required for island transitions before sunrise and sunset – the existing microgrid battery resources and stationary diesel generators were insufficient to take the microgrid into and out of island. Further, additional personnel needed to be on-site to operate the generators for San Diego Air Pollution Control District ("SDAPCD") compliance purposes. **Additional energy storage will reduce emissions associated with the portable generators and can reduce labor expenses.**

- For the outages occurring from February 9th through February 16th, 2023, **additional portable generators were again brought in to support baseload during island mode given a shortfall in the amount of energy storage**. Without additional capacity, certain non-critical loads in the Borrego Springs community were shed.

- On May 6, 2023, a planned outage will be conducted. However, the on-site 3.6 MW diesel generators are off-line for repair. The existing 1.5 MW/4.5 MWh batteries will charge to maximum capacity utilizing PV during the day (with the large excess amount of PV being curtailed) and the existing energy storage will discharge in the evening. **Even with the existing battery storage, the operation will require the addition of five 1.25 MW generators to support 10 hours of operation. This again reiterates the importance of bringing AES, Borrego 3.0, and the HESS Expansion online in Borrego Springs to eliminate the need for both existing diesel generators in the microgrid yard and portable diesel generators.**

Cal Advocates' statement that SDG&E has failed to demonstrate the continued need for the AES projects is unsupported by the record and should be denied.

In addition, Cal Advocates' suggestion that AES funding should be denied because SDG&E used a portion AES funds previously approved in the 2019 GRC on other capital projects lacks merit.[1049] 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."[1050] 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."[1051] The fact that SDG&E may have reprioritized funding to other capital projects does not negate the need or reasonableness for the funds requested in this GRC. SDG&E maintains—and the evidence establishes—that the work under budget 20278A, Advanced Energy Storage, is reasonable and should be approved.

18.2.2.2 Advanced Clean 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).[1052] 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.[1053] 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 even the

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1049 Cal Advocates OB at 107.

1050 D.11-05-018 at 27.

1051 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 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.").

1052 Ex. SDG&E-15-R-E (Valero) at 19.

1053 D.19-09-051 at 293-294.

locations where these projects would be installed."[1054] 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."[1055] SDG&E disagrees on both counts.[1056]

First, Cal Advocates' assertion that "because SDG&E has not yet selected any locations, it cannot plausibly have an identified need for them,"[1057] lacks merit. 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.[1058] Mr. Valero also identified in rebuttal testimony potential locations where AES could be deployed (*e.g.*, the Crestwood Substation and Circuit 520).[1059] The fact that SDG&E continues to explore potential sites with high renewables penetration 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 (Valero), the need for storage devices to manage renewables penetration is well-known and increasing.[1060]

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),[1061] which instructed the Commission to require the IOUs to file

[1054] Cal Advocates OB at 109.

[1055] *Id.* at 110.

[1056] Ex. SDG&E-215 (Valero) at 46-48.

[1057] Cal Advocates OB at 109.

[1058] Ex. SDG&E-215 (Valero) at 46.

[1059] *Id.* at 51.

[1060] *Id.* at 46.

[1061] *See* D.19-06-032 at 2 ("Assembly Bill (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.").

applications for a certain amount of distributed energy storage systems that prioritize public sector and low-income customers.[1062] 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.[1063] Not so. The Assembly Bill 2868 process applies specifically to procurement undertaken pursuant to that statutory provision;[1064] 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.[1065] Also, as the Commission 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."[1066] 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 set forth in D.19-06-032."[1067] As an initial matter, the Commission made plain that D.19-06-032 applied to storage projects "pursuant to AB 2868,"[1068] 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,[1069] which again, encourages the accelerated deployment of distributed energy storage systems that prioritize public sector and low-

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1062 *Id.* 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].").

1063 Ex. CA-09-E (Younes) at 32.

1064 D.19-06-032 at 90-91 (COL 7 and 12).

1065 *Id*. at 31, 65.

1066 *Id*. at 27.

1067 Cal Advocates OB at 110.

1068 *See, e.g.,* D.19-06-032 at 90, 95-96 (COL 9, 12-15), 93-95 (OP 3, 7, 10-13).

1069 AB 2868, Stats. 2015-2016, Ch. 681 (Cal. 2016) (AB 2868).

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***."[1070] 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 . . . ."[1071]

Moreover, AB 2868 expressly recognizes that the Commission may approve other storage projects in other proceedings,[1072] such as this GRC proceeding. AES 2.0 deployments are envisioned firstly as distributed energy resources supporting the local distribution system by 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),[1073] 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 proposal is "remarkably vague, failing to provide basic information about the location, technologies, or current status of the projects."[1074] TURN also recommends that, if the Commission approves AES 2.0, then: (1) SDG&E should be required to conduct competitive solicitations for third-party owned storage projects, (2) the Commission should order SDG&E to convert capital expenditures to a capital addition only after the project is assumed to be online, and

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1070 D.19-06-032 at 32 (emphasis added).

1071 *Id*., Appendix A at 5 (emphasis added).

1072 AB 2868, 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 § 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.").

1073 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.

1074 TURN OB at 145.

(3) 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.[1075]

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.[1076]

In addition, Mr. Valero's testimony and Capital Workpapers provide information about the expected size, type, and cost of the projects.[1077]

TURN misrepresents SDG&E's response regarding consideration of third-party owned battery storage assets by conveniently editing SDG&E's statement to fit its own narrative. SDG&E does not currently take a position on whether third-party ownership of distribution-based BESS should or should not be allowed. However, SDG&E does believe it is best positioned to own and operate these assets to meet grid needs.[1078] Furthermore, 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. Normalization delays the receipt of value by ratepayers and effectively shares the benefits with utility shareholders. In contrast to this treatment, third-party energy storage projects can flow through the value of the ITC upon its receipt (in the first year of plant operations) by offering lower PPA pricing."[1079] 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

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1075 *Id.* at 148.

1076 Ex. SDG&E-15-R-E (Valero) at 20.

1077 *Id.* at 19; Ex. SDG&E-15-CWP-E (Valero) at 12.

1078 Ex. TURN-800, SDG&E response to TURN-SEU-082, Q12(d) at 16.

1079 Ex. TURN-06 (Monsen) at 54.

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.

18.2.2.3 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).[1080] 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"[1081] and therefore, the Commission should order SDG&E to comply with the procedural requirements of D.21-06-035 (*i.e.*, an Application)."[1082] 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 technology."[1083] Cal Advocates further contends SDG&E has "not explained why the guardrails established in D.21-06-035…should not apply."[1084]

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.[1085] 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.[1086] The Commission also made plain that the procurement in D.21-06-035

1080 Ex. SDG&E-15-R-E (Valero) at 21-22.

1081 Cal Advocates OB at 108.

1082 *Id.*

1083 *Id.*

1084 *Id.*

1085 Ex. SDG&E-215 (Valero) at 54-55.

1086 D.21-06-035 at 97-98 (OP 13).

was to address the mid-term reliability needs of the CAISO operating system.[1087] 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.[1088] SDG&E is <u>not</u> intending for the 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. Indeed, the deployments would not meet the obligations specified in D.21-06-035,[1089] as the assets would not meet CAISO net qualifying capacity (NQC) requirements because they would not be bid into CAISO.[1090] 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.[1091,1092] Finally, it is important to remember that 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 to study the issue as part of the non-lithium-ion pilot program is neither reasonable nor logical.

<u>TURN</u> - TURN also recommends the Commission deny SDG&E's funding request on the grounds that the proposal is "remarkably vague, failing to provide basic information about location, technologies, or current status of the projects."[1093] Again, SDG&E disagrees. As the evidence shows, SDG&E proposes a multi-year demonstration of each technology studied to identify the value streams and study potential large-scale applications of the technology.[1094]

1087 *Id.* 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.").

1088 Ex. SDG&E-15-R-E (Valero) at 21.

1089 D.21-06-035 at 2.

1090 *See* CAISO Tariff, Section 40.4.3(3) ("Submit Bids into the CAISO Markets as required by this CAISO Tariff," *available at:* http://www.caiso.com/rules/Pages/Regulatory/Default.aspx); *See also* CAISO's Federal Energy Regulatory Commission (FERC) authorized tariff, Section 40, *available at:* http://www.caiso.com/Documents/Section40-ResourceAdequacyDemonstration-for-SchedulingCoordinatorsintheCaliforniaISOBalancingAuthorityArea-asof-Feb11-2023.pdf.

1091 The Vanadium Flow Battery Project (synonymous for the Miguel VRF) was funded by the 2019 GRC D.19-09-051 at 294.

1092 Ex. SDG&E-215 (Valero) at Appendix B, Data Request CCAS-SDGE-002, Question 02.22b.

1093 TURN Opening Brief, at 150.

1094 Ex. SDG&E-215 (Valero) at 56.

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 evaluation.[1095] 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,[1096] and is needed to advance SDG&E's and California's transition to the carbon neutrality required by Senate Bill (SB) 100 for retail electricity sales.[1097]

18.2.2.4 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).[1098] 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,[1099] are under construction and expected to be online in 2023-2024, as set forth in the discussion regarding SDG&E's AES project above.[1100] The additional energy storage assets will not only support SDG&E's goal of transitioning this microgrid to being a100% 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."[1101] At this point, the new circuit contemplated by Borrego 3.0 has been constructed and is ready to interconnect the AES energy storage assets.

1095 *Id.*

1096 *See, e.g.*, D.21-06-035 at 36.

1097 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).

1098 Ex. SDG&E-15-R-E (Valero) at 22-23.

1099 D.19-09-051 at 294.

1100 Ex. SDG&E-15-CWP (Valero) at 34.

1101 *Id*. at 34.

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.[1102] SDG&E disagrees.[1103] 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,[1104] which will capture excess PV 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 Department of Energy (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 confirms energy storage on the decarbonization pathway as a way 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.

UCAN – UCAN objects to this project by claiming that "SDG&E's primary purposes in building the Borrego Springs microgrid have been achieved…further investment (ratepayer funding) in this exclusive use facility is unnecessary."[1105] However, the Commission already approved the Borrego Springs Microgrid energy storage projects in D.19-09-051,[1106] 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).

1102 Cal Advocates OB at 110-111.

1103 Ex. SDG&E-215 (Valero) at 57-59.

1104 D.19-09-051 at 293-294.

1105 UCAN OB at 147.

1106 D.19-09-051 at 294.

UCAN also argues that SDG&E failed to justify the project, that it "seems primarily aimed at integration of only USOM DERs."[1107] SDG&E disagrees.[1108] 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 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.

UCAN does not appear to understand how In-Front-of-the-Meter (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.

18.2.2.5 ITF Expansion

SDG&E requested $1.425 million in 2022 capital spending for its Integrated Test Facility (ITF) Expansion. No party has objected to this request.[1109] Accordingly, SDG&E submits that the funding related to this project should be approved as reasonable.

18.2.2.6 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).[1110] 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

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1107 *Id*. at 288.

1108 Ex. SDG&E-215 (Valero) at 60-62.

1109 *See, e.g.,* Cal Advocates OB at 112.

1110 Ex. SDG&E-15-R-E (Valero) at 25-26.

municipal buildings, schools, non-profit and commercial buildings, are scheduled for a potential 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.[1111]

<u>Cal Advocates</u> - Cal Advocates recommends denying this cost recovery for Sustainable Communities Removal activities arguing that these additional capital expenditures would use ratepayer dollars to terminate projects that still have 40%-60% of their useful life (based upon depreciation period).[1112] Cal Advocates further states that "the Commission should require SDG&E to pursue a different strategy, such as selling the used equipment to the site owners at a discounted rate."[1113]

As a threshold matter, SDG&E notes that the lessor, not SDG&E, decides whether to terminate the lease.[1114] SDG&E's first goal is to work with the lessor and seek an extension of the lease, 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 viable alternatives 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.[1115] 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.

[1111] D.04-12-015 at 35-37.

[1112] Cal Advocates OB at 113.

[1113] *Id.* at 113.

[1114] Ex. SDG&E-215 (Valero) at 63-64.

[1115] *Id.*

18.2.2.7 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).[1116] 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 and 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 justification for this project and no quantification of benefits, it has not met its burden of proof to show that procurement of these MBESS is reasonable."[1117] SDG&E disagrees as the MBESS will immediately support SDG&E's resiliency and reliability efforts, especially during PSPS events and other unplanned or planned outages.[1118] 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.*, NOx, carbon monoxide (CO), hydrocarbons, and diesel particulate matter) which affects ambient air quality; and 3) reduction of diesel fuel consumed.[1119] Notably, MBESS deployments can support the

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1116 Ex. SDG&E-15-R-E (Valero) at 26-27.

1117 Cal Advocates OB at 115.

1118 Ex. SDG&E-215 (Valero) at 65-67.

1119 *Id.* at 66.

Clean Energy and Pollution Reduction Act of 2015 (SB 350) designated disadvantaged communities (DACs).[1120]

18.2.2.8 Hydrogen Build Ready Infrastructure

SDG&E requests capital funds for the Hydrogen Build Ready Infrastructure Program in the amount of $0.0 million (2022), $ 0.770 million (2023), and $1.155 million (2024).[1121] This project provides for the upgrades necessary to the distribution electric system service infrastructure to support the localized creation of hydrogen via electrolysis for up to five customers with systems sized up to 2 MW each. SDG&E will target installations that serve the public interest. Money will only be spent when/if qualifying projects arise.

Cal Advocates – Cal Advocates urges a one-way balancing account for this request.[1122] SDG&E agreed to a one-way balancing account for this project in its rebuttal testimony.[1123] Funds will only be spent when and if qualifying projects arise.[1124]

More broadly, Cal Advocates opposes funding the Hydrogen Build Ready Infrastructure program, claiming it would only benefit up to five customers.[1125] SDG&E disagrees. While it is true that only up to five customer sites would receive funds directly as part of the program, customers across SDG&E's entire service territory will benefit from the reduction in pollutants that could be achieved by the adoption of locally produced hydrogen to displace fossil fuels in the transportation sector. Importantly, SDG&E will target and prioritize installations "with a focus on serving the public interest entities (*e.g.*, public transit agencies, waste management agencies, port authorities, or school districts.)"[1126]

The Commission has set precedent for authorizing programs that utilize ratepayer funds to support ZEV adoption for individual or groups of individual ratepayers via D.16-01-045. The

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1120 California Office of Environmental Health Hazard Assessment, *SB 535 Disadvantaged Communities* (May 2022), *available at:* https://oehha.ca.gov/calenviroscreen/sb535.

1121 Ex. SDG&E-15-CWP-E (Valero) at 72.

1122 Cal Advocates OB at 111-112.

1123 Ex. SDG&E-215 (Valero) at 70.

1124 *Id*.

1125 Cal Advocates OB at 111-112.

1126 Ex. SDG&E-15-R-E (Valero) at 28.

request for Hydrogen Build Ready Infrastructure meets many of the Guiding Principles outlined in that decision.[1127]

Finally, the San Diego Association of Governments (SANDAG), a metropolitan planning organization and a council of governments, recently noted the "crucial" role of "make-ready" infrastructure programs:

> Expanding and enhancing … 'make-ready' infrastructure programs … is crucial for accelerating the adoption of MD-HD ZEV and providing the necessary infrastructure. By expanding the availability and accessibility of such programs, more fleets, including those in disadvantaged communities and small businesses, would be eligible for the benefits.[1128]

For all the foregoing reasons, SDG&E requests the Commission to approve the Hydrogen Build Ready Infrastructure request as presented.

CEJA - In their Opening Brief, CEJA requests the Commission reject the entirety of the Hydrogen Build Ready Infrastructure Program request.[1129] CEJA shares concerns with Cal Advocates over the nature of the program as a subsidy that would benefit certain ratepayers over others. SDG&E addresses those concerns above.

In addition, CEJA claims that the program would hurt ESJ communities and Disadvantaged Communities (DACs) by its potential to drive more demand from the power sector with grid-connected electrolyzers, which CEJA infers could then theoretically drive local pollution.[1130] However, in practice for SDG&E's region, this claim is unsubstantiated and dubious, since it is the transportation sector, not the power sector, driving the region's air pollution issues. According to the San Diego Air Pollution Control District, over 90% of the NOx pollution issues in our service territory comes from mobile sources via the combustion of diesel and gasoline, which this program would help abate. Only four percent is due to stationary sources such as power generators.[1131]

[1127] Ex. SDG&E-215 (Valero) at 69.

[1128] San Diego Association of Governments (SANDAG), *Medium & Heavy Duty Zero Emission Vehicle Blueprint* (May 2023) at 12, *available at:* https://www.sandag.org/-/media/SANDAG/Documents/PDF/projects-and-programs/innovative-mobility/clean-transportation/regional-medium-duty-heavy-duty/md-hd-zev-blueprint-draft-implementation-strategies.pdf.

[1129] CEJA OB at 56-58.

[1130] *Id*. at 57.

[1131] San Diego Air Pollution Control District, *What's Driving Air Pollution?*, *available at:* https://www.sdapcd.org/content/dam/sdapcd/documents/grants/planning/Whats-Driving-Air-Pollution.pdf.

CEJA also claims that this program is inconsistent with the Commission ESJ Action Plan.[1132] SDG&E is confused by this claim. The program is directly aligned with the ESJ Action Plan, particularly Goal 2, "Increase investment in clean energy resources to benefit ESJ communities, especially to improve local air quality and public health." This program would reduce NOx and particulate reduction from mobile sources by replacing emitting transportation fuel with zero emitting hydrogen fuel. The program also serves Goal 3, "Strive to improve access to high-quality water, communications, and transportation services for ESJ communities, including Ensure Equitable Clean Transportation." Since the program will incentivize and support early adoption of hydrogen transportation for entities "with a focus on serving the public interest entities focused on the public sector," it thereby supports both access and equity.[1133]

Overall, it is apparent that CEJA is out of touch with the local needs of SDG&E's service territory. CEJA's Opening Brief reflects that it is wholly unfamiliar with air pollution issues in SDG&E's service region, and that it is unaware of the local support via SANDAG for make-ready programs by San Diego local governments, which this program addresses.

For the foregoing reasons, SDG&E requests the Commission to approve the Hydrogen Build Ready Infrastructure request as presented.

18.2.2.9 Hydrogen Energy Storage System Expansion

SDG&E requests capital funds for the Hydrogen Energy Storage System Expansion (HESS) in the amount of $0.0 million (2022), $ 5.171 million (2023), and $0.081 million (2024).[1134] This expansion of the existing Hydrogen Energy Storage System at the Borrego Springs Microgrid includes increasing fuel cell capacity from 250 kW to 1,000 kW, doubling onsite hydrogen storage allowing for 8 hours of long duration energy storage at an output of 1,000 kW, and purchasing an atmospheric water generation system, which converts ambient water vapor into liquid water that can be used in the existing electrolyzer.

Cal Advocates - Cal Advocates recommends denying all funding for this project because even with the proposed system expansion, the microgrid will be shy of meeting peak load of

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[1132] CEJA OB at 57.

[1133] CPUC, *Environmental & Social Justice Action Plan Version 2.0* (April 7, 2022) at 23, *available at:* esj-action-plan-v2jw.pdf (ca.gov).

[1134] Ex. SDG&E-15-CWP-E (Valero) at 88.

Borrego Springs.[1135] Cal Advocates notes that the Hydrogen Fuel Cell (HFC) expansion does not meet the 12-hour upper limit of observed outages and surmises that therefore it is not needed.[1136]

SDG&E disagrees. The expansion will make a material contribution to the overall capacity and duration of the microgrid, bringing the overall HESS project to 1 MW/8MWh of storage. SDG&E prudently designed this expansion to take advantage of the hydrogen energy storage infrastructure already at the site. Adding 750 kW of fuel cell capacity to the existing capacity makes sense because of the modularity of the fuel cell stack; the additional capacity will utilize the same container infrastructure from the existing fuel cell and will take advantage of the onsite 1 MW electrolyzer. While this addition will not fully allow the microgrid to meet peak load, it helps close the gap and reduces the need for load curtailment in an outage event. Additionally, for extended outages, the expanded hydrogen energy storage system (HESS) will reduce the need to bring polluting mobile diesel generators onsite.

Further, Cal Advocates mischaracterizes the request to add atmospheric water generators (AWG) to the system.[1137] As SDG&E stated in its rebuttal, the primary purpose of the AWG is 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."[1138] Achieving lower impact ways to create hydrogen using water as a feedstock without sacrificing existing and strained clean water resources in our region will create a benefit our ratepayers. The estimated cost of the AWG system is modest at $175,000. Therefore, SDGE recommends funding the HESS expansion in Borrego in the full amount.

18.2.3 Response to CEI O&M Proposal

18.2.3.1 Hydrogen Strategy and Implementation Department

<u>Cal Advocates</u> – Cal Advocates recommends funding the Hydrogen Strategy and Implementation Department at $863,000, a reduction of $147,000, alleging nothing more than SDG&E did not provide adequate justification for its additional labor needs.[1139] However, SDG&E provided detailed job scopes for the 2.4 incremental FTEs in response to Cal Advocate's

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1135 Cal Advocates OB at 115-117.

1136 *Id.* at 116.

1137 *Id.*

1138 Ex. SDGE-215 (Valero) at 77.

1139 Cal Advocates OB at 104.

testimony[1140] via rebuttal.[1141] The incremental labor request is for (1) 100% O&M for a Business Analyst, (2) 50% O&M for a Project Manager, and (3) 90% O&M for a Business Development Manager.[1142] The Business Analyst will support regulatory and project efforts related to hydrogen transportation adoption and grid connected electrolysis. The Project Manager will support the growing number of hydrogen projects SDG&E anticipates working on, including those requested via the GRC as well as anticipated projects expecting federal funding, including initiatives related to the US DOE Hydrogen Hub. The Business Development Manager will "develop and manage relationships and customer service with high potential hydrogen off-takers in our service territory from an electricity demand perspective including the Port, major universities, transit agencies, and fleet services companies located at the US/Mexico border; and assist in informing on SDGE's long term electrification strategy with regards to the role of hydrogen."[1143]

Therefore, based on the provided details and described needs, SDG&E requests the Commission fund the HSI Department in the full amount, $1.011 MM.

CEJA - CEJA requests that the Commission deny any funding for the HSI department.[1144] The bulk of CEJA's argument disingenuously focuses on studies that SDG&E has made abundantly clear it has not performed and that it is not seeking funding to perform via TY 2024 GRC. CEJA knows full well that these studies are not being requested since SDG&E has served such responses to CEJA via data requests[1145] as well as via confirmation in SDG&E rebuttal testimony.[1146]

To be clear, the funding request for the HSI department is necessary to support additional labor (2.4 FTEs) as described above, and $100,000 in O&M for critical business activities under the category "Sponsorships and other costs." In its Opening Brief, CEJA mischaracterizes the non-labor O&M request, despite SDG&E's clarifications in rebuttal testimony[1147] and discovery

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1140 Ex. CA-09-E (Younes) at 11.

1141 Ex. SDG&E-215-R-E (Valero) at 25-26.

1142 Ex. SDG&E-15-WP-E (Valero) at 6.

1143 Ex. SDG&E-215-R-E (Valero) at 26.

1144 CEJA OB at 50.

1145 Ex. SDG&E-215 (Valero) at Appendix B, Data Request CEJA-SEU-005, Question 9.

1146 *Id.* at 27.

1147 *Id.* at 28.

responses.[1148] CEJA is incorrectly focused on the title of the line item of the request, rather than the detailed content of what it would fund (*i.e.*, safety). However, as SDG&E has made abundantly clear, despite the name of the category, SDG&E did not and will not use any O&M dollars to sponsor any third-party entities. SDG&E provided details as to what that budget request may fund: The $100,000 budget may be allocated to support "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."[1149]

SDG&E requests the Commission approve the Hydrogen Strategy and Implementation Department as presented.

18.2.3.2 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.[1150] The ACT department is responsible for developing and deploying energy storage, microgrids, integration software and 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 – In its Opening Brief, Cal Advocates recommends a reduction of $78,125 from the ACT O&M budget (which is a decrease from its initial proposed reduction of $634,000 as proposed in testimony.)[1151] [1152] SDG&E appreciates Cal Advocates' correction regarding its proposed reduction.

While SDG&E supports the full inclusion of SDG&E's ACT department's full base labor costs, it does not support Cal Advocates' cut to incremental labor costs as there is no basis for

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1148 *Id.* at Appendix B, Data Request CEJA-SEU-018, Question 4a.

1149 *Id.* at 28.

1150 Ex. SDG&E-15-R-E (Valero) at 8-9.

1151 Cal Advocates OB at 104-105.

1152 Ex. CA-09-E (Younes) at 2, Table 9-1.

cutting 50% of the funding for additional labor in this Department.[1153] As the evidence shows, the ACT department undertakes a multitude of projects, initiatives, and regulatory proceedings which impacts current and future labor estimates.[1154] 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).

Cal Advocates presents no evidence that such additional staff are not needed. For these reasons, SDG&E believes Cal Advocates' recommendation should be denied and SDG&E's proposed funding be approved.

18.2.3.3 Innovation Technology Development

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.[1155] 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.[1156] 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.[1157]

[1153] Cal Advocates OB at 104-105.

[1154] Ex. SDG&E-15-R-E (Valero) at 9.

[1155] *Id.* at 12-14.

[1156] Cal. Pub. Util. 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.

[1157] Ex. SDG&E-15-R-E (Valero) at 11.

SDG&E's estimated Innovation Technology Development funding categories are summarized in the following table, which identifies the specific RD&D programs and subprograms:

Estimated Innovation Technology Development Funding Categories ($000)[1158]

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**

Cal Advocates – Cal Advocates recommends $1.463 million for SDG&E's Innovation Technology Development on the grounds that SDG&E has not established a need for the requested funding.[1159] Specifically, Cal Advocates proposes to cut 50% ($437,000) of the funding for three staff positions[1160] based on its claim that SDG&E's descriptions lack a scope of work and thus should be reduced to $437,000.[1161] 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.[1162] 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. 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

1158 *Id*. at 12. (Funding split between programs is estimated and will be refined once the program is approved and RD&D initiatives are established).

1159 Cal Advocates OB at 102.

1160 *Id.* at 104.

1161 *Id.*

1162 Ex. SDG&E-15-WP-E (Valero) at 17; Ex. SDG&E-15-R-E (Valero) at 11-12.

procure EVs.[1163] 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.[1164] SDG&E disagrees.[1165] 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.[1166] Moreover, new technologies such as bi-directional vehicle-to-grid (V2G) or wireless power delivery benefit 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 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.[1167]

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.[1168] SDG&E disagrees. In its 2022 Scoping Plan, 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).[1169] 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

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1163 *Id.*

1164 *Id.*

1165 Ex. SDG&E-215 (Valero) at 31-34.

1166 *See* CARB Press Release 22-30, *available at:* https://ww2.arb.ca.gov/news/california-moves-accelerate-100-new-zero-emission-vehicle-sales-2035 .

1167 California Legislative Information, Senate Bill (SB) 676 (2019), Section 1, codified at Pub. Util. Code Section 740.16, *available at:* https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200SB676.

1168 Ex. SDG&E-215 (Valero) at 32.

1169 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.

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.[1170] 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 subprogram 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 amount.[1171] 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 accusing SDG&E's proposal as circumventing the Commission's EPIC program and running a program without basic Commission oversight.[1172] 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."[1173] CEJA states that if the Commission approves this new program in any form, it should prohibit funding on research related

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[1170] Ex. CA-09-E (Younes) at 21.

[1171] Ex. SDG&E-15-WP-E (Valero) at 22.

[1172] CEJA OB at 53-54.

[1173] Ex. CEJA-01 (Vespa, *et al.*) at 53-55.

to carbon capture and/or sequestration.[1174] 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.[1175] 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,[1176] 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 Sustainable Communities

SDG&E agrees with Cal Advocates' recommendation of $0.235 million for its Sustainable Communities Program (SCP), a reduction of $0.047 from SDG&E's initial request.[1177]

18.2.3.5 Distributed Energy Resource Engineering Department

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.[1178] 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

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[1174] *Id.* at 55.

[1175] Ex. SDG&E-215 (Valero) at 35-36.

[1176] California Legislative Information, SB 905, Section 2 (2022), codified at Cal. Health & Safety Code § 39741.1(a), *available at:* https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220SB905.

[1177] SCG/SDG&E OB at 298.

[1178] Ex. SDG&E-15-R-E (Valero) at 15-16.

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 $219,000 from the DER Engineering O&M budget,[1179] (which is less than the $342,000 reduction it had initially recommended in opening testimony).[1180] SDG&E appreciates Cal Advocates' correction to its recommended reduction. However, while SDG&E supports the full inclusion of SDG&E's DER Engineering departments full base labor costs, it does not support Cal Advocates cut to incremental labor costs.[1181]

There is no basis for cutting 50% of the funding for additional labor in this Department. As stated in SDG&E's Opening Brief, the 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.[1182] 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. 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. 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.[1183]

Cal Advocates presents no evidence that such additional staff are not needed. For these reasons, SDG&E believes Cal Advocates' recommendation should be denied and SDG&E's proposed funding be approved.

[1179] Cal Advocates OB at 106.

[1180] Ex. CA-09-E (Younes) at 2, Table 9-1.

[1181] Cal Advocates OB at 106-107.

[1182] SCG/SDG&E OB at 299.

[1183] *Id.*

18.2.4 Support to Other Cost Areas

18.2.4.1 Electric Generation

18.2.4.1.1 Palomar Hydrogen System

As set forth in Section 19 (Electric Generation), SDG&E seeks capital and O&M funding for the Palomar Hydrogen System at Palomar Energy Center, a 588-megawatt combined cycle natural gas power plant. The Palomar Hydrogen System is SDG&E's essential first pilot focused on demonstrating multiple use cases of electrolytically produced hydrogen to support decarbonizing power plant operations. The project will demonstrate the use of hydrogen generated onsite in three ways: (1) blend with natural gas at 1-2% for combustion in a turbine; (2) replace gray hydrogen currently used as a generator cooling gas at the site; and (3) fuel SDG&E hydrogen fuel cell electric vehicles that will be used by the Palomar staff which oversees numerous remote battery and microgrid sites in our territory.[1184]

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 decarbonization deadlines of SB 100 and SB 1020, while also meeting its requirement to serve safe, reliable, affordable energy. While ten to twenty years sounds like a long time, it is not, and represents two to five GRC cycles. For example, it took 19 years for large IOUs to contract approximately 19,000 MW of renewable capacity required by the CPUC.[1185] A 20-year runway to develop 9-20 GW[1186] of firm hydrogen power generation is an appropriate amount of time to undertake such a massive transition. If SDG&E does not begin planning for this infrastructure today, it will unlikely be able to reliably meet its decarbonization targets by 2045.

SDG&E is closely following state and federal policy on the matter of how hydrogen might be part of the future power generation mix. Importantly, on May 11, 2023, the U.S. Environmental Protection Agency (EPA) proposed new carbon pollution standards for coal and natural gas-fired power plants. Among other things, the draft proposal would set performance standards; promote

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1184 Ex. SDG&E-15-R-E (Valero) at 31-32; Ex. SDG&E-215 (Valero) at 78-79.

1185 Ex. SDG&E-215 (Valero) at 82.

1186 *Id.* at 81. The range of 9-20 GW comes from the CARB 2022 Scoping Plan (found need for 9.325 GW of hydrogen generation by 2045) and the SDGE Path to Net Zero Study (found need for 20 GW hydrogen generation by 2045 to meet the 1/10-year Loss of Load Expectation), *available at:* https://ww2.arb.ca.gov/our-work/programs/ab-32-climate-change-scoping-plan/2022-scoping-plan-documents.

technologies such as low-GHG hydrogen co-firing; impact power plants of 300MW with a capacity factor of over 50 percent; and Establish a "Best System of Emissions Reduction" performance standard based on, "If using low-GHG hydrogen, achieve 30% blending by volume by 2032, and 96% beginning in 2038."[1187] EPA's guidance is expected in spring 2024. Projects such as the Palomar Hydrogen System will facilitate SDG&E's ability to comply with these and other standards if and when they go into effect.

Cal Advocates - Cal Advocates recommends denying funding for the project as it narrowly evaluates the pilot's validity based solely on lower-cost alternatives that could have been used for the three use cases outlined above, which misses much of the point of the pilot.[1188] Cal Advocates fails to recognize the true value of the pilot:

> "[T]rue value of the pilot goes significantly beyond the avoided cost of gray hydrogen delivery and a modest reduction in system-wide GHG emissions. The true, and extremely significant value of this small pilot is in 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."[1189]

SDG&E argues these activities are prudently designed to provide tremendous value to ratepayers, and that small investments like this will help avoid risk in the future. To illustrate this point, the Los Angeles Department of Water and Power is converting one of its in-basin power plants to operate on 30% hydrogen by 2030 at the staggering cost of $800 million.[1190] This is a

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1187 U.S. Environmental Protection Agency, *Greenhouse Gas Standards and Guidelines for Fossil Fuel-Fired Power Plants* (August 3, 2023), *available at:* https://www.epa.gov/stationary-sources-air-pollution/greenhouse-gas-standards-and-guidelines-fossil-fuel-fired-power.

1188 Cal Advocates OB at 127-130.

1189 Ex. SDGE-215 (Valero) at 83.

1190 Roth, Sammy, *L.A. is shutting down its largest gas plant — and replacing it with an unproven hydrogen project,* Los Angeles Times (Feb. 8, 2023), *available at:*

risky commitment for many reasons, including because it is likely that LADWP has never piloted hydrogen generation nor operated a power plant that has used hydrogen before. SDG&E does not want to find itself in this position. Besides the modest obvious benefits Cal Advocates mentions of reducing emissions and avoiding the cost of delivered gray hydrogen, the relatively small pilot ($16.278 MM) allows SDG&E to learn about and interact with multiple aspects and use cases of hydrogen technology at one of SDG&E's most important generating assets in a low risk and cost-minimizing way.

In addition, Cal Advocates again mistakenly conflates D.22-12-057 with the Palomar Hydrogen System request.[1191] D.22-12-057 directs a Joint Utility Hydrogen Blending Pilot application with pilot projects that will help the Commission understand, among other things, the impact that real-world blending of hydrogen at various percentages (5-20%) can have on the integrity and safety of the common carrier natural gas system. D.22-12-057 has nothing to do with the Palomar Hydrogen System project, where blending is done "behind the meter", and its directives do not apply here.

Finally, Cal Advocates speculates on timing delays of the project.[1192] However, SDG&E is confident the project will be completed by the end of 2023. Therefore, SDG&E requests that the Commission fund this project as reasonable.

TURN - TURN recommends denying funds for the Palomar Hydrogen System arguing that SDG&E would be producing a very small amount of hydrogen relative to the overall fuel consumption at Palomar Energy Center.[1193] TURN also incorrectly argues that SDG&E has "no plan for scaling up the project" and has "not identified any possible strategy to achieve higher levels of hydrogen utilization at Palomar in the coming years."[1194] SDG&E is indeed using this pilot to understand opportunities to scale hydrogen generation at Palomar Energy Center and the company's other generating assets. SDG&E has not yet converged on a strategy for larger scale decarbonization because it is just at the beginning of learning about hydrogen in its operations,

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https://www.latimes.com/business/story/2023-02-08/l-a-is-shutting-down-a-coastal-gas-plant-and-replacing-it-with-hydrogen; *see also* Ex. SDG&E-215 (Valero) at 84.

1191 Cal Advocates OB at 129.

1192 *Id*. at 128-129.

1193 TURN OB at 177-178.

1194 *Id*. at 175-176.

which is the entire point of the pilot. TURN's argument is akin to saying no one should study, for example, how to make a COVID vaccine, unless they have a robustly developed vaccination rollout plan.

TURN claims SDG&E has failed to demonstrate that there are any unique lessons to be learned from this project that could not be otherwise obtained by monitoring developments across the industry.[1195] This argument is flawed. While anyone can read about developments across the industry, simply reading articles about what a utility is doing in another state does not make them equipped to safely design, engineer, construct, and operate a hydrogen system at a power plant. Utilities are operating companies and one of the most important ways to learn is by incorporating new concepts as small pilots that we design, build, and operate, which is what SDG&E proposes here.

TURN also expresses concern over the carbon intensity related to the electrolytic hydrogen production at Palomar, the volume of which they themselves characterize as "miniscule."[1196] Again, the main purpose of the pilot is to obtain learnings with a prudent, smaller system in the short term so better solutions may be safely and effectively deployed broadly in the long term – the purpose of the pilot is not to pass an ideological carbon emission purity test.

Even so, and despite TURN's characterization, the system design has indeed taken sustainability concerns very seriously. For example, the system deploys a 274 kW solar array that can meet 22% of the energy needs of the electrolyzer when it is operating at maximum capacity during solar hours. Additionally, while SDG&E is not seeking for the hydrogen generated at Palomar to be Renewable Portfolio Standard (RPS) eligible, SDG&E does plan to purchase voluntary compliance instruments (such as Renewable Energy Credits) to offset any non-solar power consumed by the electrolyzer. TURN characterizes this approach as "fundamentally at odds with state policy" and incorrectly attempts to apply/conflate SGIP and RPS rules to this activity.[1197] Not only is this approach aligned with state policy, it is also aligned with federal policy. Specifically, SDG&E plans to pursue a carbon offset strategy consistent with the U.S. Department of the Treasury's pending guidance under the new Internal Revenue Service § 45V (Hydrogen Production Tax Credit) that would allow the company to receive the full tax credit by

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1195 *Id*. at 178.

1196 *Id.*at 177.

1197 *Id*. at 182.

creating qualified clean hydrogen, as "defined in § 45V to include hydrogen that is produced through a process that results in a lifecycle greenhouse gas emissions rate of not greater than 4 kilograms of carbon dioxide equivalent (CO2-e) per kilogram of hydrogen."[1198] As such, the Commission should disregard TURN's argument as baseless.

Lastly, TURN incorrectly states that a portion of any income tax credit derived from the solar installation at Palomar will "enrich shareholders by rewarding them with a portion of the federal ITC and make the project more costly for ratepayers."[1199] This statement is patently false. No matter how the ITC is treated, it is always returned as a credit to ratepayers. For all these reasons, SDG&E believes TURN's recommendation should be denied and SDG&E's proposed funding be approved.

CEJA - CEJA also requests the Commission deny cost recovery associated with expenses for the Palomar Hydrogen System and cites TURN and Cal Advocates testimony for support and expresses many of the same concerns as these intervenors. Namely, CEJA expresses concern about the environmental impacts associated with the production of hydrogen and questions the perceived benefits of the project.[1200] As previously stated, SDG&E disagrees with CEJA's position and addresses these concerns above. Accordingly, SDG&E believes CEJA's recommendation should be denied and SDG&E's proposed funding be approved.

18.2.4.1.2 Distributed Energy Facilities

TURN takes issue with the Test Year O&M forecast for budget code 1EG004.000 for O&M related to Distributed Energy Facilities found in the testimony of Daniel Baerman (Ex. SDG&E-14) (Distributed Energy Facilities O&M). TURN states that SDG&E should use 2022 recorded data rather than 2021 base year data and a smaller incremental non-labor costs for each new DEF (*i.e.*, 23,000 versus SDG&E's ask of $30,000).[1201] SDG&E responds to these claims in the Section 19 above as Electric Generation sponsors the costs. TURN further lowers the forecast by assuming less DEFs are operation by cutting the number of DEFs from 20 to 15.[1202]

1198 Internal Revenue Service, Notice 2022-58: Request for Comments on Credits for Clean Hydrogen and Clean Fuel Production, at 1, available at https://www.irs.gov/pub/irs-drop/n-22-58.pdf.

1199 TURN OB at 185.

1200 CEJA OB at 58-62.

1201 TURN OB at 170.

1202 *Id.* at 170-171.

SDG&E disagrees with TURN's recommendation to decrease the number of DEFs in SDG&E's forecast from 20 down to 15. While 5 of the DEFs might not be operational all of 2024, they will nonetheless come online in 2024.[1203] As such, SDG&E needs to account for any forthcoming expenses now as they clearly fall within the TY 2024 GRC timeframe. It is essential that SDG&E properly maintains these assets to keep them reliable and safe. As TURN pointed out, 13 of the DEFs are cost allocation mechanism (CAM) resources,[1204] which means they provide essential resource adequacy (RA) to the region and the larger electric grid. Therefore, TURN's recommendation to cut the O&M request for the DEFs should be denied.

18.2.4.1.3 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).[1205] 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.[1206,1207]

Cal Advocates - Cal Advocates does not oppose SDG&E's Miramar Energy Facility capital request associated with non-labor costs, which includes the capital costs for the Hybrid at Miramar project (000080 – Hybrid at Miramar Energy Facility).[1208] SDG&E responds to Cal Advocates' concern about labor costs for the Miramar Energy Facility capital request in Section 19 (Electric Generation) below.

TURN – TURN recommends that the Commission deny the funding request on various grounds, including claims that costs of the project are uncertain and have not resulted in a

1203 Ex. TURN-803, SDG&E response to Data Request TURN-SEU-100, Question 8 at 9.

1204 TURN OB at 171.

1205 Ex. SDG&E-15-R-E (Valero) at 33.

1206 "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.

1207 Ex. SDG&E-15-R-E (Valero) at 33; Ex. SDG&E-215 (Valero) at 95-96.

1208 Cal Advocates OB at 125; Ex. SDG&E-215 (Valero) at 92.

competitive process, that the net benefit is uncertain, that GRC is "venue-shopping," and that the federal Investment Tax Credit (ITC) may make a third-party bid less expensive.[1209]

First, SDG&E disagrees that costs are uncertain or that SDG&E failed to evaluate alternative options. As stated in supplemental rebuttal testimony, the modifications proposed as part of the Hybrid at Miramar project are proprietary to the counterparty that provided SDG&E its term sheet, and notes that the counterparty also installed the Miramar Energy Facility originally, so this counterparty has significant familiarity with the facility.[1210] In addition to the proprietary nature of the proposed modifications (in particular the control systems), the counterparty SDG&E is working with is the only entity SDG&E is aware of making these types of retrofits to existing GE LM6000 turbines.[1211] For these reasons, SDG&E is justified in its reliance on a single term sheet to inform its economic assessment and cost estimate of the project.

Second, SDG&E disagrees with TURN's assertion that there are uncertainties associated with the benefits to ratepayers from the proposed Hybrid at Miramar.[1212] TURN's interpretation of SDG&E's data request response is to assume ratepayer benefits can only be received through annual "net" benefits in the initial years of the project. However, this is incorrect. SDG&E's analysis shows total net benefits for the project overall and gross benefits as early as year one and annually thereafter. These benefits include increased revenue, avoided resource adequacy (RA) costs, water usage reduction, delayed major maintenance, reduced start and variable operating costs, reduced gas costs, and reduced GHG.[1213] Gross benefits, and not necessarily "net" benefits, from the Hybrid at Miramar should not be overlooked as they provide important ratepayer value, especially to the local San Diego basin in which MEF is located.

Third, TURN's statement that "SDG&E's actions appear to be "venue shopping" to get approval for a multi-million dollar generation project"[1214] is incorrect. SDG&E is not adding capacity to Miramar, but rather allowing it to reach its nameplate capacity and run more efficiently

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1209 TURN OB at 166-170.

1210 Ex. SDG&E-215-S (Valero) at 4.

1211 *Id*.

1212 TURN OB at 168.

1213 Ex. SDG&E-215-S (Valero) at Appendix B, SDG&E's response to confidential Data Request PAO-SDGE-079-MW5, Question 5h at B-1; PAO-SDGE-106-MW5, Questions 1 and 2 at 3-5.

1214 TURN OB at 168-169.

(which reduces GHG emissions). Therefore, SDG&E is not circumventing any procurement proceedings to the hinderance of any load-serving entity (LSE) and is not cherry picking the venue as TURN asserts incorrectly.

Fourth, 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. Normalization delays the receipt of value by ratepayers and effectively shares the benefits with utility shareholders. In contrast to this treatment, third-party energy storage projects can flow through the value of the ITC upon its receipt (in the first year of plant operations) by offering lower PPA pricing."[1215] To the contrary, for the ITC to be applicable to new energy storage, the Inflation Reduction Act provided an election for utilities to opt out of the normalization requirements that generally apply to ITCs.[1216] 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.[1217] 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.

Finally, SDG&E strongly disagrees with TURN's alternative recommendation that "SDG&E should be directed to file a separate application in which the project can be subject to more robust review."[1218] The evidentiary record (including extensive testimony, data requests, evidentiary hearings, and briefing) in the instant application is more than sufficient for the Commission to evaluate the merits of SDG&E's proposed Hybrid at Miramar. There is simply no reason for the Commission to waste all of the time and resources that have been dedicated by parties and staff in the instant proceeding in order to re-evaluate the proposal through a separate application. TURN's alternative recommendation should be denied as unnecessary.

1215 *Id.* at 169-170

1216 Section 13102(f)(5) of the Inflation Reduction Act revised Internal Revenue Code § 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. Inflation Reduction Act, P.L. 117-169 (Aug. 6, 2022) at 101, *available at*: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf.

1217 *See* SDG&E Advice Letter ("AL") 4187-E (April 13, 2023) (notifying Commission of federal investment tax credit claim).

1218 TURN OB at 170.

18.2.4.1.4 JCCA Vintaging Issues

Refer to Section 19.1.2.2 (Electric Generation) for discussion PCIA vintaging issues related to the Hybrid at Miramar.

18.2.4.1.5 Miguel VRF BESS

The Joint CCAs agree with SDG&E's request in its rebuttal testimony[1219] and Opening Brief,[1220] to seek authorization from the Commission on 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. For this reason, the Commission should authorize SDG&E's request.

18.2.4.2 Information Technology Projects

18.2.4.2.1 LADC

UCAN recommends that Local Area Distribution Controller (LADC) budget code 00920L be denied as "SDG&E's group of USOM "integration" tools appear to be of limited capability, for exclusive use, outmoded, and obsolete already." UCAN further asserts that SDG&E's LADC is aimed to leverage SDG&E's BESS and microgrids, but not leverage CSOM DERs or third party microgrids.[1221]

SDG&E disagrees that the LADC has limited capacity, exclusive use, outmoded and/or absolute.[1222] As a threshold matter, the LADC is a software and hardware solution that enables the distribution grid operator to monitor, manage, and control the component resources of a microgrid. The LADC is necessary to augment and interoperate with SDG&E's existing advanced distribution management system (ADMS) and supervisory control and data acquisition system. The LADC is deployed locally at a microgrid location with communication networks enabled to support remote control, visibility, and supervisory operation to all microgrids from SDG&E's distribution control center, allowing for automation features that are otherwise conducted manually in the field. The

1219 Ex. SDG&E-215 (Valero) at 97.

1220 SCG/SDG&E OB at 325.

1221 UCAN OB at 145.

1222 *Id.*

LADC increases efficiencies and response times through automation, and greatly reduces the on-site hours required by SDG&E personnel.

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.

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 that the LADC does not leverage third-party CSOM DERs or third-party microgrids.[1223] If third-party CSOM DERs, like those found at SDG&E's Borrego Springs Microgrid (*see* Section 18.2.2.1 above), are located within a microgrid boundary the LADC will see that aggregated generation and know to utilize the energy by charging the utility-owned BESS within the microgrid and later discharging the energy when the microgrid needs it most (i.e., when the sun has set and CSOM DERs are offline). Additionally, SDG&E notes that while SDG&E does not currently have any third-party community-scale microgrids to utilize the LADC, it does anticipate that could change with the recent authorization of the Microgrid Incentive Program (MIP), D.23-04-034.[1224] As such, the LADC will have future applications, as

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[1223] *Id.*

[1224] On April 14, 2023, the CPUC issued Final Decision D.23-04-034 to target placement of community microgrids in disadvantaged vulnerable communities (DVCs) to support populations impacted by grid outages.

SDG&E intends to utilize the LADC for third-party community-scale microgrids pursuant to the MIP in order to safely and reliably operate the microgrid as the distribution system operator.

For all these reasons, UCAN's denial of LADC should be ignored and SDG&E's request should be authorized.

18.2.4.3 Fleet Vehicle Request

SDG&E's DER Engineer and ACT department staff manage multiple projects throughout SDG&E's service territory.[1225] 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 general assertion that the additional fleet vehicles for Sempra Utilities are not needed.[1226] 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 Emergency.[1227,1228] 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)

In their Opening Briefs, Cal Advocates, TURN, CEJA, EDF, PCF, the JCCAs and UCAN address various issues regarding SDG&E's TY 2024 forecasts for O&M and capital costs for the forecast years 2022, 2023, and 2024 associated with the Electric Generation area for SDG&E. Several parties' Opening Briefs largely track the positions they set forth in their testimony – which

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[1225] Ex. SDG&E-15-R-E (Valero) at 35.

[1226] TURN OB at 286, 288.

[1227] *See* Executive Department State of California, Proclamation of a State of Emergency, (July 30, 2021) at 2, *available at:* https://www.gov.ca.gov/2021/07/.

[1228] *See* CPUC Resolution E-5193 (February 15, 2022), CPUC Resolution E-5219 (June 29, 2022).

SDG&E addressed in its rebuttal testimony and in its Opening Brief. For completeness, SDG&E will include its position on those issues in this Reply Brief and address any additional arguments or evidence that have been submitted.

In addition, SDG&E notes the JCCA and UCAN only address issues regarding PCIA vintaging for capital expenditures, and do not object to SDG&E's Electric Generation O&M and Capital requests themselves. SDG&E addresses PCIA vintaging issues in Section 19.1.2 below.

19.1 SDG&E's Response to Parties' General Recommendations

19.1.1 TURN's Argument that New UOG Projects Should Obtain "Pre-Approval" in Other Proceedings Before Inclusion in the GRC Lacks Merit

TURN argues that utility-owned generation projects should not be submitted in a GRC unless the Commission first authorizes the project in a separate application or proceeding.[1229] SDG&E strongly disagrees that the Commission should require utilities to first seek "pre-approval" of any enhancements, modifications, etc. related to existing UOG facilities in a separate proceeding before they can be subject to review in the GRC. Such a multi-faceted approach is inefficient and unnecessary and could lead to improper collateral attacks where specific project components, funding, revenue requirements, and costs recovery mechanisms are re-litigated in multiple proceedings.

It is important to remember that SDG&E's GRC proposals are presented in accordance with the established Rate Case Plan and Cal. Public Utility Code § 451. The Commission sets "just and reasonable"[1230] 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."[1231] 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.[1232] "[A] utility is generally entitled to its reasonable costs and expenses,"

[1229] TURN OB at 185-186.

[1230] Cal. Pub. Util. Code Section 451.

[1231] 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).

[1232] *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.

as well as "the opportunity, but no guarantee, to earn a rate of return on the utility's rate base."[1233] 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."[1234] The GRC process is 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."[1235]

The fact that a proposed cost or expenditure relates to a UOG facility should not change the Commission's review process. Indeed, SDG&E takes issues with the notion that the GRC is not the proper venue to examine the reasonableness of new UOG projects. To the contrary, the GRC is a robust proceeding that garners the participation of all potentially interested stakeholders. In this year's proceeding, SDG&E and SoCalGas 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. Parties have the opportunity to inquire into any aspect of projects being proposed in the GRC and can submit their own views regarding the project's reasonableness for the Commission's consideration. As such, SDG&E disagrees that the Commission's and/or parties' review and analysis of projects presented in the GRC are somehow lacking or inadequate. That is simply not the case.

Finally, TURN's argument that the GRC does not allow the Commission to conduct a "robust cost-benefit analysis"[1236] is a red herring as a cost-benefit analysis is not a requirement in GRCs for the Commission to determine the reasonableness of a certain project.

19.1.2 JCCA PCIA Vintaging Proposal

In their Opening Brief, the JCCAs focus almost exclusively on their proposed "SDG&E-only" framework for re-vintaging utility-owned generation (UOG) resources for purposes of cost recovery through the Power Cost Indifference Adjustment (PCIA), as well as their proposal to re-

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1233 D.12-11-051 at 10.

1234 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.").

1235 Ex. SCG-245-R (Mijares), Appendix H at H-7.

1236 TURN OB at 186.

vintage costs related to the Miramar Energy Facility (MEF), including the cost of the "Hybrid at Miramar" project.[1237] Importantly, the JCCAs do *not* argue that the proposed upgrades to the Miramar facility are contrary to the public interest or that SDG&E has failed to meet its burden of demonstrating by a preponderance of the evidence that the projected costs related to the Hybrid at Miramar project are reasonable. Rather, the JCCAs' arguments relate solely to allocation of the costs of the proposed Hybrid at Miramar project and the purported need for a new UOG vintaging framework. The JCCAs also propose – for the first time – that the entire revenue requirement associated with MEF and not just the cost of the Hybrid at Miramar project be re-vintaged as a 2024 asset.[1238] For the reasons set forth below and in SDG&E's Opening Brief, the JCCAs' vintaging proposals should be rejected.[1239]

19.1.2.1 The JCCAs Misstate the Applicable Standard for Vintaging of UOG Resources and Related Ongoing UOG Resource Costs

As detailed in SDG&E's Opening Brief,[1240] the applicable standard for vintaging of UOG resources and related ongoing costs is established through two related Commission decisions that, together, ensure adherence to statutory cost indifference principles.[1241] In D.08-09-012, the Commission adopted "vintaging" rules specifying what resource costs departing customers would remain responsible to pay after their departure from bundled service; in D.18-10-019, the Commission developed rules for allocating the cost of resources in each "vintage" through the PCIA.

With regard to UOG, the vintaging framework adopted by the Commission in D.08-09-012 puts resources into one of two categories: 1) existing resources – *i.e.,* UOG resources where construction has begun *before* the specified departure date; and 2) post-departure resources – *i.e.*, UOG resources where construction begins *after* the specified departure date.[1242] Customers in

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1237 JCCA OB at 1-35.

1238 JCCA OB at 4.

1239 UCAN expresses support for the JCCAs' position; however, its discussion of the JCCA proposal suggests a basic misunderstanding of what the proposal actually entails. *See* UCAN OB at 194-197. Accordingly, UCAN's stated support should be ignored.

1240 SCG/SDG&E OB at 336-341.

1241 *See* Cal. Pub. Util. Code §§ 365.2, 366.2 and 366.3.

1242 D.08-09-012 at 61, 66.

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. In other words, the vintaging process is binary – a UOG resource is either existing or new and is vintaged solely on that basis. Notably, D.08-09-012 does *not* require the IOU to demonstrate that departed load customers will continue to receive benefits from the UOG resource in question in order to place the UOG resource in a particular vintage. Rather, the vintaging process recognizes that the resource was originally procured for the benefit of now-departed customers and allocates cost responsibility on that basis.

D.08-09-012 does not establish a separate vintaging approach for *future* costs associated with prudent maintenance and/or upgrades to the UOG resources in a particular vintage. However, since the Commission is well aware that the IOUs must continue to make reasonable capital investments in UOG resources over time to maintain them in a manner that optimizes functionality and complies with the policy goals of the state – and must do so regardless of load departure – it is logical to assume that the decision intends for such future investments to be placed in the same vintage as the underlying UOG resource. In other words, having approved the investment in the UOG resource for the benefit of departed load customers prior to their departure and finding that departed load customers must continue to bear responsibility for such costs, it would be counterintuitive (and not in the public interest) for the Commission to find that departed load customers may avoid ongoing reasonable costs related to the approved UOG resource. Allowing departed load customers to side-step such costs would result in unlawful cost shift, and would also create a perverse incentive to avoid prudent investments in UOG resources and introduce tremendous complexity into the vintaging and cost recovery process, as noted in SDG&E's Opening Brief.[1243] The fact that future costs or projects may not be defined at the time a UOG project is approved is irrelevant.[1244] It is seldom the case that all future costs related to a resource are known at the time a resource is constructed and approved; pre-identification is not a condition of approval of future resource costs.

The conclusion that D.08-09-012 establishes a presumption that reasonable ongoing UOG capital investment costs would be included in the same vintage as the underlying resource is

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1243 SCG/SDG&E OB at 339.

1244 *See* JCCA OB at 21 (noting that the Hybrid at Miramar project was not contemplated at the time of original Commission approval).

confirmed by D.18-10-019, which acknowledges that while investment in a UOG resource could theoretically trigger a need to re-vintage a UOG resource for PCIA purposes, re-vintaging is not automatic and would be justified 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."[1245] Considered within the context of D.08-09-012 and its binary approach to resource vintaging, the discussion in D.18-10-019 is properly understood as establishing that re-vintaging of a UOG resource is appropriate only in the rare circumstance 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. Otherwise, the capital investment should be vintaged according to the original assigned vintage of the underlying UOG resource.

While D.18-10-019 observes (correctly) that departed load customers can continue to benefit from resources even after their departure from bundled service,[1246] the decision does *not* indicate that the existence (or lack) of benefits to departed load customers is the driver for a decision regarding re-vintaging. Rather, the standard established under D.18-10-019 is based solely upon the *degree of change* to the UOG resource (is the change "*such* a significant overhaul" that re-vintaging is justified?).[1247] Thus, harmonizing the requirements of D.08-09-012 and D.18-10-019, a UOG resource or related capital investment must be re-vintaged only if the change to the resource is *such* a significant change that it effectively creates a new resource that requires a new vintage.

In their Opening Brief, the JCCAs offer a standard for re-vintaging that is not supported by law. The JCCAs suggest that in each instance of capital investment in a UOG resource, SDG&E must provide a contemporaneous demonstration of benefits to departed load customers. They argue further that if a change to a UOG resource is "significant" in nature, the Commission must re-vintage the resource.[1248] Neither D.08-09-012 nor D.18-10-019 provide support for these claims.

[1245] D.18-10-019 at 135 (emphasis added).

[1246] *See* D.18-10-019 at 59 (discussing cost recovery for PG&E's Humbolt plant).

[1247] D.18-10-019 at 135.

[1248] *See, e.g.*, JCCA OB at 4, 11, 30-31.

The JCCAs point to "the Commission directive [in D.08-09-012] that 'departing customers . . . bear no cost responsibility for . . . commitments the IOU makes after their departure,'"[1249] as establishing the principle that once a customer departs bundled service, it should no longer be responsible for investments made in the UOG resources included in that customer's vintage. Indeed, the JCCAs return time and again in their Opening Brief to the notion that while departed load customers may be allocated costs of UOG at the time they depart, they cannot fairly be held responsible for UOG-related costs thereafter. This conclusion is plainly incorrect. Had the Commission intended to terminate departed load customers' responsibility for ongoing UOG investments it could have easily done so in D.18-09-012 when the CCA parties raised that issue; instead, it concluded that departed load customers are responsible for ongoing UOG costs except in circumstances where the new investment represents "*such* a significant overhaul of the facility" that re-vintaging is justified.[1250] Thus, the basic premise of the JCCAs' argument – *i.e.*, the idea that allocating ongoing UOG costs to departed load customers violates cost indifference requirements because it "forces unbundled customers to subsidize bundled customers generation" – is entirely without merit.[1251] Indeed, the Commission has made clear that the opposite is true: customers who elect to depart bundled service must remain responsible for the costs of UOG constructed for their benefit prior to their departure <u>*and*</u> for related future capital investments in such resources in order to prevent an unlawful cost shift to bundled service customers.[1252]

Equally unpersuasive is the JCCAs' claim that in order to maintain the PCIA vintage of the underlying UOG resource, it is necessary to affirmatively demonstrate that the proposed capital investment will confer specific benefits on departed load customers. This misconstrues the guidance provided in Section 365.2[1253] and D.08-09-012. Under the vintaging rules adopted in D.08-09-012, the initial determination regarding the appropriate PCIA vintage for a given UOG resource is based upon whether the UOG resource was constructed for the benefit of departing

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1249 JCCA OB at 2-3 (citation omitted).

1250 D.18-10-019 at 135.

1251 *See* JCCA OB at 2-3, 13.

1252 *See* SCG/SDG&E OB at 336-341.

1253 Cal. Pub. Util. Code § 365.2 directs the Commission to ensure that "bundled retail customers of an electrical corporation do not experience any cost increases as a result of retail customers of an electrical corporation electing to receive service from other providers. The commission shall also ensure that departing load does not experience any cost increases as a result of an allocation of costs that were not incurred on behalf of the departing load."

customers prior to their departure from bundled service.[1254] As noted above, neither D.08-09-012 nor D.18-10-019 suggest that vintaging of related *future* UOG capital investments requires or is determined based upon a contemporaneous benefits analysis. Rather, these cases together establish that once a UOG resource is placed into a PCIA vintage, all future costs related to that resource are placed into the same vintage except in the narrow circumstance where the IOU undertakes *such* a significant overhaul of the facility that a new resource is created that justifies a new vintage.[1255] Thus, the focus of the vintaging determination is on the nature of the change to the UOG resource and whether it is so significant that it effectively creates a new resource that requires a new vintage and *not* on whether the new capital investment confers specific benefits on departed load customers.

The JCCAs also misinterpret the discussion in D.18-10-019 and suggest that almost *any* change to a UOG resource would trigger a need to re-vintage.[1256] The JCCAs assume that ongoing UOG projects are classified as either "routine" or "significant"[1257] and that "significant" or "non-routine" projects are subject to the re-vintaging requirement.[1258] This claim is incorrect. D.18-10-019 makes clear that re-vintaging is appropriate only where a new investment in a UOG resource represents "***such*** a significant overhaul of the facility" that re-vintaging is justified.[1259] In other words, as discussed above, the relevant question under the standard established by D.08-09-012 and D.18-10-019 is not whether there was a significant (*i.e.*, non-routine) change to the UOG resource, it is instead the *degree of change* to the UOG resource and whether the change represents "*such* a significant overhaul" of the UOG resource that a new resource is created and re-vintaging is justified.

Although the Commission directly addresses the question of vintaging of ongoing UOG costs in D.18-10-019, the JCCAs analogize to the Commission's vintaging of PCIA-eligible contracts in Resolution E-4841 to support the notion that any non-routine change to a UOG

1254 D.08-09-012 at 61, 66.

1255 *See* SCG/SDG&E OB at 336-341.

1256 *See* JCCA OB at 20-22.

1257 JCCA OB at 21-22 (noting JCCA counsel's framing of the project during the evidentiary hearing as either "significant" or "routine.").

1258 JCCA OB at 21-22.

1259 D.18-10-019 at 135 (emphasis added).

resource triggers a need to re-vintage. The JCCAs incorrectly assert that in Resolution E-4841, the Commission "endorsed a legal test of 'materiality'" [1260] to guide re-vintaging decisions, and that Commission precedent "illustrates that the Commission has recognized the need to modify asset vintaging treatment when a utility . . . decides to make a material change to the asset."[1261] These assertions mischaracterize the Commission's findings in Resolution E-4841.

In Resolution E-4841, the Commission considered a request by PG&E to modify two previously approved power purchase agreements (PPAs) to address non-performance by the contract counterparties. PG&E sought to amend the PPAs by 1) modifying the Guaranteed Energy Production (GEP) terms; and 2) granting PG&E curtailment rights over the facilities.[1262] PG&E did not seek to modify the pricing provisions of either PPA. Although the proposed amendments did not relate to pricing of either contract, two CCA parties challenged PG&E's proposed PPA amendments on pricing grounds.[1263] The CCA protesters argued that given the high cost of both contracts, PG&E should have seized the opportunity to declare the contracts to be in default due to non-performance as a pretext for termination of the contracts. The CCA protesters argued that PG&E was wrong to not do so and demanded that the cost of the two PPAs be removed from their PCIA vintage.[1264] The Commission flatly rejected this argument. It noted that the pricing terms for both PPAs had already been approved and were not at issue, and therefore that the CCA protesters' argument that (i) PG&E should have terminated the PPAs to avoid the high contract price; and (ii) since PG&E failed to do so, PPA costs should be re-vintaged and not allocated to departed load customers, was not reasonable. It found, in other words, that since the proposed amendments had nothing to do with the pricing terms of either contract, PG&E's request was not

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1260 JCCA OB at 18.

1261 JCCA OB at 19.

1262 Resolution E-4841 at 5, 8. PG&E filed Advice Letter 5012-E requesting Commission approval of two contract amendments related to the Ivanpah Unit #1 and Ivanpah Unit #3 resources. PG&E later filed Supplemental Advice Letter 5012-E-A requesting Commission approval of a minor revision to the two proposed contract amendments. Resolution E-4841 at 2.

1263 Cal Advocates (then, the Office of Ratepayer Advocates) and the City and County of San Francisco (CCSF) also protested PG&E's request for approval of the contract amendments. Resolution E-4841 at 3-4.

1264 Resolution E-4841 at 9-10.

an opportunity to re-litigate the contract pricing terms or the approved cost recovery and vintaging.[1265]

The JCCAs misstate the Commission's findings in Resolution E-4841. The JCCAs claim that the Commission rejected the attempt to re-vintage the PG&E PPAs, *not* because it found that re-litigating the contract pricing terms and vintaging was unjustified since PG&E was not seeking any change to the pricing terms, but rather because the proposed amendments to GEP terms and grant of curtailment rights to PG&E "did not affect material contract terms." [1266] Specifically, the JCCAs allege that "[a]fter a review of the contract and the amended terms, the Commission concluded that the amendments did not affect material contract terms, such as price, so re-vintaging of the contracts was not appropriate."[1267] On this point, the JCCAs are completely mistaken. The Commission nowhere in the Resolution states that the proposed amendments to the GEP terms and grant of curtailment rights to PG&E involve non-material contract terms. Indeed, it is not clear why PG&E would have filed an advice letter to request the contract amendments if they were deemed to be non-material. Nor does the Commission establish the principle or even imply that re-vintaging is not required when "non-material" contract terms are amended. And it certainly does not suggest that re-vintaging *is* required when "material" contract terms are amended. The Commission has not in Resolution E-4841 "endorsed a legal test of 'materiality'" to determine when a modification must result in the re-assignment of a contract to a new vintage year," as the JCCAs erroneously claim.[1268] In short, the JCCAs' claims regarding the findings contained in Resolution E-4841 are without any factual basis and blatantly mischaracterize the Commission's findings in Resolution E-4841, and should be rejected in their entirety.[1269] Finally, SDG&E notes that CCA parties in PG&E's GRC made a nearly identical set of claims regarding Resolution E-4841, which SDG&E rebutted as it does here.[1270] The fact that the same factually

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[1265] Resolution E-4841 at 10 (noting that the amendments considered in the Resolution "do not amend the previously approved contract prices of the Solar Partners PPAs, and therefore do not justify any change to the Commission's earlier determination regarding cost responsibility.").

[1266] JCCA OB at 19.

[1267] JCCA OB at 19.

[1268] JCCA OB at 19.

[1269] In addition, Resolution E-4841 pertains only to PG&E and does not have statewide reach like D.08-09-012 and D.18-10-019.

[1270] *Southern California Edison Company and San Diego Gas & Electric Company Reply Brief on Limited Issues*, filed in A.21-06-021 on December 9, 2022 at 15-20.

erroneous statements and mischaracterizations have nevertheless been presented again in the instant case is problematic.

19.1.2.2 The JCCAs' Recommendation to Re-Vintage the Entire MEF Revenue Requirement or, Alternatively, to Separately Vintage the Cost of the Hybrid at Miramar Project is Contrary to Law

In their Opening Brief, the JCCAs propose – for the first time – that the Commission re-vintage the *entire* MEF revenue requirement rather than limiting their proposal to vintaging of the capital investment associated with the Hybrid at Miramar project.[1271] They further request in the alternative that if the Commission does not re-vintage the entire MEF revenue requirement, it separately vintage the revenue requirement associated with the Hybrid at Miramar project. Both proposals should be rejected.[1272]

To support their proposal for re-vintaging the entire MEF revenue requirement, the JCCAs assert that the Hybrid at Miramar project will result in a "significant transformation" of the MEF facility and point to the following factors to support their claim:[1273]

- The project will allow MEF to operate at its full nameplate capacity;
- The project will enable a quicker response time;
- The project will reduce reliance on the gas turbines during periods of reliance on the integrated batteries;
- When given the choice between characterizing the Hybrid at Miramar project as "routine" or "significant," SDG&E witness, Mr. Baerman, indicated that the proposed upgrade is not a "routine" project; and
- SDG&E witness, Mr. Valero, explained that the project would make MEF run more efficiently and reduce GHG emissions through hybridization of the MEF resource.

While the JCCAs correctly describe the benefits offered by the Hybrid at Miramar project (these and other benefits are described more fully in SDG&E's Opening Brief),[1274] they fail to show that the degree of change to the MEF resource resulting from the Hybrid at Miramar project comes close to meeting the standard for re-vintaging set by D.08-09-012 and D.18-10-019. The

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1271 JCCA OB at 20.

1272 JCCA OB at 23-29.

1273 JCCA OB at 21-23.

1274 SCG/SDG&E OB at 346.

project, while not routine, does not constitute "*such* a significant overhaul" of the MEF resource that a new resource is effectively created and re-vintaging is justified.[1275] Rather, the proposed integration of the 20 MW battery energy storage system (BESS) and installation of new operational controls logic will improve operation of MEF by, among other things, increasing efficiency and reducing harmful emissions, but is not *such* a significant change to the resource that it will materially alter its nature. As explained, the integration of the BESS will **not** require a new California Independent System Operator (CAISO) resource identification, meter or interconnection, nor will the CAISO generator resource data template (GRDT) for the Miramar plant change from "generator" status with the integration of the BESS.[1276]

The JCCAs further assert that the Hybrid at Miramar project will benefit only bundled service customers.[1277] This argument is inapposite since the question of the need to re-vintage turns on the degree of change to the UOG resource in question and does not depend upon or require a contemporaneous benefits assessment. This claim is also manifestly incorrect, as discussed in SDG&E's Opening Brief.[1278] Enabling MEF to achieve its nameplate capacity provides a clear benefit to all customers in the region given the current scarcity of resource capacity and the resulting threat to electric system reliability, particularly during the summer months.[1279] Indeed, the Commission has urged the IOUs and other load-serving entities (LSEs) to increase the availability of resource capacity within the state by "hybridizing" existing gas-fired resources.[1280]

Increased availability of resource capacity from the MEF resource will increase the *total* amount of capacity available to the market. This will better enable the JCCAs to meet the

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1275 *See* D.18-10-019 at 135.

1276 *See, e.g.*, SCG/SDG&E OB at 324, Ex. SDG&E-215 (Valero) at 92:19-22, 95:9-22, Tr. V8:1420:9-1421:1 (Valero).

1277 JCCA OB at 21.

1278 SCG/SDG&E OB at 346.

1279 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).

1280 *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).

Commission's resource adequacy (RA) program requirements and avoid compliance penalties such as the $1 million in penalties recently paid by SDCP for failing to meet its RA procurement requirements.[1281] SDCP sought to excuse its procurement deficiencies by arguing that "the 'principal cause' of SDCP's RA deficiencies was '**a well-documented lack of available supply in the capacity market . . . .**'"[1282] Given this, the notion that an increase in the total available supply of capacity within the region will *not* benefit SDCP and its customers makes little sense. Whether the additional 9 MW of RA capacity achieved by the Hybrid at Miramar project are claimed by bundled service customers or departed load customers for RA compliance in a given month, the *overall* increase in available capacity, which translates into increased regional reliability, benefits all customers. In addition, the proposed project will reduce criteria pollutants and GHG emissions and water usage, which will also benefit the entire region.[1283] Thus, the suggestion by the JCCAs that the Hybrid at Miramar project benefits only bundled service customers is without merit.

The JCCAs' argument in the alternative – that if the Commission does not re-vintage the entire MEF revenue requirement, it should assign the costs associated with the Hybrid at Miramar project to a new vintage – also misses the mark. The JCCAs' argument in support of this recommendation is based solely on the assertion that the Hybrid at Miramar project will benefit only bundled service customers.[1284] As discussed herein and in SDG&E's Opening Brief, this claim is incorrect and, in any event, misstates the applicable standard for re-vintaging, which is whether the relevant change to the UOG resource essentially creates a new resource that requires a new vintage.[1285] Neither D.08-09-012 nor D.18-10-019 indicate that a contemporaneous demonstration of benefits is required to place ongoing UOG resource costs in the same PCIA vintage as the underlying UOG resource. Thus, the JCCAs fail to articulate a rational basis for segregating the Hybrid at Miramar project costs and assigning them to a new vintage.

1281 Rob Nikolewski, *State Fines San Diego Community Choice Energy Program $1 Million*, SAN DIEGO UNION-TRIBUNE, August 10, 2023, available at: https://www.sandiegouniontribune.com/business/story/2023-08-10/california-public-utilities-commission-fines-san-diego-community-choice-energy-program-1-033-million

1282 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.").

1283 Ex. SDG&E-215 (Valero) at 96:2-9.

1284 JCCA OB at 23-24.

1285 *See* SCG/SDG&E OB at 336-341.

19.1.2.3 The JCCAs' Mischaracterize the Implications of Load Departure in SDG&E's Service Territory

The JCCAs assert that including new capital investments in the same PCIA vintage as the underlying UOG resources is "problematic in light of the fact that almost all of SDG&E's customers will become unbundled customers during the time this GRC is implemented."[1286] The JCCAs point out that once load departs, SDG&E is not responsible for meeting departed load customers' RA and energy needs, and suggest that "SDG&E's continued investment in and expansion of generating plants would be duplicative of the JCCAs' services . . ."[1287] This claim makes little sense. Improving the efficiency of a generating resource and ensuring its ability to achieve its nameplate capacity and offer additional capacity to the region is an entirely separate undertaking from providing retail commodity service to CCA customers; SDG&E's proposed upgrade to the MEF resource in no way duplicates the JCCAs' provision of retail commodity service to their customers. This nonsensical argument by the JCCAs is a red herring. In essence, the JCCAs' argument is that since SDG&E serves a minority of load in the region, it should not bother to make improvements to the MEF resource. This notion is contrary to the public interest and, indeed, is entirely inconsistent with the Commission's express direction to all LSEs to seek to optimize existing capacity resources to increase available RA capacity and thereby protect electric service reliability.[1288]

More to the point, the fact that SDG&E serves a minority of load in the region is not relevant to the vintaging question, as discussed in SDG&E's Opening Brief. Neither D.08-09-012 nor D.18-10-019 suggest that PCIA cost recovery or 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, the level of load served by the IOU does not impact allocation of cost through the PCIA. As discussed in SDG&E's Opening Brief, 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. Thus, for example, if SDG&E served only one percent of load in its service territory, the PCIA

[1286] JCCA OB at 11 (citation omitted).

[1287] JCCA OB at 11.

[1288] *See, e.g.*, D.23-02-040 at 6-10.

methodology would continue to proportionally allocate above-market costs (or credits) to bundled and departed customers for as long as SDG&E has PCIA-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.

19.1.2.4 The JCCAs' Proposal for a New Vintaging Framework is Improper and Should be Rejected

SDG&E addressed the JCCAs' proposed vintaging framework at length in its Opening Brief and does not repeat its arguments in full here.[1289] However, the discussion set forth in the JCCAs' Opening Brief only reaffirms the conclusion that the JCCAs' vintaging proposals are legally deficient and must not be adopted.

As detailed in the JCCAs' Opening Brief, the JCCAs' vintaging proposal would require SDG&E to provide information concerning (1) the details of any SDG&E proposal for new asset life extensions, incremental capacity additions, or changed functions for any of its UOG assets and why it is undertaking these changes; (2) on whose behalf it is making these new investments, and (3) the appropriate vintaging treatment for each asset in light of the evidence. The JCCAs characterize their proposal as intended simply to ensure "that there is a proper evidentiary basis for the Commission to ultimately judge the question of vintaging,"[1290] but the vintaging proposal contains a number of new assumptions regarding how long assets may remain in a PCIA vintage (no longer than the original end-of-life date)[1291] and *how* the Commission would judge the question of vintaging (changes in the purpose/use of a plant and/or capacity expansions would trigger re-vintaging unless SDG&E could demonstrate that the changes benefit departed load customers).[1292] Thus, the proposed vintaging framework would establish informational requirements, as the JCCAs point out, but it would *also* operate to (i) establish a new automatic cost recovery cut-off date for UOG resources that have met their original end-of life date (this is

[1289] SCG/SDG&E OB at Section 346-353.

[1290] JCCA OB at 31.

[1291] 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 at 33:9 – 37:20.

[1292] Ex. JCCA-01 (Georgis) at 37:21-38:16.

not a limitation that exists today); and (ii) require SDG&E (and only SDG&E since the JCCAs' proposal would only apply to SDG&E) to meet a new evidentiary standard and affirmatively demonstrate through a contemporaneous showing that the proposed capital investment would confer specific benefits on departed load customers.

As detailed in SDG&E's Opening Brief, the former proposal violates D.18-10-019 's explicit prohibition on automatic termination of PCIA cost responsibility,[1293] while the latter proposal creates 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 prove that departed load customers will benefit from ongoing capital investments in approved UOG resources. Nor do these decisions impose upon the IOU the burden of affirmatively justifying inclusion of proposed UOG resource capital investments in the same vintage as the underlying UOG resource. It is not necessary for the IOU to affirmatively "propose" a vintage since in most instances – *i.e.*, except where the proposed change represents *such* a significant overhaul of the facility that it effectively creates a new resource that must be placed into a new vintage – the capital investment in the UOG will be placed in the same vintage as the underlying resource. In those rare instances where a proposed change raises a question as to the potential need to re-vintage, the Commission relies on "intervening parties to identify proposals or funding requests which should be subject to scrutiny by the Commission,"[1294] as the JCCAs acknowledge.[1295] Thus, there is little risk that this issue will be overlooked. Accordingly, for the reasons set forth herein and in SDG&E's Opening Brief, the Commission should reject the JCCAs' proposed vintaging framework.

19.1.3 EDF's General Hydrogen Related Issues

In its Opening Brief, EDF raises various overarching legal challenges to both SDG&E and SoCalGas's hydrogen related projects (*i.e.*, jurisdictional authority, affiliate transactions rules, etc.). SDG&E and SoCalGas address these legal challenges (as well as other similar legal challenges raised by other parties) in Section 3.1 (Evidentiary Standards and Burden of Proof) above.

[1293] D.18-10-019 at 54-59, 80-82.

[1294] D.93-12-043, 1993 Cal. PUC LEXIS 728, *12.

[1295] JCCA OB at 6.

In addition, EDF presents its own version of a "Hydrogen Roadmap" in which it attempts to inflate the hydrogen-related funding requests sought in the TY 2024 GRC.[1296] SDG&E addresses EDF's hydrogen-related costs estimates in Section 18.2.1.3 (Clean Energy Innovations).

19.2 SDG&E's Response to Parties' Non-Shared O&M Proposals

19.2.1 TURN's O&M Expense Baseline Proposal

In its Opening Brief, TURN recommends a baseline O&M forecast of $34.56 million, which represents a reduction of $2.02 million (or 5.5%) from SDG&E's proposed historical baseline. This reduction reflects the use of a baseline that averages recorded costs over a *six-year* time period (*i.e.,* 2017-2022) and purports to removes "anomalous" projects occurring between 2017 and 2021.[1297]

As expressed in SDG&E's Opening Brief, SDG&E disagrees with TURN's recommended reduction.[1298] 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, SDG&E 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 Cal Advocates' O&M Proposals

19.2.2.1 Desert Star

Cal Advocates recommends a reduction of $500,000 to SDG&E's O&M expenses related to Desert Star on the grounds that SDG&E is not requesting funds to develop or implement new industrial control systems (ICS).[1299] SDG&E disagrees with Cal Advocates' recommendation.

1296 EDF OB at 33-34, Table 4.

1297 TURN OB at 160.

1298 SCG/SDG&E OB at 336.

1299 Cal Advocates OB at 117.

Although SDG&E is not requesting funds to develop and implement a new ICS at Desert Star, SDG&E still needs the funding for essential steps to maintain and increase resilience against relevant future cyber-attacks.[1300] 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), 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 Desert Star.

19.2.2.2 DEF Electric Generation

Cal Advocates recommends a reduction of $390,000 in O&M for DEF Electric Generation expenses on the grounds that SDG&E lacks support for its full request.[1301] 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.

SDG&E disagrees with Cal Advocates proposed reduction.[1302] As stated in response to Cal Advocates' inquiry, SDG&E reiterated that the overtime estimate is in line with historical data. 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. 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.

[1300] Ex. SDG&E-214 (Baerman) at 15.

[1301] Cal Advocates OB at 118-120.

[1302] Ex. SDG&E-214 (Baerman) at 11-12.

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. 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. 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.

19.2.2.3 Plant Administration

Cal Advocates recommends a reduction of $41,000 for Plant Administration O&M labor for TY 20224 on the grounds that SDG&E should employ a three-year average (*i.e.*, 2019-2021) rather than a five-year average given the negligible fluctuation in the most recent years.[1303] SDG&E appreciates Cal Advocates' observation and agrees that under these specific circumstances, employing a three-year average for this single category of O&M expense is reasonable.

19.2.2.4 Miramar

Cal Advocates does not oppose SDG&E's request of $1.965 million for labor and non-labor O&M costs at Miramar for TY 2024.[1304]

19.2.2.5 Cuyamaca O&M

Cal Advocates does not oppose SDG&E's request of $0.906 million for labor and non-labor O&M costs at Cuyamaca for TY 2024.[1305]

19.2.2.6 Palomar O&M

Cal Advocates recommends a downward adjustment (to $19.796 million) in Palomar O&M on the grounds that there is no need or support for overtime associated with new positions.[1306] Thus, although Cal Advocates do not oppose the six full-time equivalent (FTE) positions that were

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1303 Cal Advocates OB at 120-121.

1304 Cal Advocates OB at 121.

1305 *Id*.

1306 Cal Advocates OB at 121-122.

requested, they oppose the overtime estimate of $180,000 associated with the four new operations technician positions.[1307]

SDG&E disagrees with Cal Advocates' proposed reduction. SDG&E has reiterated that the overtime estimate is in line with historical data.[1308] Additionally, SDG&E has explained that operations technicians are required to work a rotating shift schedule with twelve-hour shifts.[1309] 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.

In addition, as to non-labor, Cal Advocates recommends removal of $500,000 associated with industrial control systems (ICS) on the grounds that SDG&E is not developing or implementing a new ICS.[1310] However, as discussed above, even though SDG&E is not implementing a new ICS, it still needs the funding for essential steps to maintain and increase resilience against relevant future cyber-attacks.[1311] 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.

Finally, Cal Advocates recommends the removal of $270,000 associated with the long-term service agreement (LTSA) related to the Palomar Hydrogen Systems project.[1312] SDG&E disagrees with Cal Advocates' proposed reduction. Please refer to Section 18.2.4.1.1 (Clean Energy Innovations) for detailed discussion of the Palomar Hydrogen Systems project.

19.3 SDG&E's Response to Parties' Capital Proposals

19.3.1 TURN's Capital Expenditure Baseline Proposal

TURN recommends a reduction of $4.65 million to SDG&E's proposed capital expenditure forecast on the grounds.[1313] This reduction reflects the use of a baseline that averages recorded costs over a *six-year* time period (2017-2022) and removes "anomalous" projects occurring

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1307 *Id.*

1308 Ex. SDG&E-214 (Baerman) at Appendix B, PAO-SDG&E-MW5-007, Question 6a.

1309 *Id*. at Appendix E PAO-SDG&E-131-MW5, Question 4.

1310 Cal Advocates OB at 122.

1311 Ex. SDG&E-214 (Baerman) at 15.

1312 Cal Advocates OB at 122-123.

1313 TURN OB at 154.

between 2017 and 2021. TURN also recommends that SDG&E correct an underestimate for the cost of work done at Cuyamaca that it proposes to remove from the historical baseline.[1314]

SDG&E disagrees with TURN's recommendation to use a six-year average and removal of anomalous projects.[1315] 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. As explained above, 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.[1316] Although SDG&E provided 2022 recorded data in the spirit of cooperation, SDG&E 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.

With respect to the adjustment regarding the Cuyamaca Peak Energy Plant, SDG&E already acknowledged in its rebuttal testimony that when making the historical adjustment for years 2019 and 2020, SDG&E inadvertently omitted cost for removal for one project in the amount of $41,384 for 2019, and $15,776 for 2020.[1317] The amount of the adjustments should have been $1,914,873 for 2019 and $1,412,593 for 2020, which results in a reduction to the capital forecast of approximately $13,000 per year. These reductions were included in the total capital forecast amount presented in Mr. Baerman's *errata* testimony and capital workpapers.[1318]

[1314] *Id*.

[1315] Ex. SDG&E-214 (Baerman) at 13.

[1316] D.19-09-051 at 278.

[1317] Ex. SDGE-214 (Baerman) at 1, fn. 5.

[1318] *See* Ex. SDG&E-14-E (Baerman) at 1; Ex. SDG&E-14-CWP-E (Baerman) at 37.

19.3.2 Cybersecurity Costs

TURN recommends a reduction of $293,000 for O&M and $537,000 for capital costs related to cybersecurity on the grounds that SDG&E failed to provide details on how SDG&E's requested incremental funding would be spent.[1319] SDG&E disagrees with TURN's recommendations.

As previously stated, SDG&E is requesting cybersecurity funds to maintain and increase resilience against relevant future cyberattacks.[1320] Improving cybersecurity is not a one-time solution given the constantly evolving landscape. As such, SDG&E is not able to identify all the measures that it will be required to take to meet best practices as new threats emerge. Therefore, SDG&E presented a reasonable forecast that is based on assumptions and rapidly evolving issues in cybersecurity.

19.3.3 Miramar Energy Facility

TURN - In its Opening Brief, TURN offers various arguments as to why the Commission should reject SDG&E's proposed funding for the Hybrid at Miramar.[1321] SDG&E addresses TURN's arguments in Section 18.2 (Clean Energy Innovations) above.

Cal Advocates – Cal Advocates does not oppose the Hybrid at Miramar project itself, but rather SDG&E's use of a five-year average for forecasting the capital and labor costs at the Miramar Energy Facility.[1322] Cal Advocates recommends a "modified four-year average" (which consists of the years 2017-2019 and 2021) to calculate the forecast.[1323]

SDG&E disagrees with Cal Advocates' modified approach to calculate capital expenses for Miramar.[1324] 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.[1325] SDG&E has 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

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1319 TURN OB at 164.

1320 SCG/SDGE OB at 355; Ex. SDG&E-214 (Baerman) at 11.

1321 TURN OB at 166-170.

1322 Cal Advocates OB at 125.

1323 *Id.*

1324 Ex. SDG&E-214 (Baerman) at 16.

1325 *Id.*

replacements.[1326] 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.

In addition, Cal Advocates recommends a reduction in labor costs associated with the Hybrid Miramar Project on the grounds that no new employees are being hired for this project.[1327] SDG&E disagrees with Cal Advocates' recommendation. The Hybrid MEF project will require the effort of 8.3 FTEs.[1328] 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.

19.3.4 Distributed Energy Facilities

TURN continues to recommend various reductions to SDG&E's forecasted O&M regarding its DEFs in part because it doubts SDG&E's expectation that 20 DEFS will be online in 2024.[1329] As previously discussed in its Opening Brief, TURN's concerns about the number of DEFs that will be online are unfounded.[1330] Please refer to Section 18.2.4.1.2 (SDG&E Clean Energy Innovations) of SDG&E's Opening Brief for discussion of the timing of DEF assets coming online.

TURN also takes issue with SDG&E's calculation of $30,000 for the forecast of maintenance needs per DEF.[1331] SDG&E based this estimate on the historical average for three assets, which TURN notes was only $23,0000/year, not $30,000/year.[1332] However as SDG&E has explained, with the addition of 17 new assets, SDG&E continues to support that increasing the

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1326 *Id.* at Appendix C, Data Request PAO-SDGE-MW5-008, Question 6.

1327 Cal Advocates OB at 125-126.

1328 Ex. SDG&E-214 (Baerman) at 17.

1329 TURN OB at 170-173.

1330 SCG/SDG&E OB at 356-357.

1331 TURN OB at 172.

1332 *Id*.

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.[1333]

Finally, TURN asserts that SDG&E should use 2022 recorded data to establish its baseline for O&M costs (rather than using 2021 as the base year).[1334] As previously stated, 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. 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.

19.3.5 Palomar Flame Sheet Combustor

TURN recommends that the Commission reject SDG&E's request to include the Flamesheet Combustor on the grounds that there are no likely benefits to ratepayers or the environment.[1335] SDG&E disagrees. As previously stated, 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).[1336] 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.

19.3.6 Palomar Hydrogen Project

In their Opening Briefs, TURN, Cal Advocates, CEJA and PCF offers various arguments as to why the Commission should reject SDG&E's proposed funding for the Palomar Hydrogen Projects SDG&E addresses these arguments in Section 18.2.4.1.1 (Clean Energy Innovations) above.

[1333] SCG/SDG&E OB at 357.

[1334] TURN OB at 170.

[1335] TURN OB at 174-176.

[1336] Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 3e.i.

19.3.7 Cuyamaca Operational Enhancements

No party has opposed SDG&E's capital requests related to the Cuyamaca facility.[1337] SDG&E respectfully submits that the Commission should approve this request as reasonable.

19.3.8 Tools & Test Equipment

No party has opposed SDG&E's capital requests related to Tools & Test Equipment.[1338] SDG&E respectfully submits that the Commission should approve this request as reasonable.

19.3.9 Ramona Solar Plant

No party has opposed SDG&E's capital requests related to the Ramona Solar Plant.[1339] SDG&E respectfully submits that the Commission should approve this request as reasonable.

19.3.10 Desert Star – Capital

Cal Advocates recommends a reduction of $2 million in capital for forecast years 2022, 2023 and 2024 related Desert Star on the grounds that SDG&E is not developing or implementing a new ICS.[1340] As discussed above, although SDG&E is not requesting funds to develop and implement a new ICS at Desert Star, SDG&E still needs the funding for essential steps to maintain and increase resilience against relevant future cyber-attacks.[1341] 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 NERC, WECC, 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 Desert Star.

19.3.11 Palomar Energy Center (Non Hydrogen-Related Projects)

Separate and apart from its objections to SDG&E's proposed Hydrogen Systems Project at Palomar, Cal Advocates also makes various recommendations to other proposed capital

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[1337] *See, e.g.,* Cal Advocates OB at 123.

[1338] *Id.*

[1339] *Id*.

[1340] *Id.* at 123-124.

[1341] Ex. SDG&E-214 (Baerman) at 15.

expenditures forecasted at the Palomar Energy Center, including the Flame Sheet Combustor, Infinite Cooling and ICS.[1342]

With respect to the Flamesheet Combustor, Cal Advocates opposes the Flamesheet Combustor on the grounds that 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.[1343] SDG&E disagrees. As the record shows, 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).[1344] 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.

With respect to the Infinite Cooling project, Cal Advocates opposes the Infinite Cooling project on the grounds that there is no requirement for SDG&E to install an Infinite Cooling system and there being no cost benefit analysis to adequately support ratepayer funding of this project.[1345] SDG&E disagrees. 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.[1346] 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.

Finally, with respect to ICS, Cal Advocates recommends a reduction of $2 million for forecast years 2022, 2023 and 2024 related to Palomar on the grounds that SDG&E is not

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1342 Cal Advocates OB at 131-132.

1343 Cal Advocates OB at 132.

1344 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 3e.i.

1345 Cal Advocates OB at 132.

1346 Ex. SDG&E-214 (Baerman) at Appendix C, PAO-SDG&E-MW5-008, Question 3e.ii.

developing or implementing a new ICS.[1347] As discussed above, although SDG&E is not requesting funds to develop and implement a new ICS, SDG&E still needs the funding for essential steps to maintain and increase resilience against relevant future cyber-attacks.[1348] 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 NERC, WECC, DHS, and internal SDG&E IT/Cybersecurity directives. It is for these reasons that SDG&E continues to support the need for additional funds at Palomar.

20. Electric Distribution

20.1 Electric Distribution – Capital

The Opening Briefs of Cal Advocates, TURN, CUE, FEA, PCF, and UCAN address various issues regarding SDG&E's capital expenses for the forecast years 2022, 2023, and 2024 associated with the Electric Distribution area for SDG&E. Because parties' Opening Briefs largely track the positions they set forth in their testimony – which SDG&E addressed in its rebuttal testimony and in its Opening Brief – SDG&E summarizes the key positions below and addresses any new arguments or evidence that may have been submitted. Namely:

- FEA and other parties rely on inaccurate and misinterpreted information to allege an underspend for distribution capital that does not, in fact, exist. The Commission should reject any forecasting adjustments or reductions based on allegations of a capital underspend.
- The Commission should reject establishment of the investment incentive mechanism recommended by CUE as unnecessary and redundant to the RSAR.
- SDG&E's Overhead Pools forecasting method is reasonable and should be approved. Any reductions to the Overhead Pools should be calculated using SDG&E's Overhead Pools forecasting model based on approved capital projects in the final decision.

1347 Cal Advocates OB at 131.

1348 Ex. SDG&E-214 (Baerman) at 15.

- One-way balancing of Overhead Pools costs disincentivizes necessary planning work and should be terminated in favor of an alternative treatment.
- SDG&E's North Harbor Cable Replacement Project is necessary to prevent the risk of failure of infrastructure supporting critical facilities and promote safety.

SDG&E's Electric Distribution Capital requests are supported by the record, reasonable, justified, and necessary to provide safe, reliable, and resilient service to the customers and communities it serves. Further, these projects promote the achievement of California's climate goals, advance sustainability efforts, and prepare SDG&E's infrastructure for needs associated with increased electrification. Notably, many parties, including Cal Advocates,[1349] generally support the capital projects proposed by Ms. Reyes, and simply make alternative recommendations regarding authorized costs to fund those projects. With the few exceptions noted herein, SDG&E disagrees with the alternative forecasts proposed by parties, as many would fail to adequately fund the projects deemed reasonable and necessary. The Commission should thus approve SDG&E's total forecasts for Electric Distribution capital of $438,049, $532,595, and $425,949 in ratepayer funded (Non-Collectible) dollars for 2022, 2023, and 2024, respectively.[1350]

20.1.1 Responses to General Recommendations

20.1.1.1 Capital Projects Not Included In SDG&E's Testimony

Cal Advocates notes that SDG&E's RO model included 13 capital projects that were not addressed in Ms. Reyes' Revised Direct Testimony.[1351] As explained in Ms. Reyes' Rebuttal Testimony,[1352] SDG&E agreed with Cal Advocates recommendations regarding the identified capital projects and removed them from the RO model. SDG&E's revised forecasts include these adjustments.

20.1.1.2 Litigated Project Cost Memorandum Account

Cal Advocates restates its prior objections to the Litigated Project Cost Memorandum Account, namely that the potential circumstances that would necessitate this account are rare and

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[1349] Cal Advocates OB at 135-136 ("A quick review of [Table 06-1] will show that, in many instances, the differences are zero, which indicates that Cal Advocates has not recommended any adjustments to SDG&E's forecasts.").

[1350] Ex. SDG&E-11-R-E (Reyes) at xvi.

[1351] Cal Advocates OB at 137.

[1352] Ex. SDG&E-211 at 13-14.

such an account has limited ratepayer benefits.[1353] As previously addressed by the Companies, establishment of the LPCMA is important to avoid the prohibition against retroactive ratemaking and allow the recovery of just and reasonable costs that might not otherwise be recoverable from a third-party.[1354] Additionally, establishment of this memorandum account—which would only track any costs subject to a later reasonableness review and does not guarantee recovery[1355]—creates a current mechanism that would address the trend in third parties beginning to aggressively push back on the classification of capital projects as Collectible.[1356] Given the unpredictable nature of these circumstances, authorization of a memorandum account to counter the possibility of retroactive ratemaking is reasonable and justified here to ensure that the Companies are able to recover funds associated with otherwise authorized capital projects.[1357]

20.1.1.3 Any Underspend Associated with SDG&E Electric Distribution Capital is Grossly Overstated

The Commission should reject CUE's contention that SDG&E is historically underspent with respect to its electric distribution capital expenditures.[1358] As repeatedly explained by SDG&E,[1359] and is evident from SDG&E's Risk Spend Accountability Report (RSAR), no such underspend exists. FEA justifies its request to apply a five-year average forecasting methodology based on a data request that lacks context and relevant information that can be obtained from the RSAR.[1360] The costs relied upon by FEA represent two different GRC frameworks that fail to

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1353 Cal Advocates OB at 137-140.

1354 SCG/SDG&E OB at 95.

1355 Cal Advocates OB at 138, (citing Ex. SDG&E-211 at OR-24, "Any costs recorded to the memo account would be subject to a reasonableness review prior to inclusion in rates and rate base.").

1356 SCG/SDG&E OB at 95.

1357 *See,* D.22-11-010; *Application of Bear Valley Electric Service, Inc. (U913E) for Authorization to Recover Costs Related to 2019 Winter Storm and Recorded in Its Catastrophic Event Memorandum Account* (November 3, 2022) at 19-20 ("The Commission has specifically allowed certain memorandum accounts to mitigate the risks for certain costs that are beyond the control of the utility." (citing D.03-05-076 citing Southern California Water Co., D.92-03-094 (March 31, 1992), 43 Cal. P.U.C. 2d 600, 2022 CAL. PUC LEXIS 469, *20 (Cal. P.U.C. November 3, 2022).).

1358 CUE OB at 2-3.

1359 Ex. SDG&E-211 (Reyes) at 17-19.

1360 *Id.* at 18.

reflect the composition of SDG&E's current forecasts, and they differ in the presentation of dollars (nominal versus constant).[1361]

Since SDG&E's TY 2019 GRC decision, SDG&E has broken out reporting and forecasts of areas that previously fell under the distribution capital spending category and are now separately addressed for purposes of the RSAR and SDG&E's TY 2024 request. For instance, the Commission previously authorized capital expenditures related to IT costs and wildfire mitigation, which are now separately tracked and identified under different cost categories, as recorded in the RSAR. Comparing TY 2019 authorized costs that include areas ultimately not included in actual spend numbers (and not reflected in SDG&E's data request response), FEA overstates the authorized to actuals spending difference.[1362] As evident from the RSAR, when viewed in the aggregate, SDG&E is in fact *overspent* in electric distribution capital costs.[1363]

FEA fails to acknowledge or respond to SDG&E's clarification of this issue in Ms. Reyes' Rebuttal Testimony, where SDG&E thoroughly refuted the contention that SDG&E is underspend from its TY 2019 authorized funds and justified its forecasting methodology.[1364] At no point does FEA directly contest the priority, purpose, or need for any capital programs contained within my direct testimony, of which a large percentage are inherently zero-based forecasted and are too complex or novel to rely on a simplistic historical average to determine accurate spending amounts year-to-year.[1365] Roughly 72% of SDG&E's forecasts for electric distribution capital are zero-based and do not rely on historical spending in their development.[1366] A zero-based forecasting method builds a bottoms-up forecast based on the needs of the specific project largely by considering the number of forecast units and the applicable costs. Using a five-year average based on a misunderstanding of SDG&E's overall historical capital spend—as FEA recommends—would insufficiently fund SDG&E's just and reasonable forecasted capital projects without sound basis.

1361 *Id.* at 18-19.

1362 *Id.*

1363 *Id.* at 18.

1364 *Id.* at 17-19.

1365 *Id.* at 19.

1366 *Id.* at 20.

Further, FEA's characterizations of SDG&E's capital expenditures associated with wildfire mitigation, IT and cybersecurity, and other projects deemed necessary and reasonable to promote public safety as the result of a "slush fund" are unfounded and unreasonable.[1367] Any reprioritization of funds authorized in SDG&E's TY 2019 GRC is consistent with the Commission's longstanding principle that "utilities may need to reprioritize spending between GRC's.[1368] This tenet of Commission ratemaking allowed SDG&E to respond to "rapidly unfolding events such as the catastrophic wildfires in 2007, 2017, 2018, and now, 2019," that require a utility to "quickly redirect[] Commission-authorized GRC funding from its originally intended purpose to a wholly different purpose."[1369] For instance, without the ability to recategorize and reprioritize projects, SDG&E would have been unable to respond to the mandates of Senate Bill 901 and Assembly Bill 1054, directing electrical corporations to significantly increase wildfire mitigation efforts and system hardening.

The RSAR process provides stakeholders and the Commission with a transparent process to understand where and how utilities reprioritize authorized spend—and compare them "to the actual requested categories of spending" as sought by FEA.[1370] The fact that FEA chose not to ignore this process to suit its own argument leads to a conclusion that is unsupported by the record and demonstrate the paucity of their argument. As explained in SDG&E's testimony and workpapers, the Company's electric distribution capital forecasts are based on reasonable and justified forecasts based on the nature of the specific forecasted projects. Using a five-year average to forecast capital project costs fails to account for the individual nature of SDG&E's planned work, is based on a misplaced understanding of SDG&E's actual historical spend, and should be rejected by the Commission.

1367 FEA OB at 2-3.

1368 D.20-01-002 at 38; SCG/SDG&E OB at 35.

1369 D.20-01-002 at 35.

1370 FEA OB at 3.

20.1.1.4 The Commission Should Deny CUE's Recommendations Regarding Long Term Planning and Investment Incentives

20.1.1.4.1 SDG&E's Asset Management Supports System Safety and Reliability and No Further Long-Term Planning Mechanisms are Necessary

CUE generally supports SDG&E's GRC requests,[1371] but fails to acknowledge or recognize that SDG&E's existing asset management structure obviates the need for any additional long-term infrastructure replacement, removal, or deployment plans in a future GRC. At the outset, such a plan is outside the scope of SDG&E's current GRC request and is inconsistent with the overall nature of the forecasted GRC process.[1372] Even CUE acknowledges that a "twenty-year forward infrastructure replacement plan," and "a discussion of potential resource constraints, including personnel constraints, and how SDG&E will address them" within that twenty-year period has "not been a typical GRC activity in the past."[1373] CUE's attempt to rewrite the GRC process is misplaced and its proposals are better addressed in the distribution planning process and other long-term rulemakings that focus on ongoing electrification and energy efficiency efforts.

CUE also mischaracterizes the language of Assembly Bill 2700 in an attempt to contort legislative direction that utilities "consider the *fleet* data" provided to the Energy Commission, in collaboration with the State Air Resources Board, Public Utilities Commission, and other stakeholders, to "facilitate the readiness of their distribution systems to support the level of electric vehicle charging anticipated in its service territory."[1374] CUE omits that the Commission's obligation to ensure "proposed investments are consistent with preparing the electrical grid for the achievement of the state's goals and regulations,"[1375] is limited to the requirement that utilities incorporate forecasted EV usage in their "*distribution planning process*."[1376] While the Commission is also obligated to consider how utility investments "will support electric vehicle deployment within [the] service territory," in the utility's respective GRCs, that is a far cry from CUE's misrepresentation of the statutory requirements of AB 2700. Even this new legislation is

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1371 CUE OB at 3.

1372 Ex. SDG&E-211 (Reyes) at 15 (citing *Scoping Memo* at 4-5).

1373 Ex. CUE-01 (Earle) at 1-2.

1374 Pub. Util. Code § 740.21(a); Cal. Public Resource Code § 25328(b)(1).

1375 CUE OB at 9, citing Pub. Util. Code § 740.21(c).

1376 Pub. Util. Code § 740.21(a) (emphasis added).

consistent with SDG&E's request that the Commission refrain from additional long-term planning in the GRC and address it elsewhere—such as in the distribution planning process.

Further, CUE mischaracterizes the Commission's approval of a settlement agreement in PG&E's GRC establishing a "steady state replacement of crucial operating equipment consistent with risk informed decision making" with a policy statement that "utilities should strive to achieve steady state replacement."[1377] While SDG&E agrees that a risk informed approach to asset management and replacement is necessary, and strives to promote replacement of assets prior to in service failure,[1378] there is no indication in the record that SDG&E's existing asset management practices are lacking, or that SDG&E faces any issues with deferred maintenance. To the contrary, the Commission has already rejected CUE's steady-state replacement plan as unnecessary for Southern California Edison—finding that "a prudent asset replacement plan should be driven [ ] not only by failure rates but also failure consequences."[1379]

As explained by Ms. Reyes, SDG&E already has an existing comprehensive asset management strategy that aligns with 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.[1380] SDG&E is building its Asset Management System (AMS) to comport to the provisions of International Organization of Standardization (ISO) 55000 to support regulatory direction on safety, wildfire mitigation, and electric system resilience and to reinforce an integrative approach to electric assets for governance, strategy, analytics, and continuous improvement.[1381] SDG&E's TY 2024 forecasts for electric distribution capital facilitate the achievement of its asset management strategy goals and should be approved without modification or additional long-term planning requirements.

20.1.1.4.2 CUE's SRIIM Proposal Lacks Record Support and is Unnecessary in Light of Existing Reporting

CUE advocates for an entirely new Safety and Reliability Investment Incentive Mechanism (SRIIM) to address a perceived issue in SDG&E's forecasted capital investment and workforce

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[1377] CUE OB at 6 and n.11.

[1378] *Id.*

[1379] D.21-08-036, *Decision on Test Year 2021 General Rate Case for Southern California Edison Company* (August 19, 2021) at 45.

[1380] Ex. SDG&E-211 (Reyes) at 15-16; *See also*, Ex. SDG&E-31-R-E (Deremer) at ii-iii, and 3-4.

[1381] Ex. SDG&E-31-R (Deremer) at KJD ii.

development programs that simply does not exist.[1382] As addressed above, SDG&E is not significantly underspent in its capital programs and CUE's recommendations rest upon unfounded assumptions regarding SDG&E's overall capital proposals and workforce development. SDG&E's Opening Brief discusses the redundancy of the SRIIM in light of existing reporting through the RSAR, and the Commission's previous rejection of a similar proposal for an "RSAR Action Plan."[1383] As explained by the Commission, further incentive mechanisms are unnecessary because "[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."[1384]

Additionally, as discussed *infra*, the SRIIM defeats the longstanding policy of the Commission in GRC ratemaking that utilities require flexibility to reprioritize forecasted resources to areas that become more urgent—a fact even CUE acknowledges.[1385] Due to the flawed foundation for this proposal and the redundancy in light of existing reporting, the Commission should decline to adopt the SRIIM.

20.1.1.5 SDG&E's Requests Related to Overhead Pools

20.1.1.5.1 Capital

Cal Advocates and TURN both recommend reductions and adjustments to SDG&E's Overhead Pools forecasts. Generally, TURN "does not [ ] oppose the Overhead Pools approach" recommends that the Commission reduce SDG&E's Overhead Pools forecast commensurate with any reduction in the underlying project forecast.[1386] SDG&E generally agrees with a process that aligns any reduction in proposed projects with a commensurate and proportional reduction in the Pools forecast based on the project's relative contribution to each pool. For this reason, the Commission should approve SDG&E's model, developed to respond to Cal Advocates' recommendations, to calculate any Pools adjustments.

[1382] CUE OB at 10. Further, as explained in SCG/SDG&E's Opening Brief, CUE failed to adequately present the SRIIM proposal in its rebuttal testimony and many of the details lack any record support. Establishing an investment mechanism with such loose parameters would be outside the scope of this GRC and lack reasonable basis.

[1383] SCG/SDG&E OB at 371-372.

[1384] D.22-10-002 at 40-41.

[1385] Ex. CUE-02 (Earle) at 9-10.

[1386] *See* TURN OB at 187-188.

Cal Advocates discusses the development of SDG&E's custom model that calculates, on a pro-rated basis, the appropriate change to each pool as a function of the change to the funding of the underlying project.[1387] It is imperative that the Commission acknowledge this custom model because the pool forecast is based on each project's relative contribution to each pool—a 1:1 reduction fails to recognize or account for an adequate Overhead Pools forecast.[1388]

SDG&E supports the use of its custom model to calculate its Overhead Pools based on the projects ultimately approved by the Commission in this case. That calculation, however, should be done *after* the projects are considered and approved. The Commission should not approve Cal Advocates' recommended adjustments on a blanket basis, because those adjustments assume approval of all of Cal Advocates distribution capital recommendations. SDG&E acknowledges the correlation between amounts authorized for capital projects and the required amount of associated pooled support costs. SDG&E is open to adjusting its Overhead Pools forecast, either up or down, by a reasonable and fair amount, based on the amount authorized for individual capital projects. Using the ED Capital Project Overhead Simulator Model (CPOSM), as developed for Cal Advocates, will ensure that any adjustments are fairly done on a proportional basis according to the contribution of the project to each of the four pools.[1389]

To this end, SDG&E has corrected its Overhead Pools forecast with respect to the 13 projects removed from the RO model.[1390] With the removal of those projects, the Overhead Pools forecasts are reduced by a total of $5.806 million ($571k in 2022, $2.625M in 2023 and $2.611M in 2024), as demonstrated in Figure 20.1.1. SDG&E agrees with these reductions in its Overhead Pools forecasts associated with these projects. But as the remainder of SDG&E's forecasted projects are reasonable and justified, no further Overhead Pools reductions are warranted.

1387 Cal Advocates OB at 144-145.

1388 Ex. SDG&E-211 (Reyes) at 27.

1389 *Id.* at 28.

1390 *See* Cal Advocates OB at 145.

Figure 20.1.1

Input Field

All $'s Represent Thousands

Proposed Funding (Reduction)/Increase / **Average Overhead Loading Rate**

		2022	2023	2024	Total	DOH	CA	Sub Eng	ED Eng
Batiquitos 12kV Replacements	20262		$ (508)	$ (3,098)	$ (3,606)	0%	0%	8%	0%
Chicarita 12kV Replacements	20264			$ (316)	$ (316)	0%	1%	9%	0%
Genesee 12kV Replacements	20265		$ (1,550)	$ (3,260)	$ (4,810)	0%	1%	12%	0%
Rincon 12 kv Bus Tie and Transformer replacement	20273		$ (552)	$ (1,112)	$ (1,664)	0%	1%	8%	0%
San Mateo Substation	16261	$ (24)	$ (24)	$ (600)	$ (648)	0%	3%	15%	0%
Electric Transmission EMS/SCADA Replacement	20125		$ (4,017)	$ (3,812)	$ (7,829)	6%	0%	0%	17%
Scripps 12kV Replacements	20269		$ (3,717)	$ (7,131)	$ (10,848)	0%	0%	3%	0%
Trabuco 12kV Replacements	20271			$ (2,456)	$ (2,456)	0%	1%	9%	0%
Cabrillo 12kV Switchgear Replacement	20246	$ (156)	$ (2,655)		$ (2,811)	0%	0%	8%	0%
Ash 12 kV Breakers and Transformer Replacements	20261		$ (882)	$ (740)	$ (1,622)	0%	0%	6%	0%
Laguna Niguel 12kV Replacements	20266	$ (60)	$ (2,742)	$ (6,195)	$ (8,997)	0%	0%	3%	0%
Pacific Beach Bus Tie Replacements	20272	$ (1,581)	$ (987)		$ (2,568)	0%	1%	11%	0%
Granite 12kV Breaker and Switchgear Replacements	20244	$ (2,239)	$ (5,145)	$ (1,236)	$ (8,620)	1%	1%	3%	12%
0					$ -	0%	0%	0%	0%
0					$ -	0%	0%	0%	0%

Incremental Overhead Pool Impact

	2022	2023	2024	Total
DOH	$ (17)	$ (283)	$ (241)	$ (541)
CA	$ (26)	$ (77)	$ (106)	$ (209)
Sub Eng	$ (266)	$ (985)	$ (1,476)	$ (2,728)
ED Eng	$ (262)	$ (1,280)	$ (788)	$ (2,329)
Total	$ (571)	$ (2,625)	$ (2,611)	$ (5,806)

Total Overhead Pool Impact

	Impact on Electric Distribution Overhead Pools in Revised Testimony ($000)				
	2022	2023	2024	Total	
DOH	$ 18,983	$ 20,417	$ 21,059	$ 60,459	-0.89%
CA	$ 24,274	$ 47,423	$ 43,794	$ 115,491	-0.18%
Sub Eng	$ 4,834	$ 4,115	$ 2,624	$ 11,572	-19.07%
ED Eng	$ 120,738	$ 122,020	$ 81,912	$ 324,671	-0.71%
Total	$ 168,829	$ 193,975	$ 149,389	$ 512,194	-1.12%

Electric Distribution Overhead Pools in Revised Testimony ($000)			
2022	2023	2024	Total
$ 19,000	$ 20,700	$ 21,300	$ 61,000
$ 24,300	$ 47,500	$ 43,900	$ 115,700
$ 5,100	$ 5,100	$ 4,100	$ 14,300
$ 121,000	$ 123,300	$ 82,700	$ 327,000
$ 169,400	$ 196,600	$ 152,000	$ 518,000

20.1.1.5.2 OP Balancing Account

Cal Advocates' recommendations regarding the ongoing need for one-way balancing of Overhead Pools costs are largely contravened by SDG&E's agreement to reduce the Overhead Pools forecasts associated with the 13 projects excluded from the RO model. Rather than some nefarious effort to make "faulty calculation assumptions,"[1391] SDG&E acknowledged the removal of these projects and recommends that the Overhead Pools forecast be adjusted accordingly. As explained in SDG&E's testimony, SDG&E has improved and continues to improve its cost oversight and forecasting processes and procedures, and the improved accuracy of these processes eliminate the need for one-way balancing of Pool costs.[1392]

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

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[1391] Cal Advocates OB at 147.

[1392] Ex. SDG&E-211 (Reyes) at 28-29.

areas as they arise.[1393] For this reason, SDG&E recommends that the Commission terminate the Overhead Pools Balancing Account. However, to account for the unpredictable nature of the timing of forecasted capital projects[1394] and provide continued transparency into the Overhead Pools spending, SDG&E alternatively proposes that the Commission convert the Overhead Pools balancing account to a *two-way* balancing account, which would permit SDG&E the necessary flexibility to respond to new risk or reliability areas and promote future efforts toward grid resiliency to meet California Climate goals.

20.1.1.6 The North Harbor Underground Cable Replacement Program Is Necessary for Continued Reliability to Critical Infrastructure

TURN is the only party to object to a project that is critical to reliability and resiliency of a key facet of the San Diego economy, the San Diego International Airport. Given the critical nature of ongoing reliability for the airport (as well as the four other distribution circuits associated with this project),[1395] the Commission should authorize this project without modification. TURN's recommendations that the project be denied based on a low RSE and conjecture about the potential for a microgrid fail to rebut the convincing evidence that justifies the need for this project.[1396]

The North Harbor project provides significant benefit to both the Airport and four distribution circuits that SDG&E has identified to be at risk of prolonged outages due to potential failure of the existing cable and potential restoration issues.[1397] It is TURN's own evidence that demonstrates the fallout and consequences of a prolonged airport outage—the 11 hour outage at Hartsfield-Jackson Airport left thousands of passengers stranded and cost one airline alone an estimated $50 million in lost business.[1398] These consequences are not considered in SDG&E's RSE calculations, thus the RSE fails to adequately reflect the need for this project. Maintaining

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[1393] *Id.* at 28.

[1394] Cal Advocates supports its request for ongoing one-way balancing of Pools costs based precisely on concerns about variability in capital projects, including those that might be canceled or postponed, or reassigned to other areas. Cal Advocates OB at 149. Such variability supports two-way balancing of costs.

[1395] Ex. SDG&E-11-R-E (Reyes) at 120.

[1396] Ex. SDG&E-211 (Reyes) at 34-35.

[1397] *Id.* at 35.

[1398] Ex. TURN-07-Atch1-R-2 (Jones) at Attachment 2; Ex. SDG&E-211 (Reyes) at 34.

reliability for the San Diego Airport should be prioritized to prevent cascading impacts to all entities and patrons which leverage its services, and this project is necessary to do so.[1399]

The Commission should also reject TURN's position that infrastructure supporting this vital resource and SDG&E's overall reliability should be near "imminent" failure to justify replacement.[1400] SDG&E maintains its level of reliability by taking a proactive approach to replacing infrastructure that has been identified at-risk using historical and quantifiable data. While SDG&E disagrees with CUE regarding the need for steady-state replacement of assets, it would be irresponsible to allow infrastructure with significant associated consequences of failure to reach an imminent failure point. The Commission should consider the safety and reliability consequences of potential failure, as well as the affected population, and prioritize this project for approval.[1401]

Over the last several years, the circuits associated with this project have had multiple extended outages where primary underground cable failure was determined to be the cause. The restoration was delayed because of the lead cable, conduits which contained asbestos, collapsed or blocked conduit, in addition to this site being in a high-traffic location.[1402] A worst-case failure event—which seems to be the outcome for which TURN advocates—would result in extended outages and impacts due to the amount of spare conduit that could be predominantly collapsed, and limited internal knowledge for splicing lead cable.[1403] Not only does this present a reliability issue, but it also creates significant safety concerns for SDG&E employees. It is paramount to both safety and reliability for the existing infrastructure to be replaced.

The Commission should also reject TURN's unsupported conjecture regarding a microgrid solution.[1404] TURN cites to a newspaper source describing the potential for a microgrid at the San Diego airport, without acknowledging the date of the source and the fact that it could describe the microgrid that has already been installed. This microgrid fails to adequately support airport

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[1399] Ex. SDG&E 211 (Reyes) at 35.

[1400] TURN OB at 191.

[1401] *See*, *e.g.*, D.21-08-036 at 42-43 (finding that SCE should not defer certain underground structure replacements that are at risk of failing with short expected remaining lives and rated very high or high in population proximity, population density, traffic rate, and falling debris hazard).

[1402] Ex. SDG&E-11-R-E (Reyes) at 120.

[1403] *Id.*

[1404] TURN OB at 192.

operations for a sustained period.[1405] SDG&E has justified the need for the cable replacement project by a preponderance of the evidence already—it should not be forced to refute the absence of evidence and prove the negative that "the airport would *never* build a microgrid."[1406] It is TURN who has failed to establish any evidence that the airport is considering the construction of additional microgrid capacity. Continuing to engage in a cycle of speculation is counterproductive and leaves one of San Diego's most vital economic resources with a lack of reliability and resiliency.

The Commission should also decline to engage in an ongoing debate about potential alternatives to the proposed cable restoration project.[1407] In the face of the infrastructure needs, the installation of a microgrid to support temporary resiliency is putting a finger in the dam and hoping it does not burst. A microgrid solution would not be feasible for this specific project due to the significantly large at-risk distribution network it would feed. Without replacing the underlying infrastructure at issue, SDG&E cannot meet its obligation to provide safe and reliable service to these customers. The Commission should approve the North Harbor Cable Replacement Project in full.

20.1.1.7 UCAN's Proposals Lack Any Record Support and Should be Wholly Disregarded

UCAN mischaracterizes the record in this proceeding, and the scope of the GRC itself, to argue in favor of a 30 percent reduction in SDG&E's electric distribution capital forecasts based on a blanket statement that they are "obsolete, stranded, lack economic justification, and accordingly are unjust and unreasonable as proposed."[1408] UCAN's Opening Brief generally does not address any new issues and SDG&E thoroughly rebutted many of their recommendations in Ms. Reyes's Rebuttal Testimony. But given the general lack of clarity in their testimony and recommendations, SDG&E addresses several general points that render UCAN's arguments and recommendations unfounded.

UCAN's arguments fail for any number of reasons, but primarily because UCAN itself cannot identify where their recommended reductions should occur, or how SDG&E's proposed

1405 Ex. SDG&E-211 (Reyes) at 34.

1406 TURN OB at 192 (emphasis added).

1407 TURN OB at 191.

1408 UCAN OB at 123.

projects are unreasonable. In fact, even if the Commission adopted all of UCAN's proposed reductions, it would amount to $43.293 million from 2022-2024—nowhere near 30%.[1409] Yet, UCAN proposes to disallow almost ten times that amount with no base or claim to support the figure.

More so, UCAN's arguments that SDG&E's forecasted projects are unreasonable lack any coherence, record support, or rational basis. SDG&E's forecasted projects are supported by hundreds of workpapers, extensive testimony and analysis justifying them as reasonable and necessary, and are generally agreed as reasonable by nearly every party to this proceeding. While SDG&E addresses certain of UCAN's arguments below, the Commission should wholly disregard their testimony and recommendations regarding electric distribution capital.

UCAN: SDG&E over relies on zero-based forecasting

UCAN claims "SDGE's Reyes unduly relies on a zero-based forecast for roughly 72% of its proposed electric distribution capital,"[1410] while in the same paragraph states "In short, it simply uses a historical average."[1411] UCAN doesn't seem to be capable of understanding the difference between the two forecast methodologies SDG&E clearly defines within Ms. Reyes' testimony,[1412] so they instead to conflate the two as one category to support their unfounded claims. UCAN also states that "SDGE fails to show how these costs can be verified or otherwise justified"[1413] when referring to zero-based cost estimates. UCAN clearly has not reviewed the workpapers included within Ms. Reyes' witness testimony, which includes over 1,000 pages of detailed documentation supporting SDG&E's capital request which also includes detailed unit cost estimates for zero-based forecasts.

Further, UCAN wrongfully mischaracterizes the methods stakeholders have to understand and verify any differences between authorized and actual spend over the GRC period.[1414] UCAN

1409 It is important to note that SDG&E has not included 2021 costs in its capital requests, as this filing represents just the costs from 2022-2024. If the 2021 figure is discounted from UCAN's disallowances, as it clearly misunderstood the filing years, the total 30% capital request reduction for 2022-2024 would be equal to $418.978 million, nowhere near UCAN's specific recommended reductions. Neither UCAN's testimony nor briefs support any reduction of this size.

1410 UCAN OB 110.

1411 UCAN OB 110.

1412 Ex. SDG&E-11-R-E (Reyes) at 3, lines 6-19.

1413 UCAN OB 111.

1414 UCAN OB 111.

neglects to acknowledge SDG&E is required to file the Risk Spending Accountability Report (RSAR) annually, which requires investor-owned utilities to report authorized versus actual spending on risk mitigation projects and explain any variances which then are reviewed by Energy Division Staff.

The unfiltered bias that permeates UCAN's testimony is fully apparent when it states "…SDG&E has the very strong incentive to inflate costs that will be rate based to increase profits…"[1415] while arguing against the use of zero-based forecasts. UCAN demonstrates a fundamental misunderstanding of what zero-based forecasting is and seemingly ignores the definitions contained within Ms. Reyes' direct testimony.[1416] The zero-based forecasting methodology provides a means of specifying costs for a project or program that is non-recurring in nature and often has a specific scope of work defined where a historical average would otherwise provide less accuracy in estimating cost. Zero-based forecasts do not inflate costs, as UCAN claims, but instead aim to refine the cost of a project or program based on cost estimates developed from the scope of work for the project to ensure accuracy. SDG&E develops cost estimates based on construction labor rates, material costs, contract pricing/quotes, and other project specific details, as applicable. It is notable that, other than UCAN, almost no parties object to SDG&E's general use of zero-based forecasts. As these forecasts are reasonable based on specific projects and their scope of work, the Commission should deny any efforts to employ five-year averages.

UCAN: SDGE testimony on distribution capital presents other failures

Without any basis, UCAN states "Ms. Reyes approach lacks reference to electric vehicles, though EVs are slated to be the single largest load added to SDG&E's distribution system in the next 5 years."[1417] UCAN neglects to acknowledge programs contained within Ms. Reyes' direct testimony such as SDG&E's Load Research/DLP Electric Metering Project, which aims to "…install 600 load research smart meters by the end of 2022 to collect data that will be utilized to conduct an analysis of the impact of rooftop solar and electric vehicle charging interconnected to the system."[1418] Programs such as this help SDG&E "…have sufficient data for researching, analyzing, and concluding impacts on SDG&E's electric grid and rates from rooftop solar and

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[1415] *Id.*

[1416] Ex. SDG&E-11-R-E (Reyes) at3, lines 6-19.

[1417] UCAN OB 111.

[1418] Ex. SDG&E-11-R-E (Reyes) at 30, lines 22-24.

electric vehicle charging."[1419] Electric vehicles will be a key driver of much needed capacity to serve our customers within SDG&E's service territory and many of the projects and programs within Ms. Reyes' direct testimony support their integration to the electric distribution system.

UCAN asserts "SDG&E has failed to meet its burden of proof to establish the reasonableness of its Distribution Substation Reliability Projects. This SDG&E program, as proposed by Ms. Reyes, provides another example of '"reactive improvements to electrical distribution substation facilities' which are meant to be funded, while CSOM DERs which could contribute to these specific solutions are excluded, in essence isolating if not 'shuttering' these CSOM DER solutions."[1420] UCAN doesn't seem to understand the purpose and need of the Distribution Substation Reliability Projects filed in Ms. Reyes' direct testimony. In fact, UCAN does not seem to understand the purpose and need of most programs comprising SDG&E's capital request. The purpose of the Distribution Substation Reliability Projects is to provide a funding mechanism for reactive improvements to substation facilities driven by equipment that is either obsolete or failed to ensure the operation of a safe a reliable electric distribution system. Throughout its brief, UCAN conflates a multitude of electric infrastructure improvements SDG&E has proposed with that of CSOM DERs as if they are one in the same, which is totally incorrect and unfounded. The capital request proposed within Ms. Reyes' testimony represents a comprehensive portfolio of projects and programs required to maintain a safe and reliable electric distribution system, while UCAN merely cherry-picks CSOM DERs, energy efficiency and demand response programs as a way of discounting the need for the infrastructure to serve our customers.

UCAN: SDGE's aggressive distribution circuit switching is extreme placing customers at risk of repeated outages

Without any explanation or evidence in support, UCAN asserts that SDG&E's "approach to circuit switching appears extreme, and at times may use a back-up approach that relies on SDGE's BESS and microgrid response to address primary higher voltage circuit needs." There is no explanation on how circuit switching appears extreme and where SDG&E mentioned using BESS as a back-up approach.

[1419] Ex. SDG&E-11-R-E (Reyes) at31, line 29 through 32, line 1.

[1420] UCAN OB at 112.

UCAN also attempts to contort a sustained objection—with zero evidentiary value—into an admission that SDG&E did not apply economic criteria to its distribution capital analysis.[1421] This attempt to contort the record—and UCAN's failed cross-examination of Ms. Reyes—in UCAN's favor should be stricken and disregarded. In fact, SDG&E clearly stated within Ms. Reyes' direct testimony that its capacity programs are subject to comply with Public Utilities Code Section 353.5,[1422] which requires SDG&E to assess DERs as potential cost-effective alternatives to traditional wire solutions. This is inherently an economics-based evaluation of a traditional wires solution to a DER solution. UCAN also conveniently neglects to acknowledge this analysis in totality when referencing the CalFUSE program.

UCAN states that it "…finds it incredulous that Ms. Reyes says SDG&E can ignore approaches such as CalFUSE dynamic pricing that could change the quantity and timing of customers' end-use consumption decisions, with the short-sighted claim that 'specific rate setting methodologies' will determine these outcomes."[1423] UCAN continues to ignore the entirety of SDG&E's response within Ms. Reyes' rebuttal testimony related to CalFUSE and instead only includes a portion of it to somehow argue against the Distribution Planning Process (DPP). As discussed thoroughly within SDG&E's rebuttal testimony, the "DPP evaluates forecast end-use customer loads to determine whether these loads would result in a violation of planning criteria, and if so, identifies cost-effective mitigations to address those violations. This evaluation is necessary regardless of the forecast level of end-use loads, so the DPP itself will not be affected by whatever Cal-Fuse approach the Commission may ultimately adopt."[1424]

<u>UCAN's Objections to IT Forecasts to Support Capital Projects</u>

Without any evidentiary support, UCAN raises a new and unfounded objection to SDG&E's forecast associated with Phase 3 of the Builder Services Customer Portal.[1425] SDG&E Builder Services plays a critical role in bringing new customers online through nearly all major residential, commercial, retail, and industrial construction projects. Builder services is responsible for new construction, while also providing service to current rate base customers for requested

1421 UCAN OB at 112-113.

1422 Ex. SDG&E-11-R-E (Reyes) at 28.

1423 UCAN OB at 113 (citation omitted).

1424 Ex. SDG&E-211 (Reyes) at 41 lines 8-12.

1425 UCAN OB at 122-123.

infrastructure improvements that keep the Company's systems safe and reliable. Demand on SDG&E continues to increase. However, the workload is unpredictable, and in many cases complex, leading to unforeseen peaks and valleys and significant challenges in cycles times and staffing levels.[1426]

To keep pace with customer demand for speed and transparency, this project implements new self-service options that improve the customer experience and creates business efficiencies. The portal provides user-authentication, a project and application dashboard, the ability for customers to upload documents, scheduling, and payments.[1427] As with UCAN's other blanket and unsupported recommendations, the Commission should reject this recommendation and approve the IT forecast associated with Builder Services.

20.1.2 Responses to Capital Expenditure Proposals

20.1.2.1 Capacity / Expansion

UCAN persistently asserts that SDG&E capital spending on load mitigations should be reduced, and strongly claims the necessary integration of CSOM DERs. However, there is no mention of what that investment entails and how it should be implemented. SDG&E continues to monitor the development of the DER Action Plan and will work to implement any recommendations as they are developed—however those are not yet finalized.[1428] SDG&E reiterates that all proposed projects are screened for possible deferral by USOM and/or CSOM DERs through the Distribution Investment Deferral Framework (DIDF).[1429] The results of the screening are reported in the SDG&E's annual Distribution Deferral Opportunities Report (DDOR). Projects that cannot be deferred by USOM or CSOM DERs are filed in the GRC. Contrary to UCAN's unfounded assertions,[1430] the implementation of DERs has been considered in both GRC investments and distribution operations.

[1426] Ex. SDG&E-11-R-E (Reyes) at 177.

[1427] *Id.*

[1428] Ex. SDG&E-211 (Reyes) at 43.

[1429] *Id.*

[1430] UCAN OB at 114.

Further, as addressed in detail in Ms. Reyes' rebuttal testimony, SDG&E's capacity and load research projects are reasonable and necessary to support Commission mandated activities,[1431] and to provide reliable and safe service to SDG&E's customers.

20.1.2.2 Franchise Costs

The Commission should decline to adopt Cal Advocates' recommendations regarding Franchise Costs. As previously explained by SDG&E, franchise project schedules and completion dates are continuously evaluated and revised based upon numerous factors specific to each project, including permitting and required authorizations.[1432] Although SDG&E may be experiencing delays when taking momentary snapshots in time of various project schedules, the exact opposite may be the case at a given point in the future. Since the requested revenue proposed within the direct testimony follows a consistent forecast methodology that accounts for potential project delays and accelerations, the Commission should not accept Cal Advocates' recommended modifications to the requests made within the direct testimony associated with this spending category.[1433]

Moreover, the Rate Case Plan prohibits SDG&E from updating its data and evidence in the manner Cal Advocates suggests, stating: "No bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed, except as provided [in update testimony]."[1434] Were the Commission to ignore this prohibition, it would result at best in a prejudicially project-selective update without corresponding analysis of resultant impacts elsewhere. At worst, it could result in a never-ending and unmanageable cycle of full-case updates, SDG&E's forecasts are reasonable and consistent with past GRC precedent and should be approved.

20.1.2.3 New Business

Cal Advocates does not oppose SDG&E's capital forecasts for the following programs in the New Business category: Electric Distribution Easements, New Service Installations, and

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1431 *See* Ex. SDG&E-211 (Reyes) at 43-44 (rebutting UCAN's recommendations regarding load research and DLP electric metering project); *id.* at 43 (rebutting UCAN recommendations regarding capacity).

1432 *Id.* at 26.

1433 *Id.*

1434 D.07-07-004 (Rate Case Plan), Appendix A at A-12. The Rate Case Plan was established by D.89-01-040 and modified by D.93-07-030, D.07-07-004, D.14-06-018, and D.20-01-002.

Transformer & Meter Installations. SDG&E has thoroughly rebutted Cal Advocates' recommended reductions related to SDG&E's New Business proposals[1435] in its Rebuttal Testimony and Opening Brief. There are several reasons to reject Cal Advocates proposed forecasts, including the fact that their calculations appear to be based on information that included both direct and indirect costs, which results in inflation of the collectible percentages. SDG&E provided a revised table in SDG&E-211 with collectible percentages that include historical information and direct costs only. SDG&E's New Business forecasts are reasonable, accurate, and justified to support the ongoing needs of its customers and should be approved.

20.2 Electric Distribution – O&M

In their Opening Briefs, Cal Advocates, TURN, CUE, FEA and UCAN address various issues regarding SDG&E's TY 2024 forecasts for non-shared O&M expenses associated with Electric Distribution. Several parties' Opening Briefs largely track the positions they set forth in their testimony – which SDG&E addressed in its rebuttal testimony and in its Opening Brief. For completeness, SDG&E will include its position on those issues in this Reply Brief and address any additional arguments or evidence that have been submitted.

20.2.1 Responses to General Recommendations

20.2.1.1 TURN's Recommendation re Re-Adjusting Forecast for Storeroom Operations

In its Opening Brief, TURN "recommends that the final decision reflect the agreement among the parties that SDG&E will adjust the storeroom costs budget consistent with any adopted adjustment to the capital forecast."[1436] As noted in it's Opening Brief, SDG&E agrees with TURN's recommendation and agrees to adjust the calculation represented for its O&M storeroom costs once the Commission "approves a final capital plan for SDG&E."[1437]

20.2.1.2 UCAN's Concerns with SDG&E's Grid Modernization Investments are Unfounded

On numerous occasions in its Opening Brief, UCAN attributes broad statements to SDG&E witnesses without providing any reference to a source or a citation to the evidentiary record. For example, UCAN claims without evidentiary support that "Mr. Swetek appears to selectively limit

1435 Ex. CA-07 (Kaur) at 32-33.

1436 TURN OB at 193.

1437 SCG/SDG&E OB at 393 (citation omitted).

DER technology to primarily include only 1) behind the meter renewables (largely solar PVs), 2) USOM BESS, and 3) USOM based DER microgrids."[1438] These representations are not only inaccurate, they are unsupported by evidence and should be ignored by the Commission. It is clear that UCAN manufactures these statements in order to perpetuate the false narrative that SDG&E is hostile towards CSOM and/or DER integration. However, as the evidence demonstrates, this narratively is patently false. As explained in Mr. Swetek's Rebuttal Testimony, SDG&E's Grid Modernization Plan (GMP) is technology-neutral in that it facilitates customer choice in adopting customer-side technology solutions.[1439] For example, the Distribution Interconnection Information System (DIIS), is a foundational technology enabling the integration of numerous CSOM DERs. UCAN's assertions about SDG&E's hostility to CSOM DERs is simply unfounded.

In addition, throughout its Opening Brief, UCAN continues to avoid explaining how grid safety and reliability should be maintained in a high DER environment. UCAN downplays the importance of grid management systems, such as Advanced Distribution Management System (ADMS), Outage Management System (OMS), and Distribution Supervisory control and data acquisition (D-SCADA). As a general matter, UCAN does not seem to understand these functionalities or even the names of these systems;[1440] systems which are commonly recognized by the smart grid industry and in relevant literature.[1441] It is unclear what specific evidence UCAN is relying on in stating these systems are "obsolete," especially considering that UCAN does not have even a basic understanding of what these systems are or do.

UCAN extrapolates industry references regarding a Distribution System Operator (DSO) and mischaracterizes the statements of SDG&E witnesses. For example, UCAN references Mr. Swetek's statement explaining the integration of various grid management technologies to support the functions of a DSO, and asserts that "most smart grid experts would contend the DSO will do

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[1438] UCAN OB at 134.

[1439] Ex. SDG&E-212 (Swetek) at 43-44.

[1440] UCAN refers to ADMS as "Advanced Demand Management System" and OMS as "Operating Management System" at p. 133 of its Opening Brief.

[1441] SCADA, ADMS, OMS and DERMS are all examined in *Department of Energy, Modern Distribution Grid Report: Volume 2 v2.0(2019)* as critical grid modernization technologies. ADMS and DERMS are also brought up in *Grid Works: Evaluating Alternative Distribution System Operator Models for California (March 2022)* as accelerated technological developments that will be key in considering DSO models.

all of these things."[1442] UCAN's sweeping assertion provides no evidence that UCAN actually understands the functions a DSO will be required to perform and no indication of whether UCAN is familiar with the on-going policy discussions concerning DSO responsibilities. UCAN does not explain how, and through what technologies, the DSO "will do all of these things." It should be noted that contrary to what UCAN seems to believe, the DSO is not "software" that replaces the need for critical grid management capabilities. Rather, as the Commission's R.21.06-016 explains, "The term, 'DSO,' is often used in reference to conceptual models designed to efficiently operate distribution systems with high numbers of DERs. The various DSO models present alternative approaches to distribution system planning and operations that may help integrate DERs at least cost by increasing DER market opportunities and value capture while maintaining system safety and reliability." [1443] SDG&E continues to believe that a holistic DSO strategy is essential to accommodate large numbers of DERs. SDG&E's GMP is centered around this strategy. Investments laid out in the GMP are prudent foundational investments for achieving this goal.

UCAN makes a series of policy recommendations in its Opening Brief and makes the nonsensical assertion that SDG&E should divine what the Commission will decide in the several active proceedings.[1444] On August 11, 2023, the Commission issued an Amended Scoping Memo and Ruling for the High DER OIR.[1445] The policy discussions related to DSO roles and responsibilities have yet to even start. They are now scoped to take place in 2024. UCAN's assertion that SDG&E's already-submitted GRC filing and current testimony should reflect the outcome of these discussions is bizarre.

UCAN also states that: "Mr. Swetek says that he is unaware of the automation technologies that are explained in the cross-examination reference from Southern California Edison in the Commission's CalFUSE proceeding, where SDG&E, other California utilities, and some 90 + stakeholders have convened now since July of 2022."[1446] Yet a review of the transcript shows that this statement both unfounded and irrelevant as UCAN did not even present a cross-examination

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1442 UCAN OB at 141.

1443 R.21-06-017, Order Instituting Ruling to Modernize the Electric Grid for a High Distributed Energy Resources Future (July 2, 2021) at 11.

1444 *See, e.g.,* UCAN OB at 123-126.

1445 R.21-06-017, Assigned Commissioner's Amended Scoping Memo and Ruling (August 11, 2023) at 10-11.

1446 UCAN OB at 133.

exhibit involving CalFUSE to Mr. Swetek during cross-examination. All UCAN did was read off several names of businesses that purportedly have automation service provider capabilities and asked Mr. Swetek if he was aware of them. Mr. Swetek responded, "I am aware of those businesses, but I'm not aware to the extent of their automation server provider capabilities within the context of our topic today." [1447] Nothing more was asked. For UCAN to try to discredit Mr. Swetek's knowledge by relying on this exchange in which UCAN did not even mention the CalFUSE proceeding is disingenuous at best. Moreover, SDG&E notes that the ALJ excluded the admission of the SCE CalFUSE pilot document as evidence in this proceeding.[1448] Accordingly, not only is this line of attack unfounded it is outside the scope of the evidentiary record and irrelevant.

Finally, UCAN's Opening Brief recommends that the DER integration-driven projects referenced in SDG&E's GMP be denied.[1449] UCAN's recommendation refers to the DIIS IT projects, DERMS IT project, DRMS and LADC IT projects, which total $5.4 million in TY 2024 and $26.7 million for years 2022 through 2024. As discussed in Mr. Swetek' s Rebuttal Testimony,[1450] SDG&E's GMP closely aligns with state policy and directives and supports integration of CSOM DERs. The requested DER integration-driven projects are responsive to a high DER future, are appropriately scaled and timed, and therefore should not be denied. For purposes of clarity, SDG&E respectfully reminds the Commission and the parties to this proceeding that SDG&E's GMP does not include any funding requests. Instead, the GMP summarizes and references funding requests presented in other chapters of SDG&E's testimony that are relevant to DER integration.

[1447] Tr. V10:1764:3-14 (Swetek).

[1448] Tr. V22:3889:15-3890:19 (ALJ Lakhanpal denying admission of SCE CalFUSE pilot working group update.)

[1449] UCAN OB at 136.

[1450] Ex. SDG&E-212 (Swetek) at 40-45.

20.2.2 Responses to Parties Non-Shared O&M Proposals

20.2.2.1 Reliability and Capacity

20.2.2.1.1 DIIS IT Projects and Interconnection Labor

UCAN's Opening Brief addresses SDG&E's "proposed additional SDG&E O&M request for grid modernization and advanced interconnection and modeling ($1.3 M)."[1451] SDG&E's request 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 "inconsistent with the Commission's priorities, outmoded, and unjustified;" and (ii) they "will face technology obsolescence."[1452] 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 Net Energy Metering Enhancements and DIIS – Rule 21 and Net Energy Metering Enhancements be denied on the grounds that "there are fewer proceedings now that involve interconnection requests, as related proceedings have been consolidated, and evidence is absent that interconnection request will be increasing, particularly in light of decreasing solar PV incentives under NEM 3.0."[1453] UCAN does not take issue with any other aspect of SDG&E's Test Year 2024 costs. SDG&E disagrees with UCAN's recommendation on the following grounds.[1454]

<u>SDG&E's Forecasted Headcount is Justified and Required</u> - 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).[1455] 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

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1451 UCAN OB at 136.

1452 *Id*.

1453 *Id.* at 143.

1454 Ex. SDG&E-212 (Swetek) at 10-14.

1455 *Id.* at 10-11.

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.

Notably, UCAN's Opening Brief contains a section titled, "DER GROWTH LOOKS TO BE EXTRAORDINARY THROUGH 2026 ACROSS THE BOARD."[1456] In that section, UCAN states, "[i]mportantly, as the DER Action Plan 2.0 explains, for the years 2022-2026 high sustained growth of DERs is expected"[1457] and proceeds to summarize the anticipated high growth rates. In addition to the DER growth acknowledged by UCAN, it is also anticipated that aging systems that are no longer function will be replaced. Therefore, UCAN's assertion that DIIS IT funding be denied due to a purported decrease interconnection requests, is belied by its own statements.

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 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.[1458] 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

[1456] UCAN OB at 126.

[1457] *Id*.

[1458] Ex. SDG&E-212 (Swetek) at 11-14.

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 (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.

20.2.2.2 Construction Management

No party has stated any opposition to SDG&E's O&M forecast related to Construction Management. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.3 Electric Systems Operation

Both Cal Advocates and the Federal Executive Agencies (FEA) contest SDG&E's Test Year 2024 Forecast for Electric System Operations in their Opening Briefs, specifically with regards to non-labor expenses related to storeroom activities. Additionally, UCAN contests both labor and IT capital project needs in its Opening Brief. SDG&E responds to each of their concerns individually:

Cal Advocates - In its Opening Brief, Cal Advocates summarizes its issues with SDG&E's forecasting for non-labor storeroom 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.[1459]

Cal Advocates argues that "SDG&E does not maintain records of the specific number of items and/or materials that are kept in its storeroom or track the amount of materials that are being removed and used each day for projects."[1460] Based on the methodology, Cal Advocates concludes that "SDG&E's data request responses also fail to demonstrate that the ratio of O&M to capital dollars in 2021 is an appropriate basis for forecasting future storeroom stock. In fact, SDG&E's methodology results in a significantly higher forecast in TY2024 than in any of the last five years (2017-2021) without any protection for ratepayers if SDG&E uses less storeroom stock than forecasted."[1461]

As stated in its Opening Brief, SDG&E reiterates that 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.[1462] 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.

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, their forecast of $25.1 million would be far less than actual 2022 costs of $30.908 million. This would result 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.

1459 Cal Advocates OB at 168.

1460 *Id*. at 165 (citation omitted).

1461 *Id.* at 168 (citation omitted).

1462 SCG/SDG&E OB at 390; Ex. SDG&E-12-WP-R (Swetek) at 42.

FEA – In its Opening Brief, FEA summarizes its issues with SDG&E's non-labor forecasting for storeroom expenses and recommends applying a base year 2022 forecast methodology for Test Year 2024 for Electric System Operations of $35.73 million.[1463] FEA expresses two primary concerns. The first concern is with the correlation SDG&E utilizes to forecast storeroom O&M costs based on total capital spend and argue that "historical record does not support this method."[1464] FEA also states that "storeroom costs increased each year, total capital spending did not."[1465] The second concern FEA expresses is that "in 2022, the company [SDG&E] spent below the amount it forecasted in its application for this expense." This leads to a conclusion that "as 2022 spending fell short of the forecast, there is a concern that the 2024 forecast may be overstated as well." FEA also acknowledged in its Opening Brief, the clarification that SDG&E's storeroom expenses support both gas and electric infrastructure work.[1466]

As explained in its Opening Brief, SDG&E reiterates that each of these concerns is unfounded.[1467] First, with respect to FEA's concern that the increase in storeroom costs in historical years 2018-2019 occurred when capital did not increase; 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 to deliver to those sites. 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.

1463 FEA OB at 7.

1464 *Id.* at 6.

1465 *Id.*

1466 *Id.* at 6-7.

1467 SCG/SDG&E OB at 391-392.

To address FEA's second concern, SDG&E also disagrees with FEA that SDG&E's TY 2024 forecast is overstated. To the contrary, SDG&E's position is that its forecast for TY 2024[1468] 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. 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.

UCAN - UCAN's Opening Brief addresses SDG&E's "proposed additional SDG&E O&M request for grid modernization and advanced interconnection and modeling ($1.3 M)."[1469] This reference includes $519,000 in O&M labor in Electric System Operations. UCAN recommends that this request be denied and the grounds that (i) the projects are "inconsistent with the Commission's priorities, outmoded, and unjustified;" and (ii) they "will face technology obsolescence."[1470] UCAN also recommends that SDG&E's request for the funding of IT capital projects Enterprise Distributed Energy Resource Management System (DERMS) on the grounds that "DERMS and a set of other technologies, in lieu of a DSO, is ill founded to achieve the aims he outlines, and inconsistent with the Commission's guidance found in numerous decisions."[1471] UCAN lists this project as 00920BA in its brief. SDG&E disagrees with these recommendations and responds as follows.

Labor Resources **-** As identified in its Opening Brief, UCAN is contesting SDG&E's request for $519,000 in increased GRC Test Year 2024 O&M expenses. This expense include labor consisting of four main categories: (1) System Operator Training Resources; (2) Engineering

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1468 Ex. SDG&E-12-WP-R-E (Swetek) at 42.

1469 UCAN OB at 136.

1470 *Id.*

1471 *Id.* at 142.

skills needed for advanced system modeling; (3) Technologists and Analysts to support the hardware and software comprising the SCADA head-end system; and (4) 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 on, 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-meter DERs) and provides the added capability of either directly controlling or indirectly scheduling those resources for use in avoiding potential electric distribution system issues (*e.g.*, controlling power flows within the thermal capabilities of distribution equipment), and for mitigating those issues when they cannot be avoided (*e.g.*, in the event of unplanned outages).

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. UCAN's assertion that technology and workforce development is unjustified and outmoded is incorrect and unsupported. 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 accommodate high levels of customer DER adoption. Such adoption will increase the amount of customer-supplied DER telemetry which is necessary for SDG&E to integrate those resources into its operations, including the underlying modeling necessary to predict and respond to adverse impacts that DERs can cause to SDG&E's facilities. Such modeling will allow SDG&E to forecast grid performance and provide schedules for the large DERs that are critical to a well-functioning system.

SDG&E's labor and technology investments support both DER advancement and safety and reliability. Simply put, continued investment in SCADA and ADMS technologies are 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. 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 Mr. Swetek's direct testimony, he 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 data."[1472] 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 the ability to realize the benefits that the infrastructure provides.

Enterprise Distributed Energy Resource Management System (DERMS) (00920BA) - UCAN expresses several concerns, most notably for "technology obsolescence…" specifically, that SDG&E's DERMS would not be capable of meeting all of the requirements that could enable "a wholistic DSO [function] soon."[1473] Those concerns are misplaced. UCAN incorrectly assumes that SDG&E is implementing a system incapable of integrating and supporting programs designed for CSOM DERs. SDG&E's proposed DERMS solution focuses specifically on optimizing scheduling of large utility-side-of-meter DERs because these are the resources whose control will provide immediate benefit.

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 of market dispatch for electric distribution services and integration with customer-side-of-meter DER's. 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."[1474] With high levels of uncertainty as to the incentive mechanisms, future roles between entities within a DERMS system, and Commission-led requirements, SDG&E chooses to focus testimony on justifying a DERMS system based on near-term and known

[1472] Ex. SDG&E-12-R-E (Swetek) at 3-4.

[1473] UCAN OB at 141.

[1474] Ex. UCAN-01-E (Woychik) at 9.

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. SDG&E will choose a DERMS system vendor that has those capabilities in its technology roadmap.[1475]

SDG&E also clarified in testimony that it does not have a "moral hazard problem"[1476] as near-term goals include DERMS integration with both utility and non-SDG&E commercial DERs that provide grid level export.[1477] 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.

Smart Grid Operations (00920C) **-** UCAN recommends that Smart Grid Operations (SGO), be denied.[1478] SDG&E clarifies that UCAN's arguments are directed towards the Demand Response Management System (DRMS), which is project 00900C and not project 00920C as incorrectly identified in UCAN's Opening Brief. Outside of a general statement that "The holistic DSO, as proposed in the DER Action Plan 2.0 and explained in related Commission decisions, will make obsolete the following technology,"[1479] UCAN does not explicitly contest the need for upgrades to the Advanced Distribution Management System (ADMS) which is supported by the Smart Grid Operations project (00920C). UCAN notes that "While the SDG&E GMP explains the Advanced Demand Management System (ADMS) and OMS as well, these are for digital switching management at the distribution level, roles that are in SDG&E's scenarios unrelated to DER management."[1480] UCAN's assumption that the ADMS has no function in DER management is incorrect. Unlike other ADMS systems that can only incorporate DER resources through a DERMS, SDG&E's ADMS has the capability of both forecasting and modeling DERs (both generation and loads) on SDG&E's system to create stronger situational awareness of the impacts of those DERs. This allows the ADMS to serve the key DER management function that UCAN

1475 Ex. SDG&E-12-R-E (Swetek), Appendix C at 21-22

1476 UCAN OB at 141.

1477 Ex. SDG&E-212 (Swetek) at 21.

1478 UCAN OB at 146-147.

1479 *Id.* at 140.

1480 *Id.* at 133.

identifies as "Day-ahead and real-time forecasting of system needs to inform DER dispatch."[1481] Additionally, SDG&E does employ DER modeling using "AMI infrastructure (smart meter 1.0) at scale to enable real time grid management and control,"[1482] another capability that UCAN identifies. The ADMS intakes historical smart meter data to create customer load and DER profiles that are utilized in the ADMS' forecast of DER behavior on the system. SDG&E contends that the ADMS is a critical system requiring continued investment for employee and community safety, managing electric system reliability, and in enabling both adaptation and integration of DER's onto SDG&E's electric system. For these reasons, the forecast expenses related to the Smart Grid Operations IT project should be approved by the Commission.

20.2.2.4 Electric Transmission & Distribution Operations Services

No party has stated any specific opposition to SDG&E's O&M forecast related to Electric Transmission & Distribution Operations Services. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.5 Electric Transmission & Distribution Substation Construction & Operations

No party has stated any specific opposition to SDG&E's O&M forecast related to Electric Transmission & Distribution Substation Construction & Operations. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.6 Distribution Design and Project Management

No party has stated any specific opposition to SDG&E's O&M forecast related to Distribution Design and Project Management. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.7 Electric Regional Operations

In their Opening Briefs, 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.[1483] In contrast to Cal Advocates and TURN's positions, CUE argues that "[t]he Commission should reject proposals to reduce labor forecasts in the ERO Expense budget, which supports lineworker hiring necessary to maintain a

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[1481] *Id.* at 125.

[1482] *Id.*

[1483] *See* Cal Advocates OB at 170; TURN OB at 194.

safe and reliable electric distribution grid."[1484] For its part, FEA takes issue with SDG&E's forecasting methodology and non-labor incremental forecast.[1485] SDG&E responds to each of these intervenor's position below and explains why its GRC TY 2024 forecast for Electric Regional Operations O&M is reasonable and should be approved.

Cal Advocates - Cal Advocates recommends the Commission authorize SDG&E's Electric Regional Operations O&M expenses in the amount of $36.004 million. Cal Advocates used a five-year average of SDG&E's recorded labor costs to develop its recommendation. Cal Advocates does not oppose SDG&E's non-labor expense ERO forecast.[1486] Cal Advocates opposes SDG&E's GRC TY 2024 labor forecast for 8 linemen and 24 line assistants because they feel SDG&E did not "provide verifiable and traceable documentation to demonstrate its historical staffing levels were less than the staffing levels used to develop its TY 2024 forecast."[1487] Additionally, Cal Advocates argues that "[r]eplacing full-time employees that left SDG&E with new employees, most of which are a different job class with a lower hour rate, does not necessarily increase total labor costs."[1488]

As identified in SDG&E's Opening Brief, 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.[1489] SDG&E's base year forecast methodology inherently incorporates prior multi-year attrition due to the loss of lineman over time not being present in prior year's budgets. 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.[1490] This evidence demonstrates an error in Cal Advocates' assumption that Linemen attrition is solely the cause of data provided such as terminations, resignations, and

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1484 CUE OB at 34 (citation omitted).

1485 FEA OB at 3.

1486 Cal Advocates OB at 170.

1487 *Id.* at 171 (citation omitted).

1488 *Id.* (citation omitted).

1489 SCG/SDG&E OB at 396; Ex. SDG&E-212 (Swetek) at 22-23.

1490 Ex. SDG&E-212 (Swetek), at Appendix B, Data Request No. PAO-SDGE-093-RYD, Question 3.

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 takes 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.[1491]

In lieu of the data that was not tracked, SDG&E provided clear evidence on the number of Lineman employed, showing a downward trend from 2017-2021.[1492] The table below demonstrates this trend. In addition, SDG&E provided a study 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.[1493] 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> – In TURN's Opening Brief, they recommend 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 does not oppose the non-labor portions of the forecast. TURN argues that "SDG&E did not meet the burden to demonstrate in its direct testimony that these costs are necessary and that increased hiring is required."[1494] TURN focuses on an analysis of both historic man-hours and maintenance activities in an attempt to disprove that the incremental hiring of linemen and line assistants cause incremental costs.[1495] SDG&E disagrees that it did not meet the burden to demonstrate its need.

[1491] *Id.* at Question 4.

[1492] *Id.*

[1493] *Id.*

[1494] TURN OB at 194 (citation omitted).

[1495] *Id.* at 197.

First, SDG&E reiterates the urgent need to aggressively onboard skilled labor to support electric system 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, emergency and outage response, and infrastructure repair and replacement.[1496]

Second, TURN misconstrues the purpose of SDG&E providing pole inspection data. SDG&E did not provide the data to justify its request for additional linemen, but rather to explain that there are fluctuations in its annual spend in maintenance programs that average over time. These fluctuations are not accounted for in SDG&E's forecast and may cause under/over spend, and increased/decreased labor demand relative to SDG&E's GRC forecast. The provided pole inspections data is one large driver of costs within the ERO cost category that is expected to consistently increase in coming years. Although the pole inspection program is a large driver, it is not the sole driver. Staffing and experience levels, wage inflation above industry averages, the number/frequency/type of failures on SDG&E's system, the frequency of inclement weather events, and other maintenance program cycles also drive costs within the Electric Regional Operations cost category. In addition, all capital work conducted has an associated O&M expense and will increase as capital work increases. As further evidence relative to the wood pole inspection program previously mentioned in SDG&E's Opening Brief, although SDG&E saw reduced O&M costs in 2022, it expects maintenance intervals to increase in future years and driving costs to average to the SDG&E's forecast over time.[1497] 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."[1498] The table below, which is also found in TURN's Opening Brief, highlights this increase in workloads.

[1496] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. PAO-SDGE-093-RYD, Question 4.

[1497] SCG/SDG&E OB at 398.

[1498] Ex. SDG&E-12-R-E (Swetek) at 69-70.

Calendar Year	WPI Total Planned	Count in Non-HFTD	Count in HFTD
2021*	21,071	12,299	8,772
2022*	17,944	17,472	472
2023	19,679	19,603	76
2024	19,724	19,724	0
2025	20,183	19,836	347
2026	21,026	19,745	1,281
2027	17,641	11,706	5,935
2028	15,403	2,555	12,848
2029	18,673	773	17,900
2030	13,956	2,161	11,795
2031	22,740	13,604	9,136
2032	20,500	20,172	328

***Represent Actual inspections performed v. planned inspections**

<u>CUE</u> – CUE supports SDG&E's requested forecast in support of hiring linemen and line assistants and provides details to the benefits of the program.[1499] In their Opening Brief, they also state "[t]o the extent SDG&E has been underspending forecasted funds earmarked for lineworker attrition, the Commission should find ways to encourage maintenance of an adequate workforce, instead of reducing investment. CUE recommends that the Commission adopt a SRIIM for this purpose."[1500]

SDG&E agrees with CUE and reiterates the need to hire 8 linemen and 24 line assistants to address attrition in this critically important position for electric system safety and reliability. Additionally, SDG&E responds that it would need to consider proposals and targets tied to a SRIIM program prior to taking a position on the program merits.

<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) "Supporting documentation for the non-labor TY2024 increase was requested

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1499 CUE OB at 35.

1500 *Id.* at 34.

but none was provided;"[1501] (ii) "labor [costs] declined from 2020-2022.[1502];" and (iii) "the five-year average amount is very close to the 2022 [realized] cost of $35.712 million."[1503] SDG&E disagrees with FEA's recommendation and reiterates the accuracy of its revised Test Year 2024 forecast of $39.669 million.

<u>*SDG&E Provided Supporting Documentation for Non-Labor Increases*</u> - SDG&E's forecasted other non-labor incremental increase in 2022, 2023 and 2024 is the result of three main drivers.[1504] 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.

<u>*Analysis of Labor Cost Decreases from 2020-2022*</u> - FEA's analysis of labor costs decreasing from 2020-2022 is flawed as it fails to take into consideration the rising cost per hour for skilled labor and fluctuations both up and down in workloads from year to year. By only considering the total labor cost, they are led to the incorrect conclusion that skilled labor costs and/or workloads have decreased over time and are trending down. By further examining the data provided to TURN, it is apparent that the average labor cost per hour worked has been steadily increasing over time. This information is provided below. Furthermore, total O&M related work within the Electric Regional Operations cost category dipped nearly 10% below the 5-year average

[1501] FEA OB at 3 (citation omitted).

[1502] *Id.* at 5

[1503] *Id.* 5

[1504] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-001, Question 1.41.

in 2022, due to a reduction in extreme weather events, timing of maintenance intervals, and resources being reallocated to capital work for training and development.

	2017	2018	2019	2020	2021	2022
Total Labor in 2021$ (in 000) Incurred Costs	21,799	22,719	23,191	28,635	23,983	22,707
Total Hours (Union and Non-Union ST+OT)	330,294	328,675	340,341	389,496	327,267	303,638
Total Labor in 2021$/Total Hours	66.00	69.12	68.14	73.52	73.28	74.78

20.2.2.8 Skills & Compliance Training

Both Cal Advocates and FEA take issue with SDG&E's forecast methodology for Skills and Compliance Training and provide alternative forecast methods. SDG&E addresses their respective arguments below.

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.[1505] 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.'"[1506] Cal Advocates argues that "SDG&E's estimate relies on its 2021 recorded adjusted expenses of $1.775 million, which were the highest in the last five years (2017-2021) and $1.055 million higher than its five-year average (2017-2021) of $720,000."[1507] Cal Advocates' general assumption appears to be that SDG&E's 2021 expenses are a temporary increase and "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."[1508] 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.

First, SDG&E disagrees with Cal Advocates' general assessment that costs for the Industrial Athletic Trainer and Electric Hazard Awareness programs can be absorbed into

[1505] Cal Advocates OB at 177.

[1506] *Id.* (citation omitted).

[1507] *Id.* at 177 (citation omitted).

[1508] Ex. CA-08 (Andresen) at 20-21.

SDG&E's current budgets.[1509] The assumption is based on a historical analysis of prior spend within the organization, noting that 2021 costs are likely an outlier and not permanent. The continued heightened spend in 2022 of $2.855 million disproves that assumption, especially because SDG&E was unable to hire all of the resources necessary for its Industrial Athletic Trainer and Hazard Awareness Training programs (*see* FEA section below for more details).

Second, Cal Advocates continues to rely on a flawed analysis comparing the TY2024 GRC historical spend to the TY2019 GRC authorized spend. 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 TY2024 GRC.[1510] Cal Advocates refers to a data request, in which SDG&E attempts to respond to Cal Advocates regarding large variances in costs relative to the 2019 GRC authorize numbers.[1511] The referenced response was never intended to be a thorough and accurate analysis. Additionally, similar to responses to the data request, Cal Advocates notes a "one-sided adjustment moving 70% of labor and non-labor costs associated with training, which are now allocated to the applicable capital overhead pool account to better align with the type of work supported."[1512] Cal Advocates erroneously assumes in its analysis that all expenses within the Skills and Compliance Training cost category are subject to the 70% training capital allocation accounting shift. On the contrary, there are some costs within the Skills and Compliance Training cost category that have higher O&M allocation and did not change leading to further error. For these reasons, SDG&E contends that the analysis performed to compare the TY2019 GRC authorized budgets and the TY2024 GRC historical spend is inaccurate and should not be utilized by the Commission in its decision.

<u>FEA</u> - FEA recommends the use of a 2022 base year forecast for TY 2024 of $2.855million for Skills and Compliance. FEA argues that "the company did not address underspending of this category for the years 2017-2021."[1513] Additionally, FEA explains that "due to an accounting change, the amount of this cost charged to expense in 2022 was lower."[1514] FEA

1509 Ex. SDG&E-212 (Swetek) at 29.

1510 *Id.* at 28.

1511 *Id.* at Appendix B, Data Request No. PAO-SDGE-015-RYD, Question 1H.

1512 Cal Advocates OB at 178 (citation omitted).

1513 FEA OB at 11.

1514 *Id.*

then proceeds to argue that "[s]ince the costs trended up from 2018-2022, FEA recommends that the 2022 actual cost be used for the TY2024 forecast."[1515]

As expressed in its Opening Brief, SDG&E disagrees with FEA's limited analysis of historical spend.[1516] With respect to FEA's argument that 2022 actual costs represent "the most known and measurable amount,"[1517] 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. SDG&E hired the forecasted three Industrial Trainers in late 2022 and early 2023,[1518] meaning that SDG&E's 2022 actual costs included only partial-year expenses for two of the three trainers and no costs. SDG&E also had difficulty hiring the Hazard Awareness Trainers due to an inability to find suitable candidates, delaying the implementation of the program.[1519] 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.

As outlined in its Opening Brief, SDG&E documented that the O&M and Capital allocation for the Industrial Athletic Trainer resources changed, further reducing realized expenses in 2022.[1520] FEA notes that "it has further decreased the portion of this cost allocation to expense from 100% to 30% to 20%."[1521] SDG&E does recognize that it annually reviews charging practices to ensure best accounting practices and these reviews often result in O&M cost increases as well as decreases. An example of a cost increase is outlined in the Service Order Team workpapers.[1522] Additionally, FEA is incorrect in its assumption that all of the Skills and Compliance training cost category is subject to the decreased O&M accounting change. As mentioned in SDG&E's reply to Cal Advocates, only activities directly related to training were

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1515 *Id.*

1516 SCG/SDG&E OB at 402-403.

1517 Ex. FEA-01 (Smith) at 33-34.

1518 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-004, Question 1b.

1519 *Id.* at Question 5.

1520 SCG/SDG&E OB at 403.

1521 FEA OB at 11 (citation omitted).

1522 SDGE-12-WP-R-E (Swetek) at 146.

subject to these changes. SDG&E affirms that its TY 2024 forecasted expenses are needed and accurate.

20.2.2.9 Service Order Team

No party has stated any opposition to SDG&E's O&M forecast related to its Service Order Team. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.10 Electrical Engineering

No party has stated any opposition to SDG&E's O&M forecast related to its Electrical Engineering. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.11 Troubleshooting

No party has stated any opposition to SDG&E's O&M forecast related to its Troubleshooting. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.12 Portfolio & Project Management

No party has stated any opposition to SDG&E's O&M forecast related to Portfolio & Project Management. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.13 Compliance Management

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. FEA also takes issue with SDG&E's forecasting methodology. SDG&E addresses each intervenor's respective 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 did not provide any examples of existing engineering and support contracts to substantiate its response;"[1523] (ii) "SDG&E also does not identify a clear scope of work that will be funded through its Compliance Management forecast;"[1524] (iii) "[SDG&E]

[1523] Cal Advocates OB at 181 (citation omitted).

[1524] *Id*. at 182

SDG&E's estimate of '$200,000 annually' also contradicts its workpapers, which only include the $200,000 licensing fee estimate in its TY2024 forecast, and not in the forecast in any other year during which the pole attachment data points work will be performed;"[1525] (iv) "SDG&E does not demonstrate that its pole attachments data points work is incremental to existing funds;"[1526] and (v) "it [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."[1527] 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.[1528]

SDG&E disagrees with Cal Advocates' position that the Pole Attachment Data Compliance program is unsupported and reiterates its need for its forecasted funds to meet compliance with Commission regulation.[1529] As it argued in testimony, Cal Advocates states that "SDG&E did not provide any supporting documentation in its response,"[1530] focusing particularly on the fact that "SDG&E did not provide any examples of existing engineering and support contracts to substantiate its response." 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.[1531] 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.[1532] The remaining 25% of poles are estimated to have current pole loading calculations or data more easily accessible to populate the 20 data points. SDG&E has also provided additional details, including correcting prior statements that the ongoing

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1525 *Id.* at 183.

1526 *Id.* at 184.

1527 *Id.*

1528 *Id.* at 180.

1529 Ex. SDG&E-212 (Swetek) at 32-35.

1530 Ex. CA-08 (Andresen) at 26.

1531 Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. PAO-SDGE-124-RYD, Question 1a.

1532 *Id.* at Question 1a.

$200,000 maintenance charge was related to necessary contract services to maintain the database and not licensing fees.[1533] 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.

It is important to understand that most of the work to meet compliance with the regulation's required Phase 2 data points are not currently readily available to the utility. As such, SDG&E will need to undertake a significant data collection exercise, such as through review and data entry from as-built documents, perform field surveys to gather the data, or data extraction from pole loading software. These activities will be incremental costs incurred in the Compliance Management cost category. Note, however, that there are a number of questions outstanding regarding the interpretation of these data points that need to be clarified during the Phase 2 workshops. At this juncture, SDG&E does not anticipate entering into a contractor agreement for the required work for Phase 2 compliance until after the workshops are held, with an earliest possible date of November 2023.

Contrary to Cal Advocates' contentions, SDG&E believes that this justification and explanation of its compliance efforts provides a strong basis for its compliance program and the 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.[1534] FEA recommends $2.175 million Test Year 2024 forecast be applied to Compliance Management. FEA's basis for their recommendation is: (i) "the Company [SDG&E] spent below the authorized amount in the last three years" and "in 2022 the Company spent significantly below the amount it forecast;"[1535] and (ii) "support for the incremental increase was not provided."[1536]

1533 *Id.* at Question 1d.

1534 FEA OB at 7-9.

1535 *Id.* at 8.

1536 *Id.* at 9.

SDG&E disagrees with FEA's position as it has multiple flaws.[1537] 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 as outlined in further detail below. FEA claims that it had no prior knowledge that this analysis could be flawed when it states "[t]he response provided by the Company was that the Commission authorized amounts for those years but did not state that the amounts were not comparable…"[1538] SDG&E would like to be clear that it did in fact share this information in the discovery process in this proceeding.[1539] Although SDG&E noted the inaccuracies, it made a good-faith effort to provide data as requested.

In addition, SDG&E notes that the 2022 forecasted costs were accurate to the best of its knowledge 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 percentage of poles that needed to be fielded for attachment. Lastly, utilizing a simple 5-year average completely disregards SDG&E's forecasted upward pressures. When considering 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. SDG&E addresses FEA's specific arguments below.

<u>*Comparing 2024 GRC Historical Costs to 2019 Approved Expenses is Flawed*</u> – 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.[1540] 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.[1541] 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

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[1537] Ex. SDG&E-212 (Swetek) at 35-37.

[1538] FEA OB at 9.

[1539] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-002, Question 2.13.

[1540] FEA OB at 8.

[1541] Ex. SDG&E-212 (Swetek) at Appendix B, Data Request No. FEA-SDGE-002, Question 13.

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.

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.[1542] 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.[1543]

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.[1544] SDG&E detailed the reasons for those delays in rebuttal testimony, including diligence and prudence to ensure clarity of the regulation through workshops before incurring expenses. Accordingly, the fielding costs are not anticipated to start 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.[1545] 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 preconstruction assessment, for an average of 11,000 poles; however, it only performed field

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[1542] FEA OB at 9.

[1543] Ex. SDG&E-212 (Swetek) at 37.

[1544] *Id*.

[1545] *Id*.

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.[1546] 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.[1547] 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.[1548]

20.2.2.14 Officer

No party has stated any specific opposition to SDG&E's O&M forecast related to the Officer category. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.2.2.15 Regional Public Affairs

No party has stated any specific opposition to SDG&E's O&M forecast related to Regional Public Affairs. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the Opening Brief.

20.3 Wildfire Mitigation

SDG&E's wildfire mitigation forecasts support the reduction of wildfire and PSPS risk to meet statutory and regulatory requirements and promote public safety and resiliency. SDG&E relied on its years of experience and innovation in wildfire mitigation, enhanced data analysis and risk models, and efficiencies realized from proven performance to develop its wildfire mitigation

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[1546] *Id*.

[1547] D.22-10-025 at 39, OP 2, and Attachment A.

[1548] Assembly Bill 1665, Eduardo Garcia. Telecommunications: California Advanced Services Fund.

proposals.[1549] The extensive workpapers and testimony submitted in support of SDG&E's application meet SDG&E's burden to establish that the entirety of SDG&E's proposals are reasonable and justified, and that they should be approved in full.

To that end, parties dispute very few of SDG&E's forecasts related to wildfire mitigation and the bulk of the recommended adjustments[1550] and reductions are focused on the largest area of proposed investment—grid hardening. Cal Advocates generally agrees with SDG&E's approach to strategic undergrounding and covered conductor installation, but recommends a cost cap structure to incentivize hardening in the highest risk areas. TURN recommends significant reductions to SDG&E's overall grid hardening targets and opposes the extent of SDG&E's strategic undergrounding proposals. MGRA takes issues with the assumptions underlying SDG&E's risk models and advocates for unspecified reductions to the scope of SDG&E's proposed undergrounding. PCF and SBUA make generalized objections to SDG&E's wildfire mitigation proposals, or recommends outright denial of SDG&E's requests, in favor of grid alternatives such as local solar-plus-storage (SPS) and microgrids. As most of the parties' positions are unchanged from their testimony, SDG&E focuses on new areas of argument responding to SDG&E's Rebuttal Testimony and in the various briefs.[1551]

Utility wildfire safety continues to be one of the most important issues that SDG&E must address to reflect the Company's values and to achieve the mandates set forth by AB 1054 and SB 901. We are at a turning point in statewide wildfire mitigation, where utilities must begin to change focus from short-term, reactionary efforts to temporarily address wildfire risk, to a sustained approach that adequately prepares the grid for not only wildfire risks, but also the hazards associated with climate change, without significantly sacrificing reliability and resiliency. The Commission, the Legislature, and the Office of Energy Infrastructure Safety continue to repeatedly emphasize that reliance on de-energization and sensitive relay settings that adversely impact reliability cannot serve as solutions in perpetuity. SDG&E's proposal to strategically underground the highest risk areas of its service territory, install covered conductor on additional lines, and continue additional inspections, maintenance, and vegetation management to address

1549 Ex. SDG&E-49-S-E (Geraghty) at 8.

1550 *See e.g.*, TURN OB at 232 ("TURN has not proposed any adjustments to SDG&E's forecast of $400 million in non-hardening capital and $700 million in wildfire-related O&M costs.")

1551 SDG&E refers back to the OB, which addresses all identified areas of dispute.

residual or continued risk places its service territory in the best position to mitigate risk both now and in the future.

The various party positions concerning grid hardening call upon the Commission to decide whether wildfire risk reduction is a singular goal, or whether it is incumbent upon the electrical corporations to reduce wildfire risk without sparing reliability for the thousands of customers at risk for PSPS. SDG&E is committed to safe *and* reliable provision of electrical service to its customers as we enter an era of unpredictable and fluctuating climate risk. The Commission should decide—consistent with statutory direction, public safety needs, and in preparation for ongoing all-hazards risks associated with climate change—that SDG&E's "least regrets" proposal to balance strategic undergrounding with covered conductor installation is the appropriate and reasonable approach to maximizing utility wildfire risk reduction and reducing PSPS impacts. To do otherwise leaves customers facing long-term PSPS impacts and fails to prepare the California grid for the resiliency necessary in the face of electrification and climate change risk.

20.3.1 SDG&E's Wildfire Mitigation Obligations

20.3.1.1 SDG&E Must Comply With its Approved Wildfire Mitigation Plan

SDG&E has already detailed the history of its wildfire mitigation program and the evolution of the Wildfire Mitigation Plan (WMP) after the passage of SB 901 and AB 1054. Since its first WMP in 2019, SDG&E has developed a comprehensive wildfire mitigation strategy and its 2023-2025 WMP—which covers the Test Year for this case and SDG&E's forecasted work—articulates SDG&E's current "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."[1552] The targets and initiatives described in the SDG&E's WMP also support SDG&E's ability to comply with 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."[1553]

1552 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, *available at:* https://www.sdge.com/sites/default/files/regulatory/Resolution%20Ratifying%20Actions%20of%20OEIS%20on%20SDG%26E%202022%20WMP.pdf.

1553 Cal. Pub. Util. Code § 8386(a).

SDG&E's WMP incorporates the wealth of data and technological advancement that SDG&E has realized since the first WMP was submitted in 2019. SDG&E's situational awareness capabilities, meteorology, and risk assessment continue to mature and set an industry standard for peer organizations. This data is also fed into SDG&E's risk investment model, WiNGS-Planning (WiNGS), to foster a granular, circuit-segment level assessment of risk to determine optimal hardening strategies. As recently addressed by the Office of Energy Infrastructure Safety (Energy Safety):

> SDG&E has a relatively strong Wildfire Mitigation Plan compared to the plans of the other large electrical corporations. SDG&E knows its wildfire risk and is focused on the highest risk circuits on its system. In particular it is relatively strong in its vegetation management, situational awareness, emergency preparedness, and community outreach and engagement.[1554]

As SDG&E's 2023-2025 WMP nears final approval, it is important that the Commission consider that SDG&E is statutorily obligated to comply with its WMP initiatives, targets, and goals.[1555] If SDG&E's wildfire mitigation activities go underfunded, SDG&E risks a finding that it has failed to substantially comply with its WMP, which can result in assessment of mandatory penalties by the Commission.[1556] So while WMP approval is not synonymous with approval of associated costs—which are being properly addressed through the GRC process—it would be a deeply perverse outcome to penalize SDG&E for failing to substantially complete approved WMP activities, or failing to reach the necessary level of risk reduction, because the Commission denied funding to substantially meet those targets. Failing to fund SDG&E's request for reasonable and approved WMP activities—as TURN, MGRA, and others seem to support—results in the tail wagging the dog, rather than the process functioning in the manner envisioned by the Legislature in passing the WMP legislation.

1554 Office of Energy Infrastructure Safety, Draft Decision on San Diego Gas & Electric Company's 2023-2025 WMP (August 30, 2023). SDG&E requests that the Commission take notice of Energy Safety's approval of SDG&E's 2023-2025 WMP initiatives and proposals. While a final decision regarding approval of the WMP is still pending, Energy Safety's generally positive sentiments regarding its wildfire mitigation programs seem unlikely to change.

1555 Cal. Pub. Util. Code § 8386.1.

1556 *Id.*

20.3.2 SDG&E's Proposals Reasonably Balance Risk and Affordability

TURN cites to SCE's last GRC, noting that "[o]ne of the central tasks in this proceeding is to balance safety and reliability risks with the associated cost to mitigate those risks."[1557] Like SCE, SDG&E is also required to "promote the safety, health, comfort, and convenience of its patrons, employees, and the public, while including only just and reasonable charges in its rates."[1558] SDG&E does not dispute that the hardening investments proposed in this GRC are significant. These investments are a once-in-a-lifetime[1559] program designed "to ensure [SDG&E's] system will achieve the *highest* level of safety, reliability, and resiliency, and to ensure that its system is prepared for a major event," consistent with statutory requirements.[1560] But TURN and others misleadingly imply that SDG&E did not consider rate impacts or affordability in designing its grid hardening proposals.[1561] All evidence points to the contrary. "The goal of [SDG&E's] WiNGS Planning model is to propose lasting, *cost-effective* mitigation to reduce wildfire risk and minimize the impacts of PSPS to SDG&E's customers."[1562]

More so, SDG&E's development of its 83% target for wildfire risk reduction demonstrates that SDG&E reasonably balanced "maximizing the amount of wildfire reduction at a *reasonable cost to ratepayers*."[1563] TURN implies that SDG&E should have first placed an overall cost cap on activities before assessing the risk that needed to be reduced.[1564] SDG&E went about the process in the correct order—first, it looked at grid hardening options, the overall risk reduction associated with each, and the cost of each option.[1565] Without this understanding of the overall risk reduction landscape, it is possible that SDG&E could have ignored potential hardening strategies or missed risk reduction opportunities. With the benefit of this analysis, SDG&E was able to consider the universe of potential hardening strategies—installation of all covered conductor, a balanced mix of

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1557 TURN OB at 201, *citing* D.21-08-036 at 30.

1558 *Id*.

1559 Ex. SDG&E-213 (Woldemariam) at 6.

1560 Cal. Pub. Util. Code § 8386(c)(13) (emphasis added).

1561 TURN OB at 202.

1562 Ex. SDG&E-213 (Woldemariam) at 11.

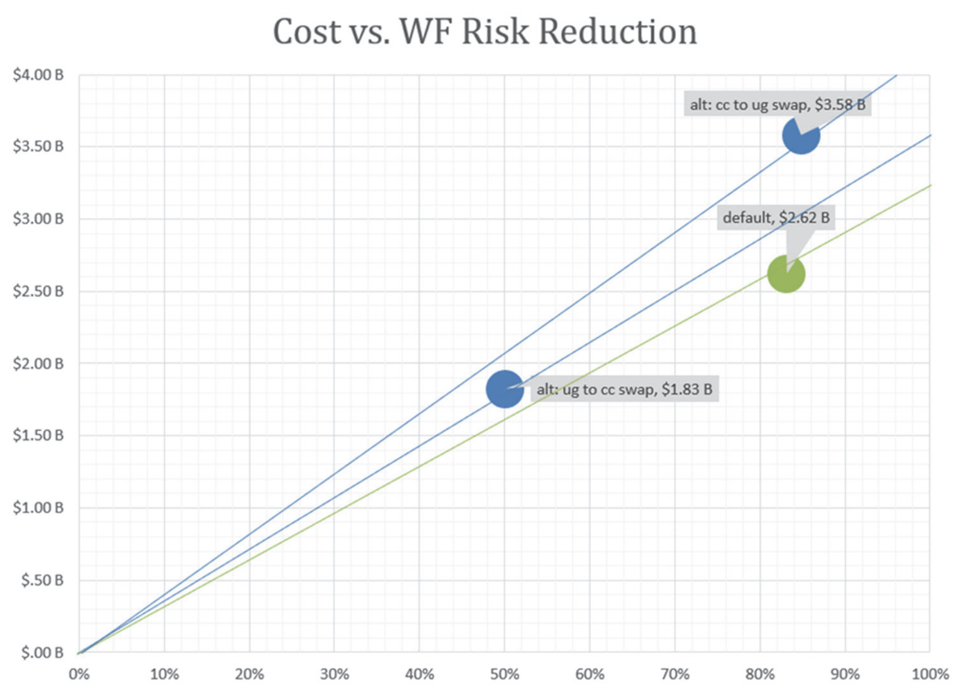
1563 TURN OB at 203 (emphasis added), citing Ex. TURN-507, SDG&E Response to TURN 507, TURN-SEU-72 Q12-b.

1564 TURN OB at 202.

1565 Ex. SDG&E-213 (Woldemariam) at 13-15.

covered conductor and strategic undergrounding, or undergrounding all lines in the HFTD—and identified an approach that balanced risk reduction and affordability. SDG&E's recommended approach, as represented by the green "default" point on the table below, strikes a reasonable middle ground using a data driven and risk-based approach.[1566]

Figure 20.3.1: Cost vs Wildfire Risk Reduction[1567]



Further, SDG&E's proposal provides the best cost-effectiveness portfolio for average cost to wildfire risk reduction:[1568]

Table 20.3.1: Mitigation Portfolios

Mitigation Portfolio	Dollar to Wildfire Risk Reduction (WFRR)
Optimized WiNGS-Planning Portfolio	$31M for every 1% WFRR
Undergrounding all mitigated segments	$42M for every 1% WFRR
Covered Conductor all mitigated segments	$36M for every 1% WFRR

1566 *Id.* at 15.

1567 Cost estimates are derived from SDG&E's WiNGS-Planning model, rendering relative costs between scenarios accurate.

1568 Ex. SDG&E-213 (Woldemariam) at 16.

It is completely inaccurate for TURN to argue that SDG&E did not consider affordability or the rate impacts of its proposals.[1569] No, SDG&E did not set a cost cap that could have resulted in unaddressed wildfire risk—as recommended by TURN. And as discussed in Section 6, SDG&E's affordability proposals are considered in the aggregate, rather than at a specific program level—again recommended by TURN. But SDG&E performed careful analysis of the data before embarking on this course, and selected its proposals because they provide the "best value" for customers, as evidenced in SDG&E's testimony and the analysis above.[1570]

MGRA notes that "affordability must not compromise safety, reliability and state climate, clean air and electrification goals."[1571] SDG&E generally agrees, and as discussed above, its risk reduction targets represent a reasonable and informed effort to balance the "relationship between public health/safety and income, and the cost burden from utility rate increases."[1572] MGRA's affordability analysis and recommendation that the Commission develop alternative cost benefit methodologies that include the health effects of rate increases represent an "admittedly crude yardstick to compare the disparate impacts of" wildfire, de-energization, and rate increases.[1573] SDG&E believes that MGRA's recommendations are better served in alternative proceedings, such as the Affordability OIR, and should not inform this GRC.

MGRA also misinterprets SDG&E's statements regarding its wildfire risk reduction targets.[1574] SDG&E's wildfire hardening proposals seek to reduce risk *in accordance with* legislative mandates and requirements to "minimize the risk of wildfire posed by [] electrical lines and equipment."[1575] MGRA fails to cite to any instance where SDG&E claims that its risk reduction targets are specifically mandated by statute, and any such contention should be disregarded. As addressed in detail, SDG&E's risk reduction targets represent the most reasonable approach to balancing wildfire risk reduction and the associated costs.

1569 TURN OB at 202.

1570 Ex. SDG&E-213 (Woldemariam) at 15-16.

1571 MGRA OB at 11.

1572 *Id.*

1573 *Id.* at 13.

1574 MGRA OB at 15-17.

1575 Cal. Pub. Util. Code §8386(a).

MGRA also convolutes information provided in Ex. MGRA-07 to imply that the various "portfolios" in some figures are related to the risk curve, when in fact those tables are unrelated to the overall "risk reduction versus cost" curve.[1576] There is no correlation between the information in SDG&E's Figure 7, which includes at least 6 portfolios considered, and the risk curve, which includes only 3.[1577] Further, the three scenarios in the curve are based in 2020 assumptions and dollars, and fail to address the many changes that have occurred as SDG&E's risk analysis and its WiNGS model have improved.

Further, TURN and MGRA advocate that the Commission ignore the cost of inaction or improper mitigations resulting in a utility ignition. It would be contrary to the state's wildfire mitigation mandates and public safety to myopically focus on affordability at the expense of safety. This is not to say that SDG&E does not understand the affordability concerns of its customers, as addressed in detail *infra* at Sections 6 and 7. But, as SDG&E has done, the Commission has found that it must balance affordability with ensuring just and reasonable rates that ensure safety and reliability.[1578] This includes the painful and avoidable costs of a utility-related wildfire. Setting aside the lives and homes at risk, the economic consequences alone of a catastrophic wildfire can reach multi-billion-dollar levels. As evidenced by the recent devastation in Maui, Hawaii, even a relatively small wildfire in terms of size, in the right conditions and location, can result in tragedy and significant economic loss. From an affordability standpoint, this type of event is the worst-case scenario. And as climate conditions become increasingly unpredictable, we are increasingly aware that scenarios previously believed impossible are now within the range of the probable. The Commission must remain aware of the need to balance the potential for these catastrophic events—which threaten affordability in and of themselves—with the risk reduction afforded by reasonable wildfire mitigation proposals. The consequences of not making these critical investments are too dire to ignore.

Finally, the Commission must disregard unfounded assertions that SDG&E's hardening proposals are motivated by opportunities for profit.[1579] There is zero support for such a position in

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1576 MGRA OB at 40.

1577 *Id.*

1578 *See* Section 6, *infra.*

1579 MGRA OB at 18 ("SDG&E will have no regrets, and in fact would in fact have higher profits …"); TURN OB at 203 ("Choosing the most expensive mitigation will ultimately maximize the rate base on which the utility will earn rate of return.").

the record and any such arguments ignore SDG&E's repeated commitments to safety and wildfire mitigation over the past decade. We know that the Commission understands the pressing need to avoid further utility-related catastrophic ignitions, and that SDG&E's request is driven by a shared goal of significantly reducing, if not eliminating, the risk of utility-caused catastrophic wildfire in the state. SDG&E's proposals support direct action to protect families, homes, hospitals, schools, and businesses from harm, to promote reliability through reduced need for PSPS, and to keep communities resilient to support climate goals and electrification.

20.3.3 Wildfire Risk Analysis

20.3.3.1 TURN's RSE Analysis is Flawed and Fails to Reflect Accurate Information Regarding Wildfire Risk

Despite the significant risks of inaction, or insufficient action to mitigate wildfire risks, TURN advocates for significant cuts to SDG&E's proposals, including the elimination of 205 miles of grid hardening through either covered conductor or undergrounding.[1580] TURN's position relies on a twisted misunderstanding of wildfire risk that rests on unfounded assumptions, selective memory, and an admitted disagreement with SDG&E regarding the balance between prioritizing safety and reducing costs.[1581] At the outset, TURN fails to normalize any of the data to account for the size of the electrical corporations.[1582] In each of the years on TURN's Figure 7, for instance, the general number of HFTD distribution system ignitions appears to be roughly proportional to the *size* of the three utilities in question.[1583] It should go without question that SDG&E, as the smallest of the three major IOUs in California, would also have "fewer ignitions than its peer utilities."[1584] Without any normalization for size, TURN fails to acknowledge that the risk of any of SDG&E's HFTD ignitions to turn into a catastrophic fire remains the same as those larger organizations.

Additionally, and as addressed in detail by Mr. Woldemariam, TURN cherry picks a date range of 2015-2021 to argue that SDG&E has experienced less wildfire damage and thus is

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[1580] TURN OB at 232, Table 23.

[1581] *Id.* at 204 ("TURN does not place 'economics over safety' when proposing an alternative suite of wildfire mitigations that better balance both safety and affordability concerns.")

[1582] *Id.* at 206.

[1583] *Id.* at 206.

[1584] *Id.* at 205.

exposed to less wildfire risk.[1585] Just because SDG&E has enjoyed a period of relative calm with respect to wildfire impacts, it does not lead to a conclusion that SDG&E "has significantly less risk than the other utilities."[1586] To the contrary, MGRA argues that SDG&E is understating wildfire risk due to the very same circumstance.[1587] The same charts with a date range including 2003-2008 would paint a vastly different picture of SDG&E's risk. At a minimum, TURN's election to simply ignore the Cedar and Witch Fires renders their risk analysis ineffectual and unpersuasive.

As even TURN agrees, "there is a potential for large, catastrophic, black swan risk events."[1588] It is these catastrophic events and the billions of dollars of damage posed by them (ignoring the horrific potential for loss of life, property, and health), that SDG&E seeks to mitigate with its risk analysis. The Commission should thus reject TURN's recommendation of an annual expected acres burned based on a 1/15 chance of a 200,000 acre fire.[1589] TURN's analysis is overly simplistic and lacks any basis in existing data. If SDG&E were to leverage the past 15 years of historical wildfire records and calculate an average value, or even simply take the highest value observed, it would likely result in an underestimation of the actual wildfire risk due to the limited sample size, changing environmental conditions, and potential for unpredictable events.[1590] In the world of a changing climate, assuming because something hasn't happened in the past it won't occur in the future can lead to disastrous results. The tragic fires of 2017 and 2018—and now the tragedy in Maui—proved that to be the case and is precisely the outcome SDG&E aims to avoid.

TURN's analysis ignores the many highly destructive fires that burned more than 200,000 acres in SDG&E's service territory—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 (Cedar, Paradise, Otay) combined burned 376,237 acres – roughly 13 percent of San Diego County's total land mass. Even TURN acknowledges that the Witch Fire,

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1585 *Id. at 207.*

1586 *Id.*

1587 *See* MGRA OB at 23 (discussing that SDG&E's PSPS practices "suppress[] the apparent risk in the most dangerous areas in SDG&E's service territory.")

1588 TURN OB at 211.

1589 *Id.*

1590 Ex. SDG&E-213 (Woldemariam) at 7.

which occurred 16 years ago, burned nearly 200,000 acres, but somehow dismisses that incident, ironically, because of it being the result of utility infrastructure.[1591]

Further compounding on the irony, TURN now claims that the Commission should also ignore the damage of the Cedar Fire, because it was not caused by utility infrastructure.[1592] It belies logic that the Commission should simply rely on TURN's assessment of statewide wildfire risk in the last 15 years without any actual data applicable to past fires in SDG&E's service territory. Wind, aridity, and weather conditions can turn *any* ignition into a catastrophic fire in the right conditions—those conditions do not care about the source of the ignition. The primary goal of SDG&E's mitigation proposals is to avoid the ignition itself through appropriate and reasonable grid hardening measures.

The Commission should also disregard TURN's risk analysis because of their continued dismissal of PSPS risk reduction. SDG&E's obligations to reduce PSPS impacts are thoroughly detailed in its OB.[1593] Rather than acknowledging SDG&E's granular approach to circuit-specific hardening through its WiNGS-Planning Model, TURN continues to compare mitigations at the global RSE level—but recalculated to ignore PSPS risk reduction.[1594] The global RSE assumes full risk reduction from PSPS over the course of the long-term proposal, but PSPS risk reduction is a process that will take time as complete segments are undergrounded.[1595] Due to construction practices that mitigate portions of segments each year, the full PSPS risk reduction will not be fully realized until the final span has been undergrounded, which may take a few years. 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.[1596] TURN's failure to comprehend this distinction does not mean that the Commission should simply ignore the overall PSPS risk reduction impacts in assessing

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1591 *Id*. at 7:25-28; Ex. TURN-08 (Borden) at 30:7-8.

1592 TURN OB at 212.

1593 SCG/SDG&E OB at 417-418.

1594 TURN OB at 215-216.

1595 Ex. SDG&E-213 (Woldemariam) at 19-20.

1596 *Id.*

undergrounding's global RSE score, and its "correction"[1597] to SDG&E's risk analysis should be disregarded.

When assessing SDG&E's grid hardening proposals, the Commission should rather look to SDG&E's granular risk model, WiNGS Planning, which even TURN admits is "relatively sophisticated."[1598] SDG&E's workbook RSEs are contingent on average feeder configuration (the average number of customers and average population demographics); however, WiNGS-Planning contains actual circuit segment level configurations to better target risk.[1599]

TURN also inaccurately claims that SDG&E has inappropriately favored undergrounding as an optimal solution for shareholders.[1600] Not so. As explained in detail during Mr. Woldemariam's testimony, SDG&E's hardening selected is guided by a thoughtful assessment of circuit segments in light of SDG&E's overall risk reduction target of 83%.[1601]

> So it was a balanced program of trying to make sure that we weren't just narrowly looking at a segment-by-segment analysis and being narrowly focused on achiving, you know, the risk reduction there, but also globally across our [HFTD], we wanted to make sure … we were prioritizing the right circuits, but also achieving an overall wildfire risk reduction.[1602]

With this in mind, SDG&E made every effort to—as TURN suggests it should—identify key constraints in risk mitigation activities. SDG&E performed this analysis when selecting the 83% risk reduction target in the first place. With only risk reduction in mind and no recognition of key constraints, it would be logical to just underground all infrastructure given the benefits involved. This path is likely the reduction of argument to an absurdity, as the Commission acknowledged could occur in any risk assessment without recognition of key constraints.[1603] Because SDG&E recognizes the need for and performs this analysis in its WiNGS Planning mitigation selection, the Commission should disregard TURN's arguments regarding this area.

1597 TURN OB at 216-217.

1598 TURN OB at 219.

1599 Ex. SDG&E-213 (Woldemariam) at 17.

1600 TURN OB at 223-224.

1601 *See* Tr. V10:1814-1815 (Woldemariam).

1602 *Id.*

1603 TURN OB at 223, citing D.16-06-018.

20.3.3.2 SDG&E's WiNGS Risk Model Optimally Combines Granularity and Global Risk Reduction Assessment in Light of Available Information

While arguing against much of SDG&E's undergrounding proposals, MGRA continues to advocate for risk analysis adjustments that would likely *increase* the modeled consequences of a wildfire and demonstrate an increased RSE for undergrounding. For instance, the inclusion of additional wildfire smoke impacts,[1604] a recognition of MGRA's purported PSPS bias,[1605] and secondary PSPS risk[1606] would likely make undergrounding a more-often recommendation than not. MGRA in fact argues that SDG&E underestimates several risk areas and recommends adjustments that would increase the perceived risk.[1607] SDG&E agrees that it is important to target the areas of highest risk with its undergrounding proposals and has endeavored to be as accurate as possible in its risk assessment.[1608]

MGRA acknowledges that modeling improvements continue, and it is "not reasonable to expect SDG&E's risk analysis to be perfect before proceeding with mitigation."[1609] But 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."[1610] That may be a reasonable approach to short term mitigation strategies, such as asset replacements, span-level bare wire hardening, and PSPS resiliency programs. But SDG&E's covered conductor and strategic undergrounding programs are the "comprehensive and expensive mitigations"[1611] that need to occur for longer-term reduction of wildfire and PSPS risk. These initiatives are necessary now to promote safety.

MGRA also fails to acknowledge that additional information and improvements to risk assessments could "change prioritizations" not toward less expensive mitigations, but toward the need for additional undergrounding.[1612] Money spent on less expensive mitigations similarly

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1604 MGRA OB at 22.

1605 *Id.* at 23.

1606 *Id.*

1607 *Id.* at 30 (Table).

1608 *See*, *Id.*

1609 Ex. MGRA-01-2E (Mitchell) at 28.

1610 *Id.*

1611 *Id.*

1612 *See* MGRA OB at 32.

"cannot be unspent,"[1613] even if future developments reveal the need for additional, more costly efforts. The need to avoid this unnecessary duplication in the future supports SDG&E's WiNGS Planning model and the associated decision tree.

MGRA's repeated assertions that SDG&E was somehow informed by PG&E's undergrounding proposals also lacks any foundation in the record and should be disregarded as pure conjecture.[1614] Simply because Mr. Woldemariam was aware of PG&E's undergrounding proposals is in no way evidence that SDG&E's decision tree was unformed by PG&E's actions. To the contrary, Mr. Geraghty and Mr. Woldemariam explained the basis for SDG&E's WiNGS 2.0 revisions—which were largely driven by realized efficiencies in its undergrounding program resulting in lower costs.[1615]

SDG&E welcomes the ongoing evolution of its risk modeling processes and the increased data that will result from ongoing collaboration with stakeholders, regulatory bodies, and academia. SDG&E remains committed to its leadership in wildfire risk assessment and continues to leverage input from stakeholders and lessons learned to enhance its risk modeling capabilities, which remain a subject of significant focus of the Office of Energy Infrastructure Safety (Energy Safety) and SDG&E's WMP.[1616] In 2022, SDG&E continued its culture of continuous improvement in this area by embracing model changes—with the feedback of many of the parties to this proceeding—increasing collaboration with other California utilities and participating in workshops hosted by Energy Safety. This approach has led to additional improvements, more accurate wildfire risk assessment, and has increased the effectiveness of the portfolio of proposed mitigation.[1617] Because SDG&E's WiNGS model represents a reasonable assessment of wildfire risk based on all available information, the Commission should adopt both SDG&E's approach and its recommendations regarding grid hardening.

1613 *Id.*

1614 *Id.* at 36.

1615 *See*, e.g. Ex. SDG&E-213 (Woldemariam) at 24; Ex. SDG&E-49-S-E (Geraghty) at 8.

1616 *Id.* at 5.

1617 *Id. at 5-6.*

20.3.4 System Hardening

20.3.4.1 SDG&E's Undergrounding Proposal Results in Sustained Wildfire and PSPS Risk Reduction

Based on a global RSE analysis, TURN argues that "benefits of the [strategic undergrounding] program do not exceed costs on a standalone basis, nor are they reasonable on a relative basis."[1618] But this conclusion should be discarded, as it fails to accurately account for risk mitigation and completely disregards the associated PSPS risk reductions that flow from circuit-based undergrounding.[1619] TURN acknowledges that the WiNGS Planning Model provides additional sophistication in assessing its primary grid hardening initiatives[1620]—covered conductor and undergrounding—but proceeds to demonstrate a lack of understanding of the overall risk of SDG&E's HFTD, the number of miles in the highest risk areas, and the risk reduction achieved by SDG&E's proposals. TURN proposes to fund "540 miles of hardening, undergrounding and covered conductor, over the rate case period," claiming that this would "provide the opportunity to harden a significant portion of the top half of the riskiest circuits."[1621]

But TURN's assessment that "the top 50 percent of wildfire risk is contained over 657 miles"[1622] is completely at odds with SDG&E's grid hardening proposals. SDG&E has established that, between 2022 and 2027, it will harden over 800 miles in the top 10% of riskiest circuits alone.[1623] TURN fails to recognize the number of miles in the highest risk areas, wrongfully concluding that there are only 64 miles in the top 10% of risk. Once again, TURN's erroneous assumptions underlying its risk assessment render their hardening proposals unreasonable.

TURN also fails to acknowledge that SDG&E has established the "compelling justification" in favor of strategic undergrounding versus larger-scale covered conductor installation. That is because TURN's analysis ignores the value of PSPS reduction and the mandate from SDG&E's regulators to reduce the "scale, scope, and frequency of PSPS events." TURN simply disregards these mandates, ignores the corresponding directives to reduce PSPS

1618 TURN OB at 218.

1619 *Id.* at 216-217.

1620 *Id.* at 219.

1621 *Id.* at 220.

1622 *Id.*

1623 Ex. SDG&E-213 (Woldemariam) at 36.

impacts on customers, and provides an alternative approach that offers customers higher risk in exchange for lower costs. TURN's proposal is based on a fundamentally flawed premise, that "residential ratepayers should *never* pay for undergrounding as a PSPS mitigation strategy."[1624]

The Commission should reject TURN's basic premise that utilities should forego PSPS reduction and focus strictly on achieving wildfire risk mitigation. TURN also takes the shortsighted position that, simply because PSPS risk reduction will only result from long-term implementation of SDG&E's comprehensive grid hardening proposal, and "these cumulative impacts are not seen to the later years of the project,"[1625] that the project should not happen at all. The short-term minimal reduction in PSPS impact over this rate case cycle is substantially outweighed by the decades of near-elimination of PSPS impacts to customers once SDG&E's strategic undergrounding efforts are fully realized.[1626] Contrary to TURN's suggestion,[1627] when viewing these investments over their decades-long useful life—and the overall once-in-a-lifetime rethinking of SDG&E's grid in the HFTD—the decade to achieve these hardening goals is, in fact the short term.

SDG&E has performed extensive risk analysis both at the global and granular levels to both design its grid hardening strategy and support its proposals in this case. It is indisputable that there are "a number of strong arguments for undergrounding as a mitigation," as acknowledged by MGRA.[1628] These include, but are not limited to:

- Undergrounding virtually prevents utility related wildfire ignitions (at least 98% effective) and thereby wildfire liability.
- Undergrounding severely reduces or eliminates PSPS risk.
- Undergrounding also reduces operational costs.
- Undergrounding reduces or eliminates the need for inspections and maintenance.
- Undergrounding eliminates the need for vegetation management to keep utility infrastructure clear.[1629]

1624 TURN-08-E (Borden) at 28.

1625 TURN OB at 224.

1626 Ex. SDG&E-213 (Woldemariam) at 20.

1627 TURN OB at 225.

1628 MGRA OB at 31.

1629 *Id.* at 31-32.

When viewed in the aggregate, and as SDG&E continues to establish, these lifetime benefits are in fact *not* outweighed by the cost of undergrounding—especially as SDG&E continues to realize cost efficiencies with respect to its undergrounding program.[1630] Undergrounding of infrastructure also enhances public safety, as underground lines pose less of a threat to ingress and egress to customers evacuating a disaster area, and usually results in faster restoration of service to areas impacted by fire.[1631] The considerations above do not even recognize the additional, less quantifiable benefits that will result from undergrounding, including but not limited to beautification, sustainability, and additional resiliency to support California's electrification goals.[1632]

Undergrounding at scale is the *only* option that facilitates wildfire risk reduction *and* sustained near-elimination of PSPS risks. The value proposition of these benefits when combined make SDG&E's undergrounding proposal the reasonable and necessary choice, and the Commission should approve its overall strategic undergrounding forecast in full.

20.3.4.2 SDG&E's Grid Hardening Proposals Properly Reflect Known Weaknesses of Covered Conductor

Both TURN and MGRA argue that SDG&E underestimate the effectiveness of covered conductor with respect to both wildfire and PSPS mitigation.[1633] The utilities continue to consider the effectiveness of covered conductor and SDG&E will continue to update its de energization thresholds as more lines in the service territory are fully covered. But TURN and MGRA cite to SCE's statement that SCE has not experienced an ignition on covered lines "from the drivers that CC is expected to mitigate," as evidence that covered conductor is fully effective at reducing the risk of wildfire and PSPS.[1634] SDG&E proposes a fair balance of covered conductor installation as a risk mitigation tool where supported by SDG&E's WiNGS Model. But covered conductor fails to fully mitigate wildfire risk—as explained by SCE, it only mitigates for *certain risks it is expected to mitigate*. This is an extremely important caveat that the Commission must consider

[1630] *See* Ex. SDG&E-213 (Woldemariam) at 10 ("On average there is a 20% cost savings over the lifetime of the segment when we underground the segment as to leaving it overhead.") *See also*, Ex. SDG&E-49-S-E (Geraghty) at 8-9.

[1631] Ex. SDG&E-49-S-E (Geraghty) at 10.

[1632] *Id.* at 10-11.

[1633] TURN OB at 227-228; MGRA OB at 45, *et. seq.*

[1634] TURN OB at 227, *citing* Ex. SDG&E-213 (Woldemariam) at D-16.

and weigh in favor of undergrounding in high-risk areas. For instance, covered conductor fails to mitigate risk in the event of:

- Large vegetation (full tree) contacts with electrical lines. SCE has acknowledged ignitions on covered lines due to such contacts.
- Winds in excess of established thresholds. Even assuming SCE's current threshold, SDG&E would still have to deenergize if wind gusts reach 55-60 miles per hour.[1635]
- Equipment failure.[1636]

The limitations of covered conductor require the ongoing use of de energization on a sustained basis.[1637] TURN argues that, even in light of the known weaknesses of covered conductor, SDG&E should refrain from undergrounding to mitigate the prospect of long-term PSPS, leaving customers reliant on "alternatives to undergrounding," namely generators.[1638] While claiming it does not suggest the Commission adopt this approach, TURN notes that supplying a diesel based generator to all medical baseline customers in the HFTD can be achieved "for a much more reasonable price tag than the $1.6 billion for undergrounding."[1639] But this is an unsustainable policy decision that leaves customers vulnerable and fails to reflect the need for increased reliability in a changing climate.

20.3.4.3 SDG&E's Covered Conductor Forecasts Reflect the Costs of Installation

TURN also proposes a cost cap for covered conductor installation at $800,000 per mile.[1640] TURN's analysis for these costs is based on SCE's forecasted costs of their covered conductor program. However, SCE and SDG&E have programmatic and operational differences 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. A full explanation of the cost drivers and methods utilized by the different utilities is included in the Joint IOU Covered Conductor Working

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[1635] TURN OB at 228.

[1636] MGRA agrees that covered conductor has such limitations. MGRA OB at 53.

[1637] Ex. SDG&E-49-S-E (Geraghty) at 7.

[1638] TURN OB at 229.

[1639] *Id.*

[1640] TURN-08-E (Borden) at 38:26-28.

Group Report attached to SDG&E's Wildfire Mitigation Plan.[1641] SDG&E's covered conductor forecasts are based on a reasonable assessment of scope and equipment necessary to implement this program.[1642] 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.

Finally, MGRA, and to some extent TURN, argue that covered conductor effectiveness can be enhanced when combined with other mitigations, such as Falling Conductor Protection and Advanced Protection.[1643] This is true to a certain extent, and SDG&E continues to explore means to measure the combined effectiveness of covered conductor and advanced protection in its WiNGS Model.[1644] But MGRA is overly confident in its assessment of the effectiveness of covered conductor when combined with advanced protection. As explained by Mr. Woldemariam, SDG&E does not yet know the effectiveness of combined mitigations, but "there are other equipment failures that can cause [ignitions], you know, as a result of the overhead system."[1645] "Other equipment on the poles: transformers, fuses, lightning arrestors, a whole slew of equipment … could be an ignition driver or a risk driver, and therefore undergrounding is the best mitigation for that."[1646]

It is at this point that MGRA's argument takes an erroneous turn and fails to understand that the "wind driven" failures addressed by Mr. Mitchell are quite often the *equipment failures that falling conductor protection fails to address.*[1647] Both SDG&E and MGRA agree that many catastrophic utility fires are associated with high wind conditions (which contribute both to the cause of the ignition but also the rapid spread of the fire). But MGRA seems to think that the" high wind equipment damage"[1648] that results in the ignition could be mitigated by advanced

1641 Ex. SDG&E-213 at Appendix D.

1642 Ex. SDG&E-213 (Woldemariam) at 46.

1643 *See,* MGRA OB at 53-58.

1644 MGRA OB at 55, (*citing* to Tr. V11:858-1859 (Woldemariam).

1645 MGRA OB at 56.

1646 *Id.* (*citing* Tr. V11:1886-1888 (Woldemariam)).

1647 MGRA OB at 56.

1648 *Id.*

protection in combination with covered conductor. That is not the case. Mr. Woldemariam was clearly explaining that falling conductor protection only mitigates the risk of a wire-down event, and *not* an equipment failure.[1649] Covered conductor affords limited protection against equipment failure, with nearly 7 ignitions observed by SDG&E post mitigation.[1650] That effectiveness is not enhanced by advanced protection. As Mr. Woldemariam solemnly noted, both the Camp and Kincade fires were not caused by wire down events, but rather equipment failure—and would thus still be possible with the combined installation of covered conductor and advanced protection.[1651]

SDG&E's grid hardening proposals reflect the known limitations of covered conductor and the previously stated long term advantages of undergrounding. Undergrounding remains the optimal solution for SDG&E's highest risk areas—where the Company's forecasted undergrounding will occur during this rate case cycle. For these reasons, SDG&E's overall grid hardening proposals should be approved in full.

20.3.4.4 The Commission Should Not Place a Cost Cap on Hardening Mileages That Remain High Risk

Cal Advocates acknowledges that "system hardening lowers the chance of utility equipment sparking ignitions, thereby enhancing utility safety."[1652] 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 approach in recommending a cost cap for work it acknowledges is reasonable. This approach implies that shareholders should absorb costs determined to be just and reasonable by the Commission, a violation of the regulatory compact and inconsistent with ratemaking principles.

As Cal Advocates notes, 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.[1653] Conversely, less than one percent of SDG&E's hardening will address the bottom 60% of risk.[1654] Cal Advocates does not appear to object to SDG&E's scope of the circuits

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1649 *Id.*

1650 *See* MGRA OB at 46, *citing* Ex. MGRA-01-2E (Mitchell) at 38.

1651 MGRA OB at 57 (*citing* Tr. V11:1977 (Woldemariam).

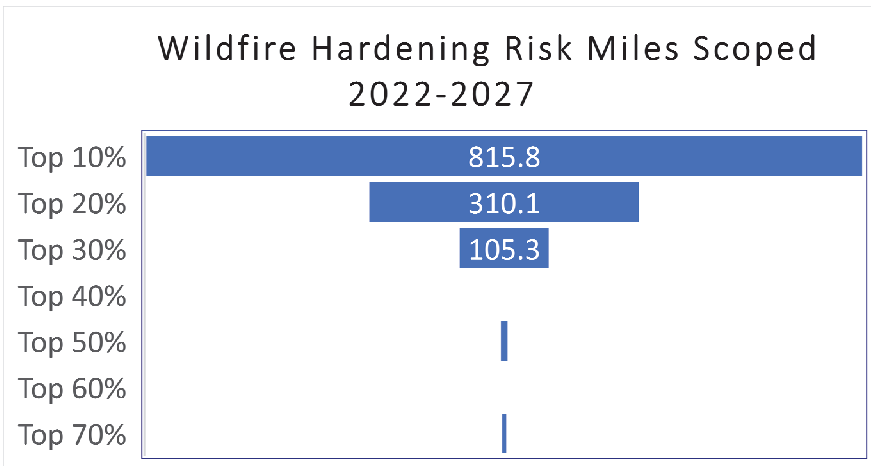
1652 Ex. CA-21 (Li) at 5.

1653 Ex. CA-21 (Li) at 21 (Table 21-3).

1654 *Id.*

selected for undergrounding,[1655] and agrees overall with SDG&E's approach that "it is critical that SDG&E optimize its hardening in terms of risk reduction and cost considerations."[1656] As shown in the chart below, to the extent practical, SDG&E prioritizes hardening of the riskiest segments first—the majority of segments proposed for hardening during this GRC cycle are in the highest levels of risk.[1657]

Figure 20.3.2, Wildfire Hardening Scope (2022-2027) by Riskiest Segments[1658]



But Cal Advocates' proposed cost cap is ill advised and fails to provide the necessary flexibility surrounding PSPS reduction—which may require undergrounding of upstream lower risk segments. The proposed cap also fails to consider the fluctuation in undergrounding or covered conductor costs based on factors including but not limited to material and labor costs, subsurface conditions, and easements and permitting. This cost variance is not influenced by the risk profile of the circuit.[1659]

1655 *Id*. at 8-9 ("Cal Advocates cannot reach a determination on whether SDG&E has reached satisfactorily safe service levels.")

1656 *Id*. at 12.

1657 The table summarizes all of SDG&E's scoped hardening activities, including both covered conductor and undergrounding. SDG&E also disputes Cal Advocates' inclusion of Energy Safety's "previously raised concerns that SDG&E may not have prioritized the riskiest segments [for hardening in 2020]." (Id. at 18). First, past hardening efforts are not within the scope of my testimony. But more importantly, SDG&E rebutted Energy Safety's findings addressing its 2020 WMP hardening efforts, noting significant errors in how Energy Safety categorized areas of risk.

1658 Ex. SDG&E-213 (Woldemariam) at 36.

1659 *Id.* at 37.

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."[1660] 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."[1661] Ironically, the two way balancing approach recommended by SDG&E best achieves these very goals.[1662]

Each of SDG&E's hardening projects scoped through this GRC cycle are beneficial and necessary to reduce the risk of wildfire and impacts of PSPS on customers. Full recovery of these projects should be authorized, with any variable costs addressed via SDG&E's proposed two-way balancing mechanism.

20.3.4.5 SBUA's Microgrid Proposals Fail to Mitigate Wildfire Risk by Leaving Overhead Wires Unhardened

SBUA's argument is that SDG&E's resiliency grant programs, including microgrids and the Generator Grant Program, should be expanded to mitigate PSPS risk in lieu of SDG&E's undergrounding proposals. As previously addressed by SDG&E, microgrids are only considered as a PSPS mitigation—they do not reduce the risk of wildfire as it is the PSPS serving as the wildfire risk reduction mechanism. SBUA flips the paradigm of PSPS on its face—stating that it is undergrounding that should be a mitigation of last resort, rather than PSPS. Microgrids, which have limitations on the number of customers they can serve and the power they can provide, are not a feasible option for continued usage across the entire fire season, which can last for months in the HFTD.[1663]

1660 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*, Cal. Pub. Util. Code § 8386.3(d).

1661 Ex. CA-21 (Li) at 4-5.

1662 Ex. SDG&E-213 (Woldemariam) at 36.

1663 *Id.* at 41.

Further, SBUA ignores the fact that, to reduce the risk of wildfire, the distribution circuits which are connected to these microgrids would also have to be undergrounded to stay safely energized during high-wind or extreme fire potential weather. It is not the energy source that causes the wildfire risk, but 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. In reality, SBUA's recommendation would supplement SDG&E's recommended approach to undergrounding, resulting in additional costs.[1664]

Out of the other side of its mouth, SBUA also argues that the Generator Grant Program—which provides rebates on the purchase of qualified fuel generators, "embeds premature obsolescence into SDG&E and its customers energy management protocols."[1665] The general infeasibility of SBUA's microgrid proposal, the lack of wildfire risk reduction that would result from its adoption, and the prolonged reliability impacts of failing to adopt reasonable levels of grid hardening (even TURN does not go so far as to argue in favor of a complete denial of undergrounding costs)—as established by SDG&E—render SBUA's proposals unreasonable and irresponsible. The Commission should disregard them as such.

20.3.4.6 PCF Completely Fails to Address the Relevant Law Applicable to SDG&E's Wildfire Cost Recovery, or the Current State of SDG&E's Wildfire Mitigation Plan

PCF continues to make its oft-failed arguments that inaccurately reflect the statutes regarding SDG&E's wildfire cost recovery process and ask the Commission to travel through time back to 2021—apparently the last time PCF read one of SDG&E's WMPs. The Commission should disregard PCF's arguments related to wildfire mitigation entirely.

20.3.4.7 SDG&E Properly Addresses Risk Assessment in its WMP

Bizarrely, PCF continues to argue from a 2019 decision addressing SDG&E's 2019 WMP that SDG&E has failed to meet the requirements of SB 901. Regardless of the state of SDG&E's risk assessment in 2019, PCF simply fails to acknowledge that SDG&E has filed several subsequent *approved* WMPs since then, the most recent of which provided a thorough and

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1664 *Id.*

1665 SBUA OB at 10.

extensive risk assessment and is pending approval by Energy Safety. Completely contrary to PCF, "SDG&E knows its wildfire risk and is focused on the highest risk circuits on its system."[1666] The depth of transparency afforded by the WMPs and the level of extensive risk modeling detail provided both in the review of SDG&E's WMP and in this proceeding render PCF's arguments spurious at best.

20.3.4.8 SDG&E Properly Seeks Cost Recovery of its Forecasted Wildfire Mitigation Proposals in this Proceeding

SDG&E is also complying with the cost recovery processes required both by statute and the Commission, and consistent with the processes implemented by PG&E and SCE. Public Utilities Code Section 8386.4 is clear on when utilities may file an application for cost recovery of incremental wildfire mitigation expenditures: 1) the General Rate Case, or 2) a separate application at the conclusion of the three-year WMP. Further, while the WMP is an iterative, learning process, many of SDG&E's forecasts in this case are zero-based and may not necessarily be informed by past spending—particularly so far back as 2019. SDG&E will, as ordered, provide testimony supporting the reasonableness of the costs to implement its approved WMP initiatives from 2019-2022 in a matter of weeks. Consistent with the Scoping Memo in this case, the Commission should ignore PCF's request to postpone a decision in this Track of the GRC pending a review of past spending.

20.3.4.8 PCF's SPS Proposals Unduly Burden Customers and Fail to Mitigate Wildfire Risk

Finally, PCF ignores the fact that Mr. Woldemariam thoroughly rebutted any claim that customer sited SPS is "a far lower ratepayer cost alternative."[1667] PCF's ridiculously underestimated cost forecasts, as contained in Mr. Powers' testimony fail to recognize that they are based on the purchase of a propane generator for all customers in the HFTD, *not* a full solar plus battery system. As explained by Mr. Woldemariam, the SPS proposal advocated by PCF would in fact likely cost as much, if not more, than SDG&E's undergrounding forecasts, and would not ultimately address wildfire risk.[1668]

1666 Office of Energy Infrastructure Safety, Draft Decision Approving SDG&E's 2023-2025 WMP (August 30, 2023) at 1.

1667 PCF OB at 33.

1668 *Id.* at 37; Tr. V11:1949 (Woldemariam).

Finally, PCF's SPS proposal fails to account for who would actually pay for it. PCF states that "the cost of the whole house SPS system option would be borne by *the Tier 3 customers themselves*, and not passed on to non-participating SDG&E[sic] ratepayers."[1669] If the local SPS alternative is "*not* a proposed ratepayer funded solution," who does PCF propose will fund it? It is entirely unclear from PCF's testimony or briefs how "solar can be installed without any upfront investment," particularly at this scale.[1670] Lacking such support, PCF's arguments are not far from an untruthful afternoon infomercial sales pitch, rather than a realistic or reasonable alternative to SDG&E's proposals. PCF seeks to straddle customers with tens of thousands of dollars in costs to be borne by the individual households themselves. Aside from the logistical and legal impossibilities of such an approach, it is inequitable and unrealistic, and it fails to achieve the wildfire mitigation required of SDG&E. For these reasons, among many others previously addressed in testimony and briefs, PCF's proposals should be disregarded in full.

20.3.4.9 Two-Way Balancing of Wildfire Mitigation Costs is Reasonable

The Commission should approve SDG&E's proposal for two-way balancing of SDG&E's wildfire mitigation costs in full. Cal Advocates has clarified that it "supports [establishment of] a two-way balancing account" for wildfire costs.[1671] As the Commission has previously recognized in approving two-way balancing for PG&E's wildfire mitigation costs, "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 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."[1672] Two-way balancing of SDG&E's wildfire mitigation expenditures is reasonable for the very same reasons the Commission cited in the case of PG&E.

Given the ongoing evolution of the wildfire regulatory environment, the constant influx of new data on wildfire science, situational awareness, and 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 covered

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1669 *Id*. at 34.

1670 PCF OB at 39.

1671 Ex. SDG&E-301 at 3.

1672 D.20-12-005 at 119-120.

conductor and strategic undergrounding costs continue to be uncertain; for example, SDG&E continues to realize cost-efficiencies related to undergrounding as its program comes to scale. In the same fashion as PG&E, two-way balancing 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."[1673] While SDG&E believes its reasonableness review thresholds are reasonable, it remains open to alternatives to trigger an application for recovery of costs exceeding authorized, including thresholds similar to those previously authorized for PG&E and SCE.[1674]

Further, two-way balancing protects ratepayers, in that if SDG&E realizes savings in its WMP implementation, it provides a refund to customers. This is a net benefit, whereas TURN's proposal to maintain the status quo and track all incremental expenditures in a memorandum account does not necessarily result in any refunds to customers in the event of an underspend. Finally, the WMPBA proposal recognizes the distinct nature of authorized wildfire mitigation authorized, and that utilities may not divert revenues authorized to implement the WMP to activities of investments outside of the plan.[1675] Two-way balancing of WMP costs facilitates this requirement better than TURN's proposal. For these reasons, the Commission should authorize two-way balancing of SDG&E's wildfire mitigation costs.

21. Customer Services

21.1 Customer Information System Replacement Program

21.1.1 SoCalGas's Request

SoCalGas must replace its outdated Customer Information System (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. SoCalGas's legacy CIS is a large-scale information technology system that was implemented decades ago and is rapidly approaching obsolescence. CIS supports SoCalGas's

1673 *Id*.

1674 Ex. SDG&E-213 (Woldemariam) at 24-25.

1675 Cal. Pub. Util. Code § 8386.3(d)(1).

critical customer service business processes and customer engagement functions and is foundational to serving SoCalGas's customers.

Cal Advocates and TURN-SCGC were the only intervenors to address SoCalGas's CIS Replacement in their Opening Brief. Cal Advocates and TURN-SCGC restate the same recommendations and arguments from their intervenor testimony and do not take into account SoCalGas's rebuttal testimony. SoCalGas addressed Cal Advocates and TURN-SCGC's recommendations in the Opening Brief[1676] and will not repeat that discussion here, except with regards to Cal Advocates claim of a lack of ratepayer benefits and Cal Advocates continued misstatement that the CIS Replacement Program has had significant delays.

21.1.1.1 Cal Advocates' Limited View of "Ratepayer Benefits" Should be Rejected

Cal Advocates states that in reviewing the CIS Replacement study results it "found that the report did not provide a cost benefit analysis or any documentation to substantiate the savings benefits to ratepayers of the CIS Replacement Program."[1677] Cal Advocates then concludes that, "[a]bsent ratepayer benefits, there is no justification for approving ratepayer funding of new projects."[1678] As an initial matter, and as discussed in Mr. Goldman's rebuttal testimony,[1679] Cal Advocates appears to misunderstand the timing of any benefits related to the CIS Replacement Program. There are no savings anticipated during the *implementation* of the program. The CIS replacement program will implement new technology and processes that will not be fully executed until 2026 and not stabilized until 2027. SoCalGas will continue to operate using existing technology and processes until the new system is implemented. It is not reasonable to expect any benefits from CIS Replacement to occur until after the system is stabilized and SoCalGas has become proficient with the new processes and technology. Therefore, it is premature to include potential benefits to ratepayers in the TY 2024 GRC forecast.

Further, Cal Advocates offers no explanation of how the perceived lack of ratepayer benefits in this GRC period refutes the validity of SoCalGas's cost forecasts. In its direct testimony and workpapers, SoCalGas clearly explains and provides evidence justifying the need

1676 SCG/SDG&E OB at 455-463.

1677 Cal Advocates OB at 199. SoCalGas did in fact provide a cost benefit analysis to Cal Advocates in response to a data request. *See* Ex. SCG-213 (Goldman) at Appendix B, Response to Question 1e.

1678 Cal Advocates OB at 200.

1679 Ex. SCG-213 (Goldman) at 5-6.

for CIS to be replaced and provides evidence to support the validity of its forecasts. More specifically, the need for replacement is justified based on the following key drivers as discussed in Opening Brief and direct testimony:

- 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
- Evolving customer relationships in support of SoCalGas's ASPIRE 2045 climate commitment.[1680]

SoCalGas primarily relied upon the key drivers listed above in making the determination to replace its legacy CIS system.

21.1.1.2 Cal Advocates Continues to Rely on an Admitted Error to Support its PTY Recommendation

In its Opening Brief, Cal Advocates states that "[t]he CIS Replacement has had significant delays" in justifying its recommendation that SoCalGas's CIS Replacement Program be removed from the PTY.[1681] This same incorrect statement appeared in Cal Advocates intervenor testimony[1682] and was addressed in both Mr. Goldman's rebuttal testimony[1683] and in Opening Brief.[1684] Because Cal Advocates continues to repeat this incorrect statement, SoCalGas addresses it again here. In a data request, SoCalGas asked Cal Advocates what analysis was relied upon to determine that the CIS Replacement has had significant delays. Cal Advocates replied:

> "Significant delays" may have been an *editing error* stemming from confusion with SDG&E's CIS Replacement Program. 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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1680 SCG/SDG&E OB at 457-458; Ex. SCG-13 (Goldman) at 4.

1681 Cal Advocates OB at 355.

1682 Ex. CA-20 (Hunter) at 21.

1683 Ex. SCG-213 (Goldman) at 8-11.

1684 SCG/SDG&E OB at 461-463.

> still in a pre-planning phase and will be in a planning phase for another two years.[1685]

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.

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". 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.[1686] 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. SoCalGas is deliberately moving at the current pace to properly and thoroughly prepare to launch the CIS Replacement project. Contrary to Cal Advocates' claim, SoCalGas is on-schedule with its CIS Replacement preplanning efforts.[1687]

As discussed in Opening Brief,[1688] 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 services providing customers with significantly improved experiences. 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. In addition, as discussed in more detail in Opening Brief,[1689] 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

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[1685] Ex. SCG-213 (Goldman), Appendix C at C-3, SCG-SDGE-PAO-005, Cal Advocates' Response to Question 1a (emphasis added).

[1686] Ex. SCG-13 (Goldman) at 3; Ex. SCG-213 (Goldman) at 8-11.

[1687] As one example, SoCalGas's 2022 adjusted recorded O&M Expenditures for CIS replacement are in-line with its 2022 GRC forecasts for CIS Replacement activities. Ex. SCG-213 (Goldman), Appendix D at D-2, Excerpt of SoCalGas's 2022 Recorded O&M Expenditures.

[1688] SCG/SDG&E OB at 455-463.

[1689] *Id.* at 457-458, 460-461.

projects of similar scope. SoCalGas has demonstrated that its TY 2024 non-shared O&M forecast is reasonable and that its PTY capital recovery forecast is reasonable.

21.1.2 SDG&E

21.1.2.1 TURN's Eleventh-Hour Assertion that SDG&E Has Not Met Its CIS Settlement Obligations is Untimely and Should be Stricken

SDG&E demonstrated its compliance with D.18-08-008, which authorized SDG&E's Customer Information System (CIS) Replacement Program and adopted the settlement reached for that project (CIS Settlement Agreement), in testimony and its Opening Brief.[1690] Even though TURN had all of the data it cites in its OB long before intervenor testimony was due (and was itself a party to the CIS Settlement Agreement),[1691] TURN now asserts, for the first time, that SDG&E is out of compliance with D.18-08-008 and requests that the Commission withhold approval and recovery of SDG&E's ongoing costs for the new CIS until it fully complies. TURN's new argument should be stricken as improper litigation tactics and sandbagging.[1692] The

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1690 Ex. SDG&E-16 (Sacco); SCG/SDG&E OB at 464-465.

1691 For example, in Ex. SDG&E-16 (Sacco) at 7-13, and Tables TS-1 and TS-2, SDG&E identified the compliance requirements of D.18-08-008 and the settlement agreement it adopted, and provided the data required in compliance with its obligations for the instant TY 2024 GRC cycle.

1692 Specifically, the portions of TURN's Opening Brief that should be stricken are contained at pages 234-240. All of the contentions contained within these pages are new. TURN possessed all of the SDG&E testimony and materials related to A.17-04-027 and D.18-08-008 when SDG&E's Application was filed on May 16, 2022 (and hence, contentions) referred to in its Opening Brief prior to the time TURN filed its prepared direct testimony on March 27, 2022. No rebuttal testimony was filed on SDG&E's CIS Replacement Program (Ex. SDG&E-16 (Sacco)) as no party in this GRC proceeding took issue with the matters contained within that testimony. And intervenors such as TURN had 10 months from the date SDG&E filed its Application and supporting direct testimony to seek discovery on the matters contained in Ex. SDG&E-16 (Sacco). Although TURN filed testimony that took issue with the CIS Enhancement project, which seeks additional improvements to the new CIS (see TURN-09-2R (Cheng) at 32-34), TURN took no action to seek discovery on the matters contained in Ex. SDG&E-16 (Sacco) relating to the CIS Replacement Program until it issued a Data Request on the cusp of hearings on May 16, 2023. SDG&E responded to that Data Request on May 31, 2023. TURN asked SDG&E to stipulate to the inclusion of three exhibits related to the CIS Replacement Project (Exs. TURN 402, TURN-403 and TURN-404) but made no mention of any contention or view that SDG&E had not complied with D.18-08-008 or the CIS Replacement settlement in any respect. SDG&E was not given proper notice of TURN's contentions and was deprived of the ability to provide any further evidence in the record of this proceeding or otherwise respond to TURN's late-made assertions outside of this Reply Brief. For these reasons, TURN's Opening Brief arguments in Section 21.1 Customer Information System Replacement Program at pages 234-240, and its Exhibits TURN 402, TURN-403, and TURN-404, should now be stricken as improper gamesmanship.

Commission has granted motions to strike portions of briefing that essentially serve as testimony, where recommendations are not part of the testimony entered into the record and no party has had an opportunity to present evidence on the proposal, as is the case here.[1693]

In the event the Commission is inclined to consider TURN's Opening Brief assertions, its new argument is without merit and should be disregarded for that reason as well. TURN's claim that SDG&E has not complied with the terms of the CIS Settlement Agreement approved by D.18-08-008, which authorized SDG&E to implement its CIS Replacement Program, is wrong and should be dismissed. SDG&E has fully complied with the terms of the CIS Settlement Agreement, as described in more detail below.

Lastly, TURN's suggestion that the remedy for any non-compliance should be a complete withholding of funding to maintain and operate SDG&E's customer information system, which supports essential functions such as answering customer calls, performing billing and payment posting, customer digital self-service, outages, customer information, and field service order requests,[1694] is non-sensical and should be rejected.

21.1.2.2 SDG&E Met Its Settlement Obligations

21.1.2.2.1 SDG&E Forecast Benefits for TY 2024 as Required

SDG&E provided details and the roadmap demonstrating compliance with D.18-08-008 and the CIS Settlement Agreement, which included a summary of the updated forecast of benefits for the 2024-2027 GRC cycle, in the CIS Replacement Policy testimony of Therese C. Sacco.[1695] The benefits are sponsored by and incorporated into the forecasts in SDG&E GRC testimony chapters: Customer Services - Field Operations (Ex. SDG&E-17-R), Customer Services - Office

[1693] *See, e.g.*, D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence"); D.92-06-065 at 61-62 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating, "If that is so, it is not proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact or argument.").

[1694] *See* D.18-08-008 at 5.

[1695] *See* Ex. SDG&E-16 (Sacco) at 8-11, 13.

Operations (Ex. SDG&E-18-E), Customer Services – Information (Ex. SDG&E-19-E), and Information Technology (Ex. SDG&E-25). The benefit amounts forecast for and included in the 2024 test year will flow through to the 2025, 2026, and 2027 post-test years. The benefit amounts are expected to continue for the life of the customer information system.

The updated forecasted benefits for 2022 and 2023 are also included in forecasts in the Customer Services - Field Operations, Customer Services - Office Operations, Customer Services – Information, and Information Technology chapters noted above. However, the benefit amounts included in the 2022 and 2023 post-test years in D.21-05-003, Decision Regarding San Diego Gas & Electric Company's and Southern California Gas Company's Post Test Year Mechanism for 2022 and 2023 (the 2022/2023 PTY Decision), were based on the original forecast provided in A.17-04-027 and not an updated forecast after the new customer information system was implemented. As noted in the CIS Replacement Policy testimony of Therese C. Sacco, some of the benefits were not achieved and incremental benefits were identified after the CIS Replacement Program application was approved.[1696]

The benefits forecast in SDG&E's testimony were precisely the comparison contemplated by D.18-08-008 and the CIS Settlement Agreement adopted by the Commission. While TURN acknowledges the comparison SDG&E provided for TY 2024, TURN is incorrect when it suggests a forecast through 2036 is required.[1697] The Commission interpreted D.18-08-008 and SDG&E's obligations when considering whether and what amounts SDG&E was required to reduce its revenue requirement by for post-test years 2022 and 2023 to reflect CIS benefits after the Commission's Rate Case Plan Decision lengthened the GRC cycle. In ordering the amount SDG&E's prospective post-test year revenue requirements would be reduced to capture CIS benefits, the Commission stated:

> SDG&E's next GRC is scheduled for TY 2024 and *parties are in agreement that SDG&E should update its CIS benefits forecast for the years included in that GRC cycle* pursuant to the CIS Replacement Decision.[1698]

1696 *Id.*

1697 TURN OB at 236-237.

1698 D.21-05-003 at 19 (emphasis added).

Limiting the years necessary for forecasting benefits is consistent with TURN's own contemporaneous statements in 2020 when it argued $30.2 million should be the amount applied to reduce SDG&E's future 2023 revenue requirement as part of SDG&E's 2019 GRC, commenting:

> Pursuant to D.18-08-008, SDG&E must submit an updated forecast of CIS benefits in its 2024 GRC application, including the updated 'benefit card' with the updated forecast and recorded benefits for all 45 benefit categories. The revenue requirements adopted in that GRC will be adjusted to account for the updated forecast adopted by the Commission for the 2024 cycle, thus ensuring that ratepayers continue to receive CIS benefits 'in the year they are forecast to be realized.'[1699]

A focus on forecasting only for the years at issue in a particular GRC cycle is further consistent with D.18-08-008, FOF 12, which states that "[t]he settling parties agree that benefits will not be accelerated and shall be taken in the year they are forecast to be realized."[1700] Those years are the years covered by the general rate case at issue, and not later rate cases. TURN's new position in its Opening Brief would nullify the language of the CIS Settlement Agreement, which requires the benefit reporting to "be made in a manner that permits a direct comparison of the total and annual figures *included in SDG&E's workpapers*."[1701] In its TY 2024 GRC, SDG&E satisfied Section 2.2 of the CIS Settlement Agreement and D.18-08-008 by submitting the contemplated updated forecasted amounts for the 45 distinct benefits in a manner that permits a direct comparison with the amounts included in SDG&E's workpapers, which cover 2024-2027, the GRC cycle at issue in this proceeding.

21.1.2.2.2 Based on the Timing of SDG&E's GRC Application, Recorded Benefits Were Not Available

Section 2.2 of the CIS Settlement Agreement states: "**To the extent possible**, the utility shall also report recorded amounts to date for each of the 45 distinct benefits."[1702] At the time SDG&E filed its Application in May 2022, no recorded amounts were reported for the identified CIS benefits because benefits were forecasted to begin in 2022. SDG&E's new CIS was placed into service on April 5, 2021, and implementation activities and related spending were completed

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1699 A.17-10-007, Comments of The Utility Reform Network on the Phase 2 Scoping Memo (July 20, 2020) at 25, citing D.18-08-008 at 8, FOF 12.

1700 D.18-08-008 at 18, FOF 12.

1701 *Id.*, Attachment A, Section 2.2 at 4 (emphasis added).

1702 *Id.* (emphasis added).

in December 2021.[1703] As contemplated by the CIS Settlement Agreement, benefits were forecasted to begin in 2022.[1704] SDG&E filed this GRC Application in May 2022, and the 2021 base year was the most recent year of recorded information. Thus, SDG&E could not provide recorded benefits because they were forecast to begin in 2022.

TURN is incorrect when it claims that "SDG&E's omission of this reporting in its compliance testimony undermines the goal of transparency and accountability regarding CIS benefits set forth in the CIS Settlement Agreement."[1705] As TURN is aware, in D.21-05-003, the 2022/2023 PTY Decision, SDG&E's 2022 and 2023 post-test years were adjusted to reflect CIS benefits in the amount of $11.7 million and $30.2 million, respectively, therefore the benefit amounts provided to ratepayers in 2022 and 2023 are transparent and known.

21.1.2.2.3 No Separate Revenue Requirement for CIS Replacement Program Benefits is Required as TURN Alleges

TURN's final assertion, that SDG&E was required to provide a separate revenue requirement associated with forecasted benefits in this GRC,[1706] is inaccurate and misleading. Neither D.18-08-008 nor the CIS Settlement Agreement contain such a requirement. Remarkably, TURN points to the initial testimony that accompanied SDG&E's CIS Replacement Program Application, A.17-04-027, and its discussion of the revenue requirement calculation in that Application to claim a specific obligation here.[1707] What TURN fails to disclose is that the testimony goes on to state: "SDG&E uses the forecasted revenue requirement [in that testimony] for purposes of illustrating the potential rate impact as a result of the CIS Replacement Program"[1708] – the subject of the Application. TURN also fails to disclose that the settlement reached among the parties to A.17-04-027 a year later and the Decision adopting that settlement

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1703 Ex. SDG&E-16 (Sacco) at 5.

1704 *See* D.18-08-008, Attachment A, CIS Settlement Agreement, Appendix 2.

1705 TURN OB at 238,

1706 *Id.*

1707 *Id.*, citing Ex. TURN-403, A.17-04-027, SDG&E Testimony, Chapter 7 at 4.

1708 *Id.*

contain *no requirement* for an individually calculated revenue requirement associated with forecasted benefits.[1709]

TURN's statement that "without a quantification of the revenue requirements associated with the annual 2024 benefits SDG&E forecasts, it is unclear what level of benefits will be 'recover[ed] in rates in 2024'" is nonsensical.[1710] A forecast of the benefits identified in the CIS Replacement Application broken out by the 45 distinct benefits for Test Year 2024 is provided in SDG&E's CIS Replacement Policy testimony.[1711] Both the original and updated forecasts are provided for comparison.[1712] Additionally, SDG&E identified and provided incremental benefits that were identified after the CIS Replacement Program Application was approved.[1713] Converting the benefits to a revenue requirement changes neither the amount of the benefit nor the level of benefits included in rates. Moreover, and contrary to TURN's statement that "SDG&E did not include in its GRC testimony the revenue requirements associated with forecasted benefits for this GRC,"[1714] SDG&E provided its total revenue requirement in the Summary of Earnings and Results of Operations testimony sponsored by Ryan Hom.[1715] The total revenue requirement includes the benefits achieved with the new customer information system. The Commission should dismiss TURN's claim that SDG&E has not complied with D.18-08-008 and the terms of the CIS Settlement Agreement.

21.1.2.2.4 The Other Settling Parties, Cal Advocates and UCAN, Raised No Issue with SDG&E's Compliance

Notably, Cal Advocates and UCAN are also parties to the CIS Settlement Agreement approved by D.18-08-008 and neither Cal Advocates nor UCAN raised any concerns with SDG&E's showing in this GRC on its updated forecast of benefits for its new customer

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1709 *See, e.g.*, D.18-08-008 at 8-9 and Attachment A, Settlement Agreement, Section 2.2 (CIS Benefits Realization and Reporting). Indeed, the Settlement Agreement makes no mention of "revenue requirement," and the four times that term is mentioned in D.18-08-008 bear no relation to an obligation on SDG&E's part.

1710 TURN OB at 239.

1711 *See* Ex. SDG&E-16 (Sacco) at 8-12 and TableTS-1.

1712 *Id.* at 8-11.

1713 *Id.* at 13, Table TS-2.

1714 TURN OB at 238.

1715 *See* Ex. SDG&E-44-R (Hom), Ex. SDG&E-52 (Hom), and Ex. SCG-401/SDG&E-401.

information system. TURN's allegations of non-compliance are baseless and should be rejected out of hand. The Commission should approve funding for SDG&E to maintain and operate its customer information system. The new CIS supports digital, front and back-office functions including billing, credit and collections, service orders, digital self-service, and device management.[1716] These are essential customer service functions that need to be operational and maintained and enhanced to implement new mandated CPUC programs and initiatives.

21.2 Customer Service Field & Advanced Meter Operations

21.2.1 SCG

Approval of TY 2024 forecasts for SoCalGas's Customer Service Field & Advanced Meter Operations (CSF&AMO) have been fully supported and justified through SoCalGas's testimony and Opening Brief.[1717] SoCalGas's CSF&AMO organization is forecasting $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.[1718] No party opposed CSF&AMO's shared service request for Customer Services Field Staff Manager, and no party contested SoCalGas's justification for recovery of recorded costs in the Advanced Meter Infrastructure Balancing Account.[1719] In addition, business justifications for 9 of the 10 IT capital projects have not been contested.[1720] Except as detailed below, the parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have presented in testimony, and SoCalGas has responded to each of the other party's proposals in its rebuttal testimony and Opening Brief.

21.2.1.1 TURN's Approach to CSF&AMO's O&M Forecasts Is Unreasonable and Should Be Rejected

In its Opening Brief, TURN largely repeats the same arguments it made in its testimony that "[t]he Commission should reject SoCalGas' COVID-19 argument because during those years, it pocketed the reduced O&M costs as earnings for shareholders, which allowed Sempra to achieve

1716 Ex. SDG&E-25-CWP-R (Exon) at 81-99.

1717 SCG/SDG&E OB at 465-482.

1718 Ex. SCG-14-R (Rendler) at iv-1; Ex. SCG-214 (Rendler) at 1.

1719 SCG/SDG&E OB at 471.

1720 *Id.*

record profits."[1721] TURN uses a five-year average, which also include two full years before the pandemic (2018-2022) for all non-shared cost categories for CSF&AMO, except Advanced Meter Operations, where TURN used a four-year average (2019-2022).[1722] To justify its proposed reductions to the labor forecast, TURN argues that "when one examines the estimated order volumes used to project the O&M costs, it is evident 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."[1723] TURN also argues that "the introduction of AMI was supposed to result in savings, not additional costs."[1724] Finally, TURN continues to attack the RSE scores of some of the CSF&AMO's programs and calling them "least cost-effective programs that SoCalGas has proposed in this GRC."[1725]

As a preliminary matter, TURN's argument that SoCalGas "pocketed the reduced O&M costs as earnings for shareholders," is not only unsubstantiated, but is also inconsistent with the fundamental principles of cost-of-service ratemaking. While TURN argues that "SoCalGas seemingly attempts to contest this well understood basic ratemaking principle,"[1726] it is TURN who appears to misunderstand that "[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."[1727] 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."[1728] Thus, even if SoCalGas underspends its authorized O&M in one year, for example, does not mean that shareholders pocket the reduced O&M as earnings. As explained previously by SoCalGas, GRC-authorized O&M funding can also

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[1721] TURN OB at 240.

[1722] *Id.* at 243.

[1723] *Id.* at 240.

[1724] *Id.* at 242.

[1725] *Id.*

[1726] TURN OB at 240, fn.754.

[1727] D.12-11-051 at 10 (emphasis added).

[1728] SCG/SDG&E OB at 15-16 (*citing* D.20-01-002 at 12).

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.[1729]

TURN's use of a five-year average is unreasonable and should be rejected. First, TURN did not take into consideration current information and anticipated future activities. TURN also did not discuss any of CSF&AMO's incremental requests in its testimony. Instead, TURN decided to rely only on historical information to determine future costs. In preparing its TY 2024 forecast, CSF&AMO determined that multi-year averages as a starting point would not be appropriate as certain activities were not fully represented prior to BY 2021.[1730] In some cost categories, CSF&AMO were able to achieve staffing levels appropriate to provide the necessary training, assessments, management, and administrative support in BY 2021.[1731] Historical data, current information, and anticipated future activities were carefully considered when determining the forecast. Incremental funding requests were added to the base year to determine total funding requirements necessary for CSF&AMO cost categories.[1732]

In addition, TURN misunderstands SoCalGas's data when it argues that "SoCalGas forecasted record high order volumes in select categories without providing any reasonable support."[1733] SoCalGas disagrees. 2019 is the first full year where the Advanced Meter Infrastructure was put into place,[1734] and the last full year where orders were not impacted by the COVID-19 pandemic. Certain 2020, 2021, and 2022 orders were impacted by the COVID-19 pandemic.[1735] Appendix C of the Mr. Rendler's direct testimony shows that 29 out of 64 or 45% of orders were COVID-19 impacted.[1736]

TURN's statement that SoCalGas "forecasted record high order volumes in select categories without providing reasonable support even though the volume has not been increasing

1729 SCG/SDG&E OB at 470.

1730 Ex. SCG-214 (Rendler) at 4.

1731 *Id.*

1732 *Id.*

1733 TURN OB at 241.

1734 Ex. SCG-214 (Rendler) at 8.

1735 Ex. SCG-14-R (Rendler), Appendix C.

1736 *Id.*

over the years" proves its misunderstanding of SoCalGas's data.[1737] SoCalGas did not arbitrarily select order volumes based on their totals. SoCalGas used a sound methodology that first examined whether each individual order was COVID-19 impacted.[1738] If impacted, then 2019 order volume, which is the last reliable pre-pandemic historical record at the time of forecast preparation, was used to forecast a post-pandemic environment in TY 2024.[1739] The years prior to 2019 were not a sound basis because (1) the Advanced Meter Infrastructure (AMI) was not fully in place and (2) order volumes would contain a mixture of having orders completed without making a field visit and orders making a field visit which is not representative of future activities.[1740] Using the years following 2019 were also not a sound basis because of the COVID-19 pandemic's effect on the volume, which is not representative of future activities. Orders that were determined not to be COVID-19 impacted utilized the last reliable historical record on file, which is 2021.[1741] TURN states that some "categories all had record high forecasts for 2024 even though the recorded data does not show an increasing trend."[1742] Because of the unique set of circumstances like the full implementation of the AMI and the COVID-19 pandemic impacts, SoCalGas could not rely on general trends and instead centered its methodology for forecasting TY 2024 around the years 2019 and 2021 distinguished by these unique circumstances. As for TURN's argument that AMI is supposed to "result in savings and not costs," while the AMI allows certain customer transactions to be completed without making a field visit, the system was put into place by 2019, and SoCalGas does not anticipate any further reduction in AMI-impacted order volumes.[1743] SoCalGas's estimates of TY 2024 CSF work order volumes are thus reasonable and represent a post-pandemic environment.[1744]

1737 TURN OB at 241.

1738 Ex. SCG-214 (Rendler) at 5.

1739 *Id.*

1740 *Id.* at 8.

1741 *Id.* at 5; Ex. SCG-14-R (Rendler) at 18.

1742 TURN OB at 241.

1743 Ex. SCG-14-R (Rendler) at 18.

1744 *Id.*

Finally, TURN's attack on CSF&AMO's programs based on RSE scores and calling them "least cost-effective programs,"[1745] is unreasonable. The Commission, in its decisions, consistently refers to RSEs as being used for informing the relative prioritization of investments within a risk area or "chapter" (which the Companies have done within their respective RAMP filings). The Commission has established that RSE calculations help inform decision-making, but are not the singular basis for determining whether to authorize cost recovery in a GRC.[1746] Nowhere has the Commission stated that a BCR (Benefit Cost Ratio) of greater than 1—or any other indicator derived from RSE calculations—should be the determining factor for funding safety and reliability investments by the utilities.[1747] While RSEs provide a measure of relative risk-mitigation effectiveness that helps inform the prioritization of investments within a risk chapter, RSEs do not allow for an absolute comparison of costs and benefits. As noted by the Commission, "RSE values produced by the Multi-Attribute Value Framework (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."[1748] CSF&AMO's programs should not receive inadequate funding based solely on RSEs, as that would not fully account for the qualitative value/benefit of, and need, for these programs. As explained previously in SoCalGas's Opening Brief, CSF&AMO's RAMP-related activities (including formalized safety process training and responding to safety-related field orders) are important in mitigating safety risks and SoCalGas prioritized these safety risks when developing the TY 2024 funding request.[1749]

For all the foregoing reasons, TURN's use of a five-year average to unreasonably reduce CSF&AMO's O&M forecast should be rejected.

[1745] TURN OB at 242.

[1746] D.22-12-027 at 24-27.

[1747] Ex. SCG-203-E/SDG&E-203-E (Pearson/Flores) at 6.

[1748] *Id*. at 7 (*citing* to D.22-12-027 at 26).

[1749] SCG/SDG&E OB at 467-468.

21.2.1.2 SoCalGas Has Fully Justified the Reasonableness of its O&M Forecast for CSF Operations

In its Opening Brief, Cal Advocates largely repeats the same arguments it made in its testimony, arguing that "SCG's forecasts for labor and non-labor expenses are not justified."[1750] Cal Advocates continues to advocate its use of 2019 recorded (but not adjusted) expenses as the basis for its test year forecast and argues that the "use of 2021 adjusted-recorded expenses to calculate its forecast means that its TY 2024 expenses are overstated."[1751] Cal Advocates further states that it "did not use 2020 or 2021 adjusted-recorded data because work order volumes decreased during those years due to the COVID-19 pandemic measures in place at the time."[1752]

However, Cal Advocates does not dispute SoCalGas's incremental funding request of "$23.097 million for Personal Protective Equipment (PPE), Field Employee Skills Training, Safety Related Field Orders, and Order Volume."[1753]

Cal Advocates' proposed forecast is unreasonable and should be rejected. First, Cal Advocates does not provide justification for using 2019 recorded as its BY and explanation that 2019 recorded is "comparable to prior and recent years," is insufficient.[1754] In addition, as explained previously in SoCalGas's Opening Brief,[1755] the Commission in a prior GRC 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" and Cal Advocates errs by using only the recorded, and not the recorded-adjusted, expenses to calculate its forecast. [1756]

Finally, while SoCalGas agrees with Cal Advocates that some of the work order volumes were temporarily affected in 2020-2022 due to COVID-19 measures (such as social distancing,

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1750 Cal Advocates OB at 202.

1751 *Id.*

1752 *Id.*

1753 *Id.* at 201-202.

1754 *Id.* at 202.

1755 SCG/SDG&E OB at 472. Correctly adjusting Cal Advocates' use of 2019 recorded expenses to constant 2021 dollars (which include adjustments, vacation & sick and escalation) to make its data compatible with other years, the net forecast amount would be $125.857 million. 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.

1756 D.13-05-010 at 16 (*quoting* D.08-07-046 at 9).

CPUC-mandated moratorium on collection and disconnections,[1757] and by customers not calling for routine service during the pandemic), SoCalGas performed a comprehensive review of historical order volumes and chose the forecast methodology that best represents future order activity and future work order volume based on a starting point of 2019 or 2021 depending on the impact of the COVID-19 pandemic on the specific order.[1758]

As discussed in the section above, TURN unreasonably 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, including the labor forecast for CSF Operations. For the same reasons stated in the section above, TURN's use of a five-year average to calculate the labor forecast for CSF Operations is unjustified and unreasonable and should be rejected. In addition, in its Opening Brief, TURN argues that "SoCalGas claims that work order volumes are the primary driver of costs, and it addressed two order types – Change of Account Hang Tag and CSO-CSO. Yet, during evidentiary hearings, SoCalGas conceded that it did not provide support for why the volumes for these orders would increase from 2019 to 2024."[1759] TURN misstates SoCalGas witness, Mr. Daniel Rendler's testimony. During the evidentiary hearing, TURN asked Mr. Rendler about specific order types- Change of Account Hang Tag and CSO-CSO, and whether Mr. Rendler "provide[d] support or explanation in your direct testimony for why the order volume would be greater in 2024 than in 2019."[1760] When asked during cross examination why would there be more orders in 2024 compared to 2019, Mr. Rendler answered that the increase was "based on the active meter count in 2021."[1761] Mr. Rendler was referring to those specific orders whose volume was forecasted using the 2019 order volume total. For example, Hang Tag orders (which TURN specifically asked about during the evidentiary hearing) are shown in Table DR-6 below from Mr. Rendler's rebuttal testimony to provide context.[1762] The 2019 order volume is 248,833 and during cross examination, Mr. Rendler was asked why the order volume is greater in

1757 D.21-11-014; *see also,* SoCalGas Advice 5604-B, June 22, 2020, *available at:* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5604-B.pdf.

1758 Ex. SCG-214 (Rendler) at 5.

1759 TURN OB at 243-244.

1760 Tr. V12:2152:19-2156:10 (Rendler).

1761 Tr. V12:2154:13-15 (Rendler).

1762 Ex. SCG-214 (Rendler) at 8.

2024.[1763] The 2019 order volume was escalated into the forecast years (2022-2024) based on the actual active meter count in 2021, which resulted in a 1.06% increase for all orders where 2019 was used as the forecast methodology. During cross examination Mr. Rendler was also asked if he estimated meter growth in active meters between 2022 and 2024. Mr. Rendler answered, "we did not add meter growth to our forecast into 2024."[1764] The forecast volume is flat in the forecast years because only the actual active meters in 2021 were used to escalate only those orders where 2019 was used as the forecast methodology. Meter growth in 2022-2024 was not used for escalation.

Table 21.1

Line No	**Order Type**	**Historical Order Volume**						**Estimated Order Volume**		
		2017	**2018**	**2019**	**2020**	**BY 2021**		**2022**	**2023**	**TY 2024**
3	Change of Account – Hang Tag	-	154,421	248,833	239,752	230,278		251,462	251,462	251,462

Thus, Mr. Rendler answered during cross examination why COVID-impacted orders would increase from 2019 to 2024 and testified that he provided explanations for all order types, including methodology, details, and calculations, based on whether the order type is COVID-impacted or not and that he explained this in his direct testimony. As explained in SoCalGas's Opening Brief and in testimony, "SoCalGas performed a comprehensive review of historical order volumes and chose the method that best represents future activity."[1765] COVID-19-impacted orders were forecasted using 2019 historical order volumes. Non-COVID-19-impacted orders were forecasted using BY 2021 historical order volumes.[1766]

As for its proposed reductions to non-labor expenses, TURN repeats the same arguments it made in its testimony, claiming SoCalGas did not provide "*any* support" for the non-labor expenses.[1767] TURN continues to demand an incorrect burden of proof to support its proposed reductions to CSF Operations non-labor expenses by stating that "[s]ince SoCalGas has not provided clear and convincing evidence (it did not even attempt to), its requested increase must be

1763 Tr. V12:2154:11-12.

1764 Tr. V12:2154:23-24.

1765 SCG/SDG&E OB at 473-474; Ex. SCG-214 (Rendler) at 5.

1766 SCG/SDG&E OB at 474.

1767 TURN OB at 241.

rejected."[1768] TURN's argument is baseless. First, TURN continues to apply an incorrect standard of proof ("clear and convincing"), rather than "preponderance of evidence," which is the correct standard of proof in the GRC.[1769] In addition, as previously explained in its Opening Brief, SoCalGas has fully justified the reasonableness of its non-labor O&M costs by providing details regarding its non-labor O&M costs in testimony and workpapers, including the order volume and calculation for costs and FTEs by each order type for the total labor and non-labor request in TY 2024.[1770] SoCalGas also provided detailed calculations for each category of non-labor request in workpapers, including Safety-Related Field Orders with detailed costs and FTEs for this request by specific safety order.[1771]

For all the reasons stated herein, the Commission should reject Cal Advocates' and TURN's proposed O&M forecasts for CSF Operations and accept SoCalGas's request as reasonable.

21.2.1.3 Cal Advocates' Use of SoCalGas's Recorded, But Not Adjusted, 2021 Expense to Forecast Advanced Meter Operations' Non-Labor Expense Forecast is Unjustified

In its Opening Brief, Cal Advocates agrees with SoCalGas's TY 2024 $5.610 million in labor request, but continues to disagree with SoCalGas's non-labor request of $8.591 million for the Advanced Meter Operations (AMO) cost category.[1772] Similar to its O&M forecast for CSF Operations, Cal Advocates merely repeats the same argument in its testimony that SoCalGas's forecast for non-labor expenses is "not adequately justified," and 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.[1773] Cal Advocates also claims it "did not use 2021 the adjusted-recorded

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1768 *Id.* at 242.

1769 SCG/SDG&E OB at 474. 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. (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."].)

1770 *Id.* at 474-475.

1771 *Id.*

1772 Cal Advocates OB at 202-203.

1773 *Id.* at 203.

amount because it includes corrections of mischarges transferred to different cost centers as well as COVID-19 related costs."[1774]

Cal Advocates' proposed reduction to AMO's non-labor expense forecast is unjustified and should be rejected. As explained in the sections above, 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."[1775] As for Cal Advocates' assertion that 2021 expenses include corrections of mischarges, the workpaper adjustments are standard adjustments that are made in the normal course of the GRC to remove non-GRC related costs and other costs that do not belong in the Advanced Meter Operations cost category.[1776] SoCalGas has 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, including the fact that its non-labor request includes the MTU warranty cost, which is necessary as a bridge until SoCalGas undertakes a full replacement of the MTUs beginning in the next TY 2028 GRC cycle.[1777] SoCalGas has also 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. SoCalGas urges the Commission to consider the facts regarding the requirement of the MTU Warranty for meters that are approaching (or have reached) the end of their useful life. For all the foregoing reasons, the Commission should reject Cal Advocates' recommended reductions and adopt SoCalGas's non-labor forecast and allow SoCalGas to extend the MTU warranty.

21.2.1.4 TURN Fails to Refute the Demonstrated Need for the PACER Workforce Management Replacement Project and Applies an Incorrect Burden of Proof

In its Opening Brief, TURN largely repeats the same arguments it made in its testimony and recommends disallowance of the project in its entirety because "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits included in SoCalGas' direct testimony or workpapers."[1778] TURN also argues that "[i]f the Commission approves the proposed

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1774 *Id.* at 203-204.

1775 D.13-05-010 at 16 (quoting D.08-07-046 at 9).

1776 *See* Ex. SCG-14-WP-R (Rendler) at 140 -141.

1777 SCG/SDG&E OB at 480-481.

1778 TURN OB at 244-245.

project, it should at a minimum account for the projected O&M savings in 2026 and 2027 by proportionally reducing the 2024 forecast."[1779] TURN further recommends: "[t]he Commission should reduce the 2024 O&M forecast by 1/4 of the projected benefit, or $3.65 million," contending that "[t]he Commission recently found this approach to be reasonable, which would reduce the TY forecast by the estimated savings while still allowing the utility to pursue the project."[1780] TURN also reasserts its erroneous claim that SoCalGas improperly seeks attrition year costs for this project.[1781]

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.[1782] TURN provides no support for its argument that a quantitative cost-benefit analysis is required and continues to demand a "clear and convincing" level of proof.[1783] As discussed previously, this is not the standard of proof required.

TURN's reliance on Commission decision D.20-12-005 as precedent for reducing the PACER Workforce Management Replacement Project's "2024 O&M forecast by 1/4 of the projected benefit, or $3.65 million," is misplaced. Contrary to TURN's argument, the Commission, in D.20-12-005, did not find that all proposed capital projects should reduce the O&M forecast by 1/4 of the capital project's projected benefit. Rather, the Commission approved the settlement agreement/stipulation between PG&E and TURN in PG&E's 2020 GRC, wherein PG&E agreed to reduce its forecasted expenses by the amount of "savings PG&E expects to achieve through these projects."[1784] As a result of its stipulation with TURN, PG&E revised its forecast for the capital projects and the Commission ruled that:

> The revised forecasts adopted in the stipulation are a **compromise** of TURN's and PG&E's original positions. The stipulation addresses TURN's concerns about the net benefits of the Salesforce Phase 2 and 3 projects by reducing PG&E's forecast costs by the estimated savings PG&E accrues from the projects, while still allowing

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[1779] *Id.* at 247.

[1780] *Id*. (*citing* to D.20-12-005 at 174-175).

[1781] *Id.* at 244.

[1782] *Id.* at 245-246.

[1783] *Id.* at 245.

[1784] D.20-12-005 at 174-175.

> PG&E to pursue these projects. The revised forecasts adopted in the stipulation are thus reasonable in light of the record, and we adopt them. [1785]

This is not the case here, where SoCalGas and TURN have not reached such a compromise or a settlement regarding this capital project. Therefore, D.20-12-005 and its discussion of a method reached through a stipulated compromise do not apply in this case.

TURN also continues to demand "clear and convincing" level of proof as well as demanding a "cost-benefit analysis" for the project.[1786] This is not the standard of proof required. SoCalGas has already provided necessary details regarding the project in testimony, workpapers, and data request responses that included its sound 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.[1787]

In addition, as explained in SoCalGas's Opening Brief, TURN misunderstands PTY ratemaking.[1788] SoCalGas is not seeking attrition year costs for the PACER WFM Replacement project.[1789] Rather, SoCalGas is seeking a PTY ratemaking mechanism to adjust its authorized revenue requirement in the post test years by applying separate attrition adjustments for O&M expenses (including a separate attrition adjustment for medical expenses), capital-related costs, and 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.[1790]

Finally, in SoCalGas/SDG&E's 2019 GRC, SoCalGas made similar funding requests for its IT capital projects, and the intervenors made "recommendations to reduce the overall funding requested but did not argue or challenge the necessity of any of the individual projects."[1791] The Commission ruled, however: "we find that it is more appropriate in this case to review each project individually as we find it more reasonable that necessary projects provide the basis of the funding

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[1785] *Id.* at 175 (emphasis added).

[1786] TURN OB at 244-245.

[1787] SCG/SDG&E OB at 481-482, 626-628; 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 19-21 and Appendix B (SoCalGas response to DR TURN-SEU-063).

[1788] TURN OB at 244-245.

[1789] SCG/SDG&E OB at 627-628.

[1790] *Id.* at 627-628, 835-838.

[1791] D.19-09-051 at 460.

amount rather than for the funding amount to determine which projects are implemented."[1792] The Commission, in approving SoCalGas's funding request for the IT capital projects, also ruled: "[b]ased on our analysis and review of each proposed project, we find all of the projects to be necessary and the requested funding levels for each project reasonable."[1793] Finally, the Commission made the following ruling, in finding the projects to be necessary:

> **Many of the projects are upgrades or refresh projects to replace obsolete, incompatible, no longer supported by the vendor, or at the end-of-life**. The upgrades and refresh projects provide increased performance and functionality to meet business needs that are growing in complexity. SoCalGas is also moving away from certain legacy systems and so equipment and applications relating to those old systems are in need of replacement. Other projects include increasing storage and network capacity to handle increased computing loads. Several projects also impact safety as more data will be used and the new systems will provide better analytics and improved response times in identifying and responding to issues and anomalies. Improvements to the GIS system will support improved analysis of how the physical environment affects SoCalGas' equipment and systems. The projects listed also include improvements to communication centers and improvement to communication equipment in several areas.[1794]

In this case, SoCalGas has similarly fully justified the reasonableness of the PACER WFM Replacement project, which cannot support the changing business needs, regulatory requirements, or the ability to execute the CSF business processes the way operations demands. As Mr. Rendler explained during evidentiary hearing, the PACER WFM "is a technology obsolescence project and the business need from our end is to sustain the work that is being done through this system."[1795] Technology has greatly advanced in the last 30 years. TURN did not address or does not understand the impact if the PACER WFM were not available. As explained previously in testimony and in SoCalGas's Opening Brief, 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.[1796] The Commission

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[1792] *Id.*

[1793] *Id.* at 461.

[1794] *Id.* at 460 (emphasis added).

[1795] Tr. V12:2141:11-14.

[1796] SCG/SDG&E OB at 481.

should therefore reject TURN's proposal and approve SoCalGas's proposed funding request for PACER WFM Replacement project as reasonable.

21.2.1.5 UWUA Local 132's Workforce Proposal to Eliminate "Double-Time" Work is Without Merit

The Utility Workers Union of America, Local 132 (UWUA or Local 132) claims in its Opening Brief that SoCalGas should be required to "submit, within thirty days, a plan under which it will recruit, hire, train and deploy enough new employees to eliminate double-time work."[1797] SoCalGas addresses UWUA's argument in more detail in Section 33.2.1. While SoCalGas agrees that additional employees are needed in this GRC cycle to support anticipated projects and programs, it does not agree with (and takes exception to) UWUA's rationale for the increase.

21.2.2 Customer Services – Field Operations[1798] - SDG&E

SDG&E seeks $40.452 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.[1799] Approval of TY 2024 forecasts has been fully supported and justified through witness Thai's testimony and SoCalGas's and SDG&E's joint Opening Brief (OB).[1800]

Cal Advocates, TURN, and UCAN oppose SDG&E's CS-Field Operations requests.[1801] Initially, the Joint CCAs opposed SDG&E's Smart Meter (SM) 2.0 initiative, recommending that

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[1797] UWUA OB at 10.

[1798] In the Opening Brief, SoCalGas and SDG&E inadvertently numbered this section 21.3. The Common Briefing Outline indicates this area should be numbered 21.2. This section is numbered consistent with the Common Briefing Outline, but therefore deviates from the Opening Brief.

[1799] Ex. SDG&E-17-R (Thai) at iii and 2-3. 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.

[1800] SCG/SDG&E OB at 483-498.

[1801] *Id.* at 485-487.

the Commission deny cost recovery.[1802] However, the Joint CCAs have engaged with SDG&E on data transfer intervals and SDG&E has committed to a solution by the fourth quarter of 2024.[1803] As such, the Joint CCAs withdraw their recommendation that the Commission deny cost recovery of SDG&E's SM 2.0 initiative.[1804]

Cal Advocates' Opening Brief referred back to their respective positions that were provided in their testimony. Accordingly, Cal Advocates OB does not address SDG&E's rebuttal testimony or any related testimony provided during hearings. As such, SDG&E's forecast for these activities should be adopted as reasonable for the reasons stated in the OB.[1805]

Except as detailed below, the parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have presented in testimony, and SDG&E has responded to each of the other party's proposals in its rebuttal testimony and Opening Brief.

21.2.2.1 Customer Field Operations (CFO) Support

SDG&E is requesting $5.279 million for TY 2024 costs associated with CFO Support.[1806] 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.[1807] Also included is Field Service Delivery (FSD), an initiative to modernize delivery of customer services in the field while enhancing safety and employee engagement.[1808]

21.2.2.2 The Commission Should Adopt SDG&E's TY 2024 Forecast for CFO Support as Reasonable

TURN reiterates its argument that SDG&E's requested increase is "drastic" and that SDG&E "needs to add back salaries because there were timing issues in backfilling vacancies in

1802 Joint CCAs OB at 36.

1803 *Id.* at 36-37.

1804 *Id.* at 37.

1805 SCG/SDG&E OB at 485-498.

1806 Ex. SDG&E-17-R (Thai) at 27.

1807 *Id.* at 25.

1808 *Id.*

2021 due to the pandemic."[1809] Further, 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."[1810]

As noted, TURN's assumptions disregard the fact that changes to business requires incremental resources to continue to lead critical customer-facing field teams, develop training materials, etc.[1811] It is logical to infer that as workloads continue to grow, additional field leadership will be required.[1812]

Further, TURN argues that the Commission should "reject SDG&E'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." Aside from regurgitating this argument from its rebuttal testimony, TURN provides no support for its allegation. TURN fails to understand that if SDG&E spends less than a GRC-authorized amount for a certain activity, that does not mean that the difference is automatically a shareholder earning. In fact, the "Commission has always acknowledged that utilities may need to reprioritize spending between GRCs."[1813] This allows a utility to respond to "rapidly unfolding events such as the catastrophic wildfires in 2007, 2017, 2018, and now, 2019," or in this case, the COVID-19 pandemic.[1814] The Commission has explicitly recognized that "new programs or projects may come up, others may be cancelled, and there may be reprioritization."[1815] As noted above, TURN's assertions and allegations ignore the need for incremental resources as workload continues.

For the foregoing reasons, SDG&E urges the Commission disregard TURN's proposed reductions.

1809 TURN OB at 248 (citation omitted).

1810 *Id.* at 249.

1811 SCG/SDG&E OB at 489; *see also* Ex. SDG&E-217 (Thai) at 15.

1812 *Id.*; *see also* Ex. SDG&E-217 (Thai) at 16.

1813 D.20-01-002 at 38.

1814 *Id.* at 35.

1815 D.11-05-018 at 27.

21.2.2.3 Based on GRC Precedent, the Commission Should Adopt SDG&E's TY 2024 Forecast for the FSD Project as Reasonable

TURN recommends the Commission "reject the proposed [FSD] project" and the O&M costs associated with the project.[1816] TURN argues that SDG&E "failed to provide clear and convincing evidence for why such spending would result in just and reasonable rates."[1817] Further, TURN argues that "SDG&E concedes that it did not conduct a business case or cost-benefit analysis for [FSD]."[1818]

First, TURN repeatedly cherry-picks projects that it feels require a cost-benefit analysis as a reason for the Commission to deny a forecast. However, a cost-benefit analysis is not required for each individual project. Instead, Commission precedent makes clear that the Commission, based on their review, can find the project to be necessary. For instance, in the Applicants last GRC, the Commission "reviewed each capital project proposed . . . by ***examining the supporting testimony and workpapers***."[1819] The projects "replace outdated technology that is near or at the end of life and have limited support or are no longer being supported by the vendor."[1820] Based on its review, the Commission found the "proposed projects to be necessary for SDG&E to modernize its communication infrastructure to meet present and future demands . . . [b]ased on the above, ***we find that SDG&E conducted sufficient due diligence with regards to the project as well as exploring less expensive alternatives which are important steps considering the size and cost of the project***."[1821] As evidenced, the Commission did not require a cost-benefit analysis and instead relied on examining the supporting testimony and workpapers. Witness Thai has made clear in both testimony, workpapers, and data request responses (which TURN received) that FSD is "an initiative to modernize delivery of customer services in the field while enhancing safety and employee engagement."[1822] Further, FSD will "replace end of life and unsupported software,

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1816 TURN OB at 249.

1817 *Id.* at 262.

1818 *Id.* (citation omitted).

1819 D.19-09-051 at 471 (emphasis added).

1820 *Id.*

1821 *Id.* at 471-472 (emphasis added).

1822 Ex. SDG&E-17-R (Thai) at 25.

consolidate software applications, and improve customer experience and satisfaction."[1823] The FSD project and the projects referred to in the 2019 GRC Decision yield the same results – they attempt to replace outdated technology to modernize its infrastructure to meet present and future business demands. Based on this, SDG&E urges the Commission to disregard TURN's proposed reductions and follow precedent by approving SDG&E's forecasts for its FSD project.

Second, TURN argues that SDG&E "failed to provide clear and convincing evidence for why such spending would result in just and reasonable rates."[1824] However, TURN incorrectly demands a clear and convincing level of proof. This is not the standard of proof required for a GRC. Instead, the evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence.[1825] Preponderance of the evidence simply means that something is "more likely to be true than not true."[1826] In short, "[the utility] must present more evidence that supports the requested result than would support an alternative outcome."[1827] SDG&E has met its burden by providing extensive details in numerous pages of testimony and workpapers, oral testimony at evidentiary hearings, and data request responses, that the FSD project, and the O&M costs associated with the project, is necessary. SDG&E has provided evidence that supports SDG&E's request, then would support an alternative outcome, and as such, has arguably met its burden.

For the foregoing reasons, SDG&E urges the Commission disregard TURN's proposed reductions and adopt SDG&E's forecast of $5.279 million for CFO Support as reasonable.

21.2.3 Smart Meter (SM) Operations

SDG&E is requesting $13.287 million for TY 2024 costs associated with SM Operations (SMO).[1828] SMO supports the delivery of customer services on premises, responds to customer

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[1823] SCG/SDG&E OB at 495; *see also* Ex. SDG&E-17-R (Thai) at 44.

[1824] TURN OB at 262.

[1825] The Commission affirmed in D.14-12-025 that this standard specifically applies to a GRC. D.14-12-025 at 20-21 (affirming "[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.").

[1826] Witkin, Cal. Evid. (5th ed., Vol. 1), "Burden" § 36 (2022).

[1827] D.16-06-056 at 23.

[1828] SCG/SDG&E OB at 490; *see also* Ex. SDG&E-17-R (Thai) at 30.

inquiries and resolves customer problems, and ensures safe, accurate, and reliable metering for SDG&E meters.[1829]

21.2.3.1 The Commission Should Adopt SDG&E's Forecasts for SM Operations as Reasonable

TURN lumps its argument to disallow costs for CS-Field Operations Support and SM Operations and, in one sentence, claims that "SDG&E fails to support its requested outrageous increase O&M cost of 47.6% for Smart Meter Operations."[1830] Otherwise, TURN provides no support of its claim. As noted, TURN's cavalier disregard for the SM 2.0 project in its entirety, does not support a justification for proposed SM Operations disallowances.[1831]

21.2.3.2 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.[1832] Smart Meter 2.0 is the Company's replacement to its initial AMI system, that was deployed in the 2009 to 2010 timeframe.[1833] AMI enables secure two-way communication between SDG&E's business and customers' meters.[1834] Smart Meter 2.0 consists of integrated meter systems and controls, communication networks, data processing and management systems.[1835] 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.[1836] Smart Meter 2.0 leverages proven technology with years of futureproofing to ensure long-term secure and accurate relay of customer meter data information.[1837] SDG&E seeks to first replace its gas modules and subsequently transition to electric meter replacements.[1838]

[1829] *Id.*

[1830] TURN OB at 249. SDG&E notes that TURN's OB incorrectly states the increase O&M percentage for Smart Meter Operations at 47.6%. The correct percentage is 46.6%.

[1831] SCG/SDG&E OB at 491.

[1832] SCG/SDG&E OB at 491; *see also* Ex. SDG&E-17-R (Thai) at 41.

[1833] *Id.*

[1834] *Id.*

[1835] *Id.*

[1836] *Id.*

[1837] *Id.; see also* Ex. SDG&E-17-R (Thai) at 43.

[1838] *Id.; see also* Ex. SDG&E-17-R (Thai) at 41.

21.2.3.3 Based on GRC Precedent, The Commission Should Adopt SDG&E's SM 2.0 Forecasts as Reasonable

TURN and UCAN both propose rejection of SDG&E's SM 2.0 project for reasons reiterated from testimony and responded to in SDG&E's rebuttal testimony and Opening Brief.

To support its proposed disallowance, TURN argues that SDG&E "avoids any discussion of whether these failures [since 2018] should be covered by the manufacturer warranty since the component is failing many years prior to its end of life, or whether the failure is due to improper operation and maintenance by SDG&E."[1839] TURN argues, "[t]o meet its burden of proof, SDG&E would need to demonstrate that the failures were due to factors outside of SDG&E's control or otherwise not attributable to the utility."[1840]

Despite correctly noting the burden of proof earlier in its Opening Brief, TURN subsequently misstates the burden of proof in ratemaking proceedings, which is one of preponderance of the evidence.[1841] The Applicants have the burden of proof in justifying the reasonableness of their positions.[1842] This means that something is "more likely to be true than not true."[1843] Nothing in the preponderance of the evidence standard requires SDG&E to demonstrate that the failures were due to factors outside of SDG&E's control, particularly for claims that are outside of a manufacturer's warranty. SDG&E has justified the reasonableness of the SM 2.0 project. SDG&E has provided testimony, both oral and written, data request responses, and workpapers demonstrating the need for the SM 2.0 request. SDG&E has proven that its smart meter system is reaching end of life and expected failures require immediate attention.[1844] As SDG&E has emphasized emphatically, funding is necessary to remediate SM 1.0 system failures – which are to be expected with infrastructure and technology as antiquated as it is.[1845] SDG&E reiterates that "[g]as modules are failing because of end of battery life and electric smart meters are

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1839 TURN OB at 250.

1840 *Id*.

1841 *Id.* at 17 stating ("[t]he Commission requires utilities to meet the 'preponderance of the evidence' standard of proof in GRC proceedings.").

1842 SCG/SDG&E OB at 4; *see also* D.09-03-025 at 8 and D.06-05-016 at 7.

1843 SCG/SDG&E OB at 4 (citation omitted).

1844 *Id.* at 493; *see also* Ex. SDG&E-217 (Thai) at 31-32.

1845 *Id.*; *see also* Ex. SDG&E-217 (Thai) at 33.

experiencing increasing annual failures as they reach their 17-year expected life."[1846] Cal Advocates, formerly the Department of Ratepayer Advocates, has stated, '"[p]rojects have a clear start date, and if well run, a clear end date, the SDG&E AMI system will be substantially (if not wholly) be replaced after 17 years."'[1847]

As such, SDG&E has met its burden of proof and urges the Commission disregard TURN's proposed disallowance, particularly given their misunderstanding of the required burden of proof.

UCAN argues that SDG&E "waves-off stranded legacy gas module and electric meters" and that there is a "lack of factual and economic support" for SDG&E's proposed SM 2.0 project.[1848] UCAN also "recommends the Company [SDG&E] take steps to reduce the next round of stranded costs when SM 2.0 becomes legacy technology."[1849] First, UCAN ignores the fact that SDG&E's SM 1.0 program was deployed in 2009.[1850] As noted above, failures are to be expected with infrastructure and technology as antiquated as it is. It is not appropriate to categorize used and useful technology, that began failing more than a decade later, as a "stranded cost." Further, contrary to UCAN's assertion, SDG&E's SM 2.0 proposal considers limiting stranded asset risk by: (1) reducing the number of deployed SM 1.0 assets; and (2) it avoids prematurely deploying electric meter technologies significantly in advance of forecasted failures.[1851] Second, UCAN claims that SDG&E's proposal lacks factual and economic support yet does not assert any proposal in the alternative. SDG&E maintains that it has made clear in testimony, data request responses, and workpapers that the SM 2.0 initiative is necessary and has proven that SDG&E's smart meter system is reaching end of life and expected failures require immediate attention.[1852]

[1846] Ex. SDG&E-217 (Thai) at 33.

[1847] *Id.* (citation omitted).

[1848] UCAN OB at 4 and 15. UCAN also states "[t]he additional SM 1.0 and SM 2.0 costs, largely 'discovered' in this GRC by TURN, point to more major cost increases in the next two subsequent GRCs, where at least another $400 M to $600 M will be requested by SDG&E to pay for 'advanced' meters and modules as well as related stranded costs." *Id.* at 37. UCAN does not cite to any authority for this statement – whether UCAN is referring to TURN's briefing, testimony, or otherwise. As such, SDG&E is unable to respond adequately to this claim and urges the Commission to disregard UCAN's baseless, and unsupported, allegation.

[1849] *Id.* at 154.

[1850] SCG/SDG&E OB at 493; *see also* Ex. SDG&E-217 (Thai) at 31-32.

[1851] Ex. SDG&E-217 (Thai) at 25-26 and Figures DT-1 and DT-2.

[1852] SCG/SDG&E OB at 493; *see also* Ex. SDG&E-217 (Thai) at 31-32.

Further, UCAN incorrectly states, "a legacy SM 2.0 system [] will be obsolete too soon" and "SM 2.0 gas module installation would proceed first if approved . . . start[ing] in 2025 (assuming the 60-week delay)."[1853] As evidenced by witness Thai during evidentiary hearings, if approved, gas deployments will likely begin by the end of 2024 and electric deployments will likely begin in 2026.[1854] UCAN confuses the 60-week delay of a procuring a SM 1.0 gas module with a SM 2.0 gas module installation. Similarly, UCAN ignores the fact that SDG&E is currently in an active RFP and in ongoing discussions and deliberations regarding the SM 2.0 project.[1855] Nothing in testimony, or on the record of this proceeding, suggests that SM 2.0 system will soon be obsolete. To the contrary, SDG&E would not participate in an active RFP to procure a technology if it were soon to be obsolete. As such, SDG&E urges the Commission disregard UCAN's misunderstandings of the SM 2.0 project and proposed disallowances.

Lastly, as noted above, Commission precedent makes clear that the Commission, based on their review, can find the project to be necessary. Importantly, in SoCalGas's and SDG&E's last GRC, the Commission approved projects that "replace outdated technology that is near or at the end of life and have limited support or are no longer being supported by the vendor."[1856] Based on its review, the Commission found the "proposed projects to be necessary for SDG&E to modernize its communication infrastructure to meet present and future demands."[1857] Witness Thai has made clear in testimony, data request responses, and workpapers that the SM 2.0 initiative is necessary and has proven that SDG&E's smart meter system is reaching end of life and expected failures require immediate attention.[1858] The SM 2.0 project and the projects approved in the 2019 GRC Decision yield the same results – they attempt to replace outdated technology to modernize SDG&E's infrastructure to meet present and future demands. Based on this, SDG&E urges the

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1853 UCAN OB at 155-156.

1854 Tr. V15:2671:13-18 (Thai) (stating, "So our expectation, your honor, is we begin gas module deployment, if not by the end of this year, probably likely the end of next year. We would conclude roughly three years after that and begin electric deployments around the 2026 timeframe. And those electric deployments should continue through 2030.").

1855 *Id.* at 2673:17-19 (Thai). SDG&E notes that the ongoing RFP directly refutes UCAN's allegation that "neither Mr. Thai nor Mr. Exon made claims that a competitive procurement for SM 2.0 had been performed, only that Itron 'was in the house.'" UCAN OB at 159.

1856 D.19-09-051 at 471.

1857 *Id.* at 471-472.

1858 SCG/SDG&E OB at 493; *see also* Ex. SDG&E-217 (Thai) at 31-32.

Commission to disregard TURN's proposed reductions and follow precedent by approving SDG&E's forecasts for its SM 2.0 project as reasonable.

21.2.3.4 TURN and UCAN's Suggestion to File a Separate Application for SM 2.0 is Ill-Advised and Would Harm Customers by Delaying Deployment of Critical SM 2.0 Technology

TURN suggests that the "Commission issue a decision for SM 2.0 first before making final determinations on the rest of the GRC application."[1859] Further, "[t]he decision should direct SDG&E to file a new application for the complete SM 2.0 Project, and SDG&E should be required to include the following information as part of the application:

- A complete business case that convincingly demonstrates the cost-effectiveness of the project.
- A showing to demonstrate that the failures of the previously installed equipment were due to factors outside of SDG&E's control or otherwise not attributable to the utility, and SDG&E's efforts to seek replacements under manufacturer warranty were reasonable.
- Comprehensive review of whether SDG&E realized the forecasted benefits for Smart Meter 1.0, and the overall cost-effectiveness of Smart Meter 1.0.
- Proposed ratemaking treatment for amounts still in rate base for meters or modules to be replaced.[1860]

UCAN similarly suggests a "a 'reset' (new) proceeding for Smart Meter (SM) 2.0 that suggests replacement of both failed gas modules and electric meters with SM 1.0 technology in the interim."[1861]

Both proposals ignore the fact that gas modules and electric meters are already failing. Requiring SDG&E to file a separate Application would only delay the deployment of SM 2.0 technology and cause harm to customers in SDG&E's service territory. Notably, pursuant to the Rules of Practice and Procedure, the Commission has up to 18 months to resolve a ratesetting proceeding, and an option to extend the deadline beyond 18 months.[1862] Assuming SDG&E filed

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[1859] TURN OB at 256.

[1860] TURN OB at 256.

[1861] UCAN OB at 35.

[1862] *See* Rule 2.1(c) and Pub. Util. Code § 1701.5 stating ("in a ratesetting or quasi-legislative case, the commission shall resolve the issues raised in the scoping memo within 18 months of the date the an Application in January 2024, and a scoping memo was issued by March 2024, a proposed or final decision would not be issued until September 2025, similarly assuming an order to extend the deadline was not issued. As noted, SDG&E's current meters are nearing the end of their useful life.[1863] Further, SDG&E has observed an average increase in meter failures of 58% since 2018 and SDG&E forecasts approximately 863,000 gas module failures from 2023 – 2027.[1864] Delaying the deployment of SM 2.0 to September 2025, or further, will only delay the replacement of these increasing meter failures, which will lead to unreliable, untimely, and inaccurate customer meter data acquisition for billing.[1865] Further, the Commission has recognized the need for, and has previously approved, projects to replace outdated technology that is "near or at the end of life."[1866] As such, SDG&E urges the Commission to follow precedent and disregard the proposals to file a separate Application, as it will only further harm customers in SDG&E's service territory by allowing obsolete technology to continue to fail and delaying deployment of necessary and updated technology.

21.2.3.5 TURN Misstates Testimony on Battery Replacement and SDG&E Reiterates that Battery Replacement is Not a Viable Alternative to its SM 2.0 Proposal

TURN states:

> If SDG&E is unable to procure gas module replacements, and it is not performing battery replacements because it believes the option to be non-economical, and it also will not have built a SM 2.0 network until sometime in 2024, then how does SDG&E plan to address gas module failures in the meantime?[1867]

TURN inherently misunderstands the concept of battery replacement and SDG&E's position on battery replacement. First, SDG&E never stated it is unable to procure gas module replacements. Instead, SDG&E noted that such gas module acquisition requires waiting 60 plus weeks, due to supply chain issues.[1868] Nowhere in that statement does SDG&E say that it is unable

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proceeding is initiative, ***unless the commission makes a written determination that the deadline cannot be met . . . and issues an order extending the deadline***.") (emphasis added).

1863 SCG/SDG&E OB at 491; *see also* Ex. SDG&E-17-R (Thai) at 41.

1864 Ex. SDG&E-17-R (Thai) at 36; *see also* SCG/SDG&E OB at 492 and Ex. SDG&E-217 (Thai) at 26.

1865 Ex. SDG&E-17-R (Thai) at 37.

1866 D.19-09-051 at 471.

1867 TURN OB at 258.

1868 SCG/SDG&E OB at 494.

to procure gas module replacements. Second, SDG&E did not state that it will never perform battery replacements. Instead, due to ongoing failures, SDG&E is in fact exploring battery replacements as a cost-prohibitive temporal solution until SM 2.0 – however, even this short-term solution has been plagued with supply chain impacts and in-field replacement procedures uncertified by Underwriters Laboratories (UL).[1869] As such, SDG&E currently is operating with a supply of gas modules for ad hoc replacements – this inventory will succumb to the realities of modules and meters failing en masse.

As noted, on this ad hoc basis, or en masse, 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.[1870] This, in addition to the ongoing failures, and the 863,000 forecasted gas module failures from 2023 – 2027[1871] is why SDG&E requested funds in this GRC for the SM 2.0 project and why expeditious approval of the SM 2.0 project is so important.

21.2.3.6 TURN's Argument Against Two-Way Balancing Account Treatment is Unconvincing

TURN argues that SDG&E's lack of holding Itron accountable is "clear imprudence" and does not warrant two-way balancing account treatment.[1872] However, TURN acknowledges that modules and meters "failed prematurely ***outside of the vendor's warranty***."[1873] TURN's argument acknowledges, and then disregards, basic principles of commercial and contract law. If a module or meter failed, prematurely or not, outside of the warranty, SDG&E would be ill-advised to seek remediation from Itron. It would be inappropriate, contractually, to "hold the vendor accountable by asking for replacements, refunds, or credits."[1874] Particularly given the stakeholders, and the

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1869 As noted in evidentiary hearings, witness Thai shared "the procedure that was provided for us is not URL certified. That was shared to our gas engineering team which informed me that they are still months away from trying to attain certification if at all." Tr. V23:4041:13-17 (Thai). Further, witness Thai emphasized the safety concerns with a device that is not certified. Mainly, "I'd venture to say that URL certification ensures safety for both the utility that's procuring the equipment [and] the homeowner that will have it installed on the site of their premise. And my expectation is that we would require appropriate certification of these devices." *Id.* at 4041:24-4042:4 (Thai).

1870 SCG/SDG&E OB at 494

1871 *Id.* at 492; *see also* Ex. SDG&E-217 (Thai) at 26.

1872 TURN OB at 258-259.

1873 *Id.* at 258 (emphasis added).

1874 *Id.*

Settlement approving SDG&E's AMI project, previously acknowledged that this technology would reach end of life in due time.[1875] To the contrary of TURN's assertion, initiating litigation over devices that are outside of the warranty would be imprudent and would cause harm and expense to both SDG&E and its customers.

SDG&E proposed two-way balancing account treatment, as an alternative, in the event the Commission does not approve SDG&E's requested SM 2.0 costs.[1876] TURN instead suggests that "the only reasonable mechanism would be a memorandum account to track the incremental costs in the interim, effective at the time the Commission directs SDG&E to file a separate application for the SM 2.0 Project."[1877] For the reasons above, SDG&E vehemently disagrees that a separate Application is appropriate for the SM 2.0 project. Additionally, in the event the Commission does not approve SDG&E's SM 2.0 costs, memorandum account treatment is inappropriate. Commission precedent highlights that two-way balancing account treatment is appropriate in scenarios when costs are difficult to predict and subject to variables beyond the Applicants' control, while allowing unspent funds to be returned to ratepayers.[1878] As noted, SDG&E forecasts approximately 265,000 electric meter failures from 2023 – 2027.[1879] Based on recent information, electric meter failures are trending higher than this forecast accounts. Forecasts are inherently approximations, because it is the best estimate that SDG&E is able to compute based on the information it has at the time of analysis. However, it is entirely possible that additional, or fewer, failures may occur – but that is beyond SDG&E's control. This is an exact scenario that would warrant two-way balancing account treatment. Further, TURN's concern, albeit misplaced,

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[1875] Cal Advocates, formerly the Department of Ratepayer Advocates, has stated, "[p]rojects have a clear start date and, if well run, a clear end date; the SDG&E AMI system will be substantially (if not wholly) [be] replaced after 17 years." D.07-04-043 at 29.

[1876] SCG/SDG&E OB at 494-495.

[1877] TURN OB at 259.

[1878] D.19-09-051 at 765 (stating, "[c]ontinued 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 be returned to ratepayers."); *see also id.* at 267 (stating, "[a] two-way balancing account will enable SDG&E to act more quickly in case further activities to mitigate wildfire risk become necessary and at the same time allow SDG&E to return excess funds not utilized to ratepayers.").

[1879] SCG/SDG&E OB at 492 and Ex. SDG&E-217 (Thai) at 27.

regarding "profits for shareholders"[1880] would be dismantled with a two-way balancing account, because any excess funds would be returned to ratepayers.

As such, SDG&E urges the Commission disregard TURN's proposal to file a separate Application for SM 2.0 costs, or in the alternative, approve a memorandum account. SDG&E has offered sufficient justification for approval of its SM 2.0 project and reiterates that there is no viable alternative to SM 2.0.[1881] 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.[1882]

21.2.3.7 TURN's Allegation of Potential Rule 1.1 Violations is Inappropriate and Unwarranted

TURN argues that SDG&E has "repeatedly engaged in conduct that should either be considered Rule 1.1 violations or at least are dangerously close to crossing the threshold."[1883] TURN goes on to describe instances where SDG&E's SM 2.0 witness, while on the stand during evidentiary hearings, required a refreshed recollection, and a claim that SDG&E never sought clarification regarding TURN's data request.[1884]

First, California law notes that using exhibits to refresh an expert witness's recollection on the stand is entirely appropriate when an expert does not recall, to allow an opportunity to defend past conclusions.[1885] As TURN points out, SDG&E's witness stated he "did not recall" a specific data request initially, but after several questions, recalled that he did in fact receive the document.[1886] While TURN may assume that every witness has a perfect recollection of each and every data request and response provided in this proceeding, TURN ignores the fact that SDG&E has responded to 10,800 data request questions from multiple parties throughout this GRC.[1887] It

1880 TURN OB at 259.

1881 SCG/SDG&E OB at 494.

1882 *Id.* at 494; *see also* Ex. SDG&E-217 (Thai) at 29.

1883 TURN OB at 259. SDG&E notes that TURN's OB seeks sanctions against PG&E for violations of Rule 1.1. Presumably, this was a typo from TURN's OB filed on November 8, 2022 in PG&E's GRC (A.21-06-021) at 116-117.

1884 TURN OB at 259-261.

1885 *People v. Steskal*, 11 Cal. 5th 332 (2021) at *359.

1886 TURN OB at 260.

1887 SCG/SDG&E OB at 4.

would be impossible for an individual witness to have perfect recollection of each data request and response, and impracticable to require.

Second, TURN alleges that during evidentiary hearings, witness Thai "claimed that SDG&E sought clarification about TURN's DR TURN-SEU-066" however, "SDG&E never sought clarification regarding TURN's data request."[1888] TURN conveniently omits portions of the evidentiary hearing transcript that is relevant to its accusation of SDG&E's witness. First, when asked whether SDG&E sought clarification on TURN's data request, witness Thai stated "[i]n review of the email correspondence, because that wasn't part of all the email chains, what I do recall is that as a business we were investigating and trying to seek clarification of the ask."[1889] Witness Thai was not a part of the meet and confers between TURN and SDG&E's Counsel on this data request, however the witness's recollection is that the business investigated and attempted to seek clarification. Whether the witness formally requested clarification, via a data request to TURN, or via Counsel, has no bearing on the witness's recollection. And it certainly does not rise to the level of a Rule 1.1 ethical violation. Further, TURN cannot emphatically state that SDG&E "**<u>never</u>**" sought clarification. It is witness Thai's recollection that SDG&E did in fact try to seek clarification on TURN's ask.

Rule 1.1 states that any person who, in this instance, offers testimony at a hearing, agrees "to comply with the laws of this State; to maintain the respect due to the Commission . . . and its Administrative Law Judges; and never to mislead the Commission or its staff by an artifice or false statement of fact or law."[1890] Respectfully, as noted above, nothing that SDG&E, nor witness Thai, did regarding its SM 2.0 project amounts to any non-compliance with the law of the state of California, disrespect to the Commission, or misleading statements. TURN's accusations are inappropriate, and SDG&E urges the Commission to disregard TURN's unwarranted allegations.

[1888] TURN OB 261 (citation omitted).

[1889] Tr. V15:2630:5-9 (Thai).

[1890] Rule 1.1.

21.3 Customer Services Office Operations[1891]

21.3.1 SoCalGas Customer Service Office Operations

SoCalGas has fully justified approval of its reasonable TY 2024 forecasts for Customer Services- Office Operations (CSOO) O&M and capital expenses, as shown in testimony and in SoCalGas' Opening Brief.[1892] SoCalGas's CSOO organization is forecasting TY 2024 total shared and non-shared O&M expenses of $89.574 million or an increase of $6.110 million over 2021 adjusted-recorded expenses.[1893] As stated in testimony and briefing, no party opposed SoCalGas's shared services of $5.178 million,[1894] Credit & Collections Postage of $5.934 million, Remittance Processing Postage of $9.550 million, Measurement Data Operations of $1.098 million, and Manager of Remittance Processing of $498,000.[1895] In addition, 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. Finally, no party opposed SoCalGas's IT capital project business justifications for the following projects: Centralized Customer Data Management, Gas Measurement and Analysis System, Senate Bill 711 Bill Volatility Project, Project Monaco and Speech Analytics and Workforce Management Upgrades. Except as detailed below, the parties' Opening Briefs did not raise any new issues, arguments or proposals that are substantially different than what the parties have presented in testimony, and SoCalGas has responded to each of the other party's proposals in its rebuttal testimony and Opening Brief.

1891 In the Opening Brief, SoCalGas and SDG&E inadvertently numbered this section 21.4. The Common Briefing Outline indicates this area should be numbered 21.3. This section is numbered consistent with the Common Briefing Outline, but therefore deviates from the Opening Brief.

1892 SCG/SDG&E OB at 498. For the CSOO sponsored capital projects, estimated capital expense requests are included in the testimony and workpapers of SoCalGas witness William J. Exon. (*See* SCG OB at 622-624; Ex. SCG-221 (Gordon/Exon); Ex. SCG-21-CWP-R (Exon).)

1893 SCG/SDG&E OB at 499.

1894 SCG/SDG&E OB at 503. 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 Community Legal Services (CLS), in 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-215-E (Sides) at 13; Ex. CLS-01 (Gondai) at 48-49.)

1895 No party contested SoCalGas's justification for the recovery of recorded costs in the following memorandum accounts: Residential Disconnection Protection Memorandum Account (RDPMA), Residential Disconnection Memorandum Account (RDMA), Emergency Customer Protection Memorandum Account (ECPMA), Wildfire Customer Protections Memorandum Account (WCPMA), and California Consumer Privacy Act Memorandum Account (CCPMA). (*See* SCG/SDG&E OB at 503.)

21.3.1.1 Branch Offices

21.3.1.1.1 Parties Mischaracterize SoCalGas's Testimony Regarding Branch Office Closures

Without submitting any testimony to build a record in this proceeding, Local Union (Local 132) misstates SoCalGas's testimony by stating that "[w]ithout first justifying its plan to the Commission and receiving Commission approval, SoCalGas plans to close all 43 of its branch offices."[1896] This is simply not true. SoCalGas's witness Bernardita Sides never testified during the evidentiary hearing "that closing the branch offices is not merely under consideration; it is SoCalGas's definite plan" as Local 132 claims.[1897] Rather, Ms. Sides testified that SoCalGas is currently evaluating the closure of branch offices; however, SoCalGas has not completed the analysis:[1898]

> Q: Now, in response to Mr. Cheng's questions, you said that the company was currently evaluating the question of whether to close its branch offices, right?
>
> A: That's correct.[1899]

Ms. Sides also confirmed several times during the evidentiary hearing that when SoCalGas completes its evaluation for the closure of branch offices, SoCalGas would file an application with the Commission:

> Q: Yes. I said SoCalGas is required to apply to the Public Utilities Commission and get permission before it can add -- before it can close a branch office, isn't it?
>
> A: That's correct, yes. We would -- we would file an application.[1900]
>
> ALJ LAKHANPAL: Just a moment. Ms. Sides, I want to ask you, with these potential closures for branch offices, do you plan to update any of your cost forecasts in this proceeding?
> THE WITNESS: Your Honor, it is -- until we do the detailed analysis, we don't have specific on what that would be, so that would be filed in a separate application.[1901]

[1896] Local 132 OB at 11-12.

[1897] *Id.* at 12.

[1898] Transcript (Tr.) Tr. V12:2184:8-10 (Sides).

[1899] Tr. V12:2220:22-25 (Sides).

[1900] Tr. V12:2220:16-21 (Sides).

[1901] Tr. V12:2224:23-2225: 5 (Sides).

Even when Ms. Sides was pressed by the attorney for Local 132 to state whether SoCalGas had "definite" plans to close its branch offices, she testified several times that SoCalGas is "looking into possible closure of branch offices" and that, while plans for the branch office closure are being developed, she "does not have all the details yet," and she could not speak about "definitely closing" the branch offices.[1902]

Additionally, Local 132's argument and request for the cease-and-desist order are inappropriate, irrelevant, and out of scope for the GRC, as SoCalGas has not filed any application requesting closure of its branch offices and, accordingly, the branch office closure decision-making by the Commission has not occurred. As stated in SoCalGas's Opening Brief, careful considerations will 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.[1903] As Ms. Sides testified, SoCalGas is currently evaluating the closure of branch offices, including these considerations; however, SoCalGas has not completed the analysis.[1904] Ms. Sides also confirmed that SoCalGas would file a separate application for branch office closures.[1905] Thus, any issues relating to the closure of SoCalGas's branch offices, including reasonableness of such closures would be addressed by the Commission in a separate proceeding, if and when SoCalGas files its application to close its branch offices.[1906]

TURN also misstates SoCalGas's testimony and argues in its Opening Brief that "[i]t came to light during evidentiary hearings that SoCalGas is planning to file an application to close all of its branch offices, possibly as soon as August of 2023."[1907] This is untrue. Ms. Sides never testified that there was a definite date (such as August 2023) as to when SoCalGas may be filing an application to close all of its branch offices. To the contrary, Ms. Sides testified that there is no definite date as when SoCalGas may be filing its branch office closure application because SoCalGas has not yet completed its analysis on the impacts to its customers:

> ALJ LAKHANPAL: Okay.· I would like to ask the witness when you say you're still deliberating on this -- on the closure of these offices, and the point that Mr.

[1902] Tr. V12:2222:7- 2223:11 (Sides).

[1903] SCG/SDG&E OB at 506-507.

[1904] Tr. V12:2184:8-10 (Sides).

[1905] Tr. V12:2225:2-5 (Sides).

[1906] SCG/SDG&E OB at 506-507.

[1907] TURN OB at 265.

> Cheng just noted about filing an application in August. Can you clarify whether your deliberations are meant to -- will be done before August?
>
> THE WITNESS:·Your Honor, I -- I -- all I understand is that we are currently in the analysis of that, a detailed analysis.· We haven't fully resumed all of our collection activities.· That is part of the reason why we want to evaluate impacts to our customers, and that is being done today, so I don't have a definitive date for certain that it would be filed in August.[1908]

Tellingly, as of today (past August 2023), SoCalGas has not yet filed an application to close its branch offices. TURN also argues that "SoCalGas claims that if it were to close the branch offices, revenue requirements will be adjusted, and ratepayers will be credited. However, SoCalGas concedes that it does not know the basis that will be used to calculate the cost savings that would be returned to ratepayers, nor does it know the mechanism under which the revenue requirement will be adjusted."[1909] TURN then makes an unreasonable recommendation that "[t]he Commission should find that based on SoCalGas' plans to file an application to close all of its branch offices, it would be unreasonable to approve a 26.9% increase in funding for a 'normal staffing level' that is likely never going to occur."[1910] However, TURN ignores Ms. Sides' testimony where she repeated on numerous occasions that the analysis for the branch office closure is not yet complete and that a separate application will be filed by SoCalGas pursuant to the Commission decision in D.16-06-046.[1911]

As explained in SoCalGas's Opening Brief, issues relating to the closure of SoCalGas's branch offices, including the reasonableness of any 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.[1912] The timing of when SoCalGas may file a branch office closure application does not mean SoCalGas's O&M request in this GRC proceeding is unjustified. To the contrary, 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

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[1908] Tr. V12:2230:23- 2231:12 (Sides); see also Tr. V12:2224:23-2225: 5 (Sides)*;* Tr. V12:2220:16-21 (Sides).

[1909] TURN OB at 265.

[1910] *Id.*

[1911] Tr. V12:2224:23-2225: 5 (Sides); Ex. SCG-215-E (Sides) at 12-13.

[1912] SCG/SDG&E OB at 507.

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.[1913]

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.

21.3.1.1.2 TURN and CLS's Recommended O&M Reductions to Branch Offices Are Unreasonable

In its Opening Brief, TURN merely repeats the same arguments it made in its testimony and recommends a reduction of $1.334 million 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."[1914] TURN's recommendation reductions should be dismissed as it is based on its erroneous argument 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."[1915] As explained by SoCalGas in its Opening Brief, TURN's statement is inconsistent with the fundamental principles of cost-of-service ratemaking. 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.[1916]

In addition, SoCalGas already explained the 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 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 offices.[1917]

[1913] Ex. SCG-215-E (Sides) at 12.

[1914] TURN OB at 265.

[1915] *Id*. at 264.

[1916] SCG/SDG&E OB at 505.

[1917] *Id.* at 505-506.

TURN also argues that "SoCalGas concedes that the recording of these cost savings to the CEMA was not discussed in its direct testimony, nor was the amount of cost savings revealed either in its direct testimony or rebuttal testimony."[1918] TURN further argues that "SoCalGas is asking the Commission to approve its O&M forecast for four years without having examined the impact of avoided costs due to COVID-19 in the recorded years, or even knowing the amount of avoided costs in question! TURN believes that approving such a request would result in unjust and unreasonable rates."[1919] TURN's arguments are baseless. First, to support its argument, TURN cites to the evidentiary hearing transcript of Ms. Sides where she was asked whether she discussed the costs, or recording of the COVID-19-related cost savings to the CEMA account in her direct testimony, and she answered that she did not.[1920] However, Ms. Sides also explained that SoCalGas has yet to file its CEMA application.[1921] Thus, any costs that were avoided due to the COVID-19 pandemic, and SoCalGas's recovery of incremental costs that have been recorded in SoCalGas's CEMA will be considered in a separate proceeding when SoCalGas files its CEMA application. Specifically, avoided costs due to COVID-19 will be included in the CEMA application as a reduction to incremental costs due to COVID-19. The reasonableness of those costs will also be reviewed and considered by the Commission in that separate CEMA proceeding.

Finally, the Commission should disregard TURN's argument that "it would be unreasonable to approve a 26.9% increase in funding for a 'normal staffing level' that is likely never going to occur."[1922] As explained in the section above, TURN misstates Ms. Sides' testimony regarding the branch office closures, and as long as the branch offices remain open, that assumption must form the basis for SoCalGas's GRC forecast.

Additionally, CLS's recommended reduction of $35,000 to SoCalGas's TY 2024 O&M forecast to replace branch office Payment Entry Processing (PEP) scanners and printers is unreasonable and should be rejected.[1923] As explained in SoCalGas's Opening Brief and in testimony, SoCalGas made a prudent business decision to use the compatible PEP unit based on

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[1918] TURN OB at 268.

[1919] *Id.*

[1920] Tr. V12:2183:5-21.

[1921] *Id.*

[1922] TURN OB at 265.

[1923] CLS OB at 39.

the requirements of SoCalGas's banking partner and the Company's operational needs.[1924] The amount of detail CLS demands from SoCalGas such as "identity of the banking partner, explanation of what the banking partner's requirements are, or how any PEP option does or does not meet them,"[1925] is not the level of proof that is required in the GRC and frankly, amounts to micro-managing the day-to-day business of SoCalGas.[1926] SoCalGas should not be required to spend time shopping for lower-priced PEP units just to satisfy CLS, particularly when SoCalGas has proven the business needs for the PEP units and the reasonableness of its forecast. The 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.

21.3.1.2 Remittance Processing

In its Opening Brief, CLS continues to argue that the "Commission reject the incremental $671,000 requested for adding 7.5 FTEs" for labor and deny the incremental $610,000 in non-labor expenses.[1927] However, 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.[1928] SoCalGas also explained the increased workload and the need for staffing to handle the workload.[1929] Just because CLS does not have all the details to its full satisfaction,[1930] does not mean SoCalGas did not provide adequate justification. Furthermore, as explained in testimony and

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1924 SCG/SDG&E OB at 507-508.

1925 CLS OB at 34.

1926 *See* D.22-10-005 at 20 ("The Commission does not micromanage every utility action."); D.22-09-026 at 20 ("In setting the overall revenue requirement, the Commission does not micromanage how utilities spend their authorized revenue.").

1927 *Id.* at 44-47.

1928 SCG/SDG&E OB at 509.

1929 *Id.* at 509-510.

1930 CLS's attempts to argue that the funding request should be reduced based on SoCalGas's corrections to workpapers and data request responses in rebuttal testimony are not on point. During the normal course of preparing rebuttal testimony, errors can be identified, and SoCalGas addressed the errors promptly. For example, SoCalGas found an error in WP 2OO005.000 during the preparation of the rebuttal testimony and addressed the error promptly and sufficiently. (*See* Ex. SCG-215-E (Sides) at 17 ["5.4 FTEs for $442,000 using the average pay for a Payment Entry Clerk Level-3. This should have stated, 'Mail Equipment Operator Level-2."].) The average pay provided in the WP of $39.17/hour is accurate. Thus, a typo in the title of the position has no bearing on the forecast methodology.

in SoCalGas's Opening Brief, the MOU with the Center for the Accessibility Technology does not expire until December 2023, and SoCalGas intends to continue the activities provided in the MOU to support SoCalGas's ADA customers and as such, included the BY 2021 associated costs in its TY 2024 forecasts.[1931] For example, in 2021, SoCalGas spent capital expenses for automatic door openers at the Branch Office locations as well as O&M dollars in 2022 for Web Accessible Bill and improvements on mailed inserts and large print bills for visually impaired customers.[1932] SoCalGas's request to return to full level of staffing to be effective in its operations as well as its efforts to accommodate its ADA customers is reasonable and therefore the Commission should reject CLS's recommendation and adopt SoCalGas's forecast as reasonable.

21.3.1.3 Credit and Collections

Although TURN asserts that "the Commission should consider that many Californians are already struggling to afford the essential necessities of life, including food, shelter, healthcare, and energy,"[1933] when it comes to credit and collections, it changes its tone completely and blames SoCalGas for not resuming collecting activities earlier.[1934] TURN's argument that "[t]hus, by not resuming collection activities, SoCalGas is reducing O&M costs and increasing profits for shareholders, while increasing expenses for ratepayers,"[1935] is not only unsubstantiated, but also indicates TURN's fundamental misunderstanding of the basic cost-of-service ratemaking principle. As indicated in previous sections in SoCalGas's Reply Brief, TURN who appears to misunderstand that "[A] utility is generally entitled to its reasonable costs and expenses, as well as "the opportunity, **<u>but no guarantee</u>**, to earn a rate of return on the utility's rate base."[1936] 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."[1937] Thus, even if SoCalGas underspends its authorized O&M in one year, for example, does not mean that shareholders pocket the reduced O&M as earnings.

1931 Ex. SCG-215-E (Sides) at 18.

1932 *Id.*

1933 Ex. TURN-09 (Cheng) at 3.

1934 TURN OB at 266-267.

1935 *Id*. at 267.

1936 D.12-11-051 at 10 (emphasis added).

1937 SCG/SDG&E OB at 15 (citing to D.20-01-002 at 12).

As explained previously in SoCalGas's Opening Brief, the incremental funding request for Credit and Collections is "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."[1938] Just because TURN erroneously believes that "[SoCalGas] pocketed the reduced O&M costs as earnings" does not mean that TURN's proposed five-year historical average methodology, which includes 2022 actuals and pandemic years when collection activities paused because of a CPUC-mandated disconnection moratorium, is reasonable.[1939] TURN's proposal discounts the realities of business operations and could negatively impact SoCalGas's ability to perform its collection activities in TY 2024, and therefore, the Commission should reject TURN's proposal and adopt SoCalGas's TY2024 O&M forecast as reasonable.

21.3.1.4 Customer Contact Center (CCC) Support

In its Opening Brief, SBUA largely repeats the same arguments it made in its testimony criticizing SoCalGas's Test Year 2024 O&M forecast for CCC Support, stating "SoCalGas requests notable funding increases for customer support and associated services based on a handful of buzzwords and unsubstantiated workload forecasts."[1940] However, SBUA now recommends that "any additional funds be spent collecting and analyzing customer satisfaction and needs data, specifically small business clients, to identify and determine ways to properly address service gaps. For example, expansion and use of the 'Touchpoint Action Program' (TAP), which is a survey research-based customer experience feedback program that tracks ongoing service delivery." [1941] However, SBUA does not recommend a specific dollar amount for the budget to be spent on TAP nor support the reasonableness of this request. As mentioned in the data request cited in SBUA's Opening Brief, SoCalGas already explained that "SoCalGas tracks feedback from small/medium business customers through the Touchpoint Action Program (TAP), which is a survey research-based customer experience feedback program that tracks ongoing service delivery."[1942] Thus, SBUA's request is not only unclear but is unsupported. SoCalGas already gathers information about customers' interest in interacting with companies they do business with using the channel

[1938] *Id.* at 510.

[1939] *Id.* at 511.

[1940] SBUA OB at 15.

[1941] *Id*. at 17.

[1942] *Id.* at 17; Ex. SBUA-03 at 1 (SoCalGas Response to DR-SBUA-SEU-003, Question 1).

that works best for them and with low effort.[1943] 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.[1944] For all the foregoing reasons, the Commission should adopt SoCalGas's forecast as reasonable.

Additionally, even though CLS recommends cuts to SoCalGas's TY 2024 O&M expenses, CLS continues to make an unreasonable and impractical request that SoCalGas "identify all the languages spoken in SoCalGas territory to identify the most prevalent ones" and "take reasonable steps to provide in-house language support for the most common languages spoken in their territory, and also to file testimony in their next GRC justifying the evaluation and criteria they develop to identify which languages to support in-house, specify how many ESS representatives they had each year that spoke each language, and what steps they will take to maintain appropriate in-house language resources and to identify and meet ongoing language support needs."[1945] However, CLS remains silent as to how SoCalGas should fund this additional work and why ratepayers should fund this endeavor when no other intervenors asked to broaden the ongoing language support needs.

CLS's request is impractical and unreasonable. As previously explained by SoCalGas, 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 and finding and hiring CSRs who are multilingual in the multitude of non-English languages is impractical.[1946] More importantly, CLS provided no evidence or data to show that SoCalGas's Language Line services are a deterrent to customers who contact SoCalGas. For example, CLS claims that "data on SoCalGas language call volume is also of limited value, as customers that speak other languages not supported by in-house representatives will be dissuaded from calling in the first place."[1947] However, CLS provides no support that customers who speak languages not supported by in-house representatives are dissuaded from calling because of the language, and not because they are using other services, such as online, text, or other customer services help. Therefore, the Commission should reject

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[1943] SCG/SDG&E OB at 512.

[1944] *Id.*

[1945] CLS OB at 32.

[1946] SCG/SDG&E OB at 514.

[1947] Ex. CLS-01 (Gondai) at 41.

CLS's recommendation that SoCalGas file testimony in the next GRC on in-house language support needs in SoCalGas's service territory.

21.3.1.5 Customer Service Other Office Operations (OOO) and Technology Support

CLS recommends reducing SoCalGas's Customer Service OOO and Technology Support labor forecast by $262,000, removing the funding for an additional full year analyst, and two Senior Business Analysts for the financial analyst group.[1948] CLS continues to argue that "SoCalGas fails to provide evidence that the 3.0 FTEs already added in 2019 to the newly created Financial Analyst Group are insufficient to handle current workloads" and that "ensuring spending compliance with Commission authorization activities provides clear benefits to shareholders, for otherwise the utility will incur fines and penalties."[1949] CLS's arguments are without merit. SoCalGas has already provided necessary details in testimony and in Opening Brief 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 (RSAR) reporting, which has gradually increased since 2019.[1950] In addition, CLS's argument that ensuring spending compliance with Commission authorization activities only benefit shareholders and not ratepayers indicates CLS's fundamental misunderstanding of cost-of-service ratemaking, and therefore, should be dismissed. SoCalGas has fully justified the reasonableness of its incremental labor request and CLS's recommended reduction should be rejected.

21.3.1.6 Payment Processing

In its Opening Brief, CLS now recommends a total reduction of $210,000 in labor for Payment Processing, with a previous recommended reduction of $171,000 for two Payment Control Clerk Level 4 positions, and a further reduction of $39,000 for 0.5 FTE to handle administration of the electronic payments.[1951] CLS makes an unreasonable argument that "SoCalGas fails to provide evidence quantifying the amount of additional work they claim will

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[1948] CLS OB at 49-50.

[1949] *Id.* at 48-50.

[1950] Ex SCG-215-E (Sides) at 19-20.

[1951] CLS OB at 52-53.

result from 'increased complexity.'"[1952] First, it is unclear what CLS means by "quantifying the amount of additional work" due to increase in complexity. Does CLS require SoCalGas to calculate the exact minutes, hours, or days it takes to handle the incremental work? And exactly what needs to be quantified? The number of errors made by customers when submitting electronic payments? CLS's request is not only unclear but it is unreasonable and not the level of proof required in the GRC. SoCalGas already explained previously that two incremental FTEs are required to address the increased number of inquiries and timely and accurate customer payment postings.[1953]

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. For example, due to the COVID-19 pandemic, customers migrated from in-person to electronic payment channels, which resulted in further increases to the number of unposted payments, unintended amounts being received (*e.g.*, customers intended to pay $90 but entered $900 causing immediate financial hardship), incorrect amounts being submitted, and customer requests for payment refunds or reversals.[1954] Thus, timely responses to inquiries are also needed to minimize financial hardship and service disconnection for SoCalGas's impacted customers.[1955] Just because CLS does not have all the details and the data to its satisfaction, does not mean that SoCalGas's request is unreasonable. For all the foregoing reasons, the Commission should reject CLS's recommendation.

21.3.1.7 SoCalGas Has Fully Justified the Reasonableness of Its CCC Technology Modernization Project

In its Opening Brief, TURN largely repeats the same arguments it made in its testimony, and recommends disallowance of the project in its entirety because "[t]here is no business case, no cost-benefit analysis, and no quantification of potential benefits included in SoCalGas' direct testimony or workpapers."[1956] TURN also argues that "[i]f the Commission approves the proposed

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[1952] *Id.* at 50.

[1953] SCG/SDG&E OB at 516.

[1954] SCG-215-E (Sides) at 21.

[1955] *Id.*

[1956] TURN OB at 268-269.

project, it should at a minimum account for the projected O&M savings in 2026 and 2027 by proportionally reducing the 2024 forecast" and that "[t]he Commission should reduce the 2024 O&M forecast by 1/4 of the projected benefit, or $2.4 million. The Commission recently found this approach to be reasonable, which would reduce the TY forecast by the estimated savings while still allowing the utility to pursue the project."[1957] 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.[1958]

TURN provides no support for its argument that a quantitative cost-benefit analysis is required and continues to demand a "clear and convincing" level of proof.[1959] As discussed previously, this is not the standard of proof required. In addition, TURN's reliance on Commission decision D.20-12-005 as precedent for reducing the CCC Technology Modernization Project's "2024 O&M forecast by 1/4 of the projected benefit, or $2.4 million," is misplaced. The Commission in D.20-12-005 approved the stipulation between PG&E and TURN in PG&E's 2020 GRC, where PG&E agreed to reduce its forecasted expenses by amount of "savings PG&E expects to achieve through these projects."[1960] As a result of its stipulation with TURN, PG&E revised its forecast for the capital projects and the Commission ruled that:

> The revised forecasts adopted in the stipulation are a **compromise** of TURN's and PG&E's original positions. The stipulation addresses TURN's concerns about the net benefits of the Salesforce Phase 2 and 3 projects by reducing PG&E's forecast costs by the estimated savings PG&E accrues from the projects, while still allowing PG&E to pursue these projects. The revised forecasts adopted in the stipulation are thus reasonable in light of the record, and we adopt them.[1961]

This is not the case here, as SoCalGas and TURN have not reached such a compromise or a settlement regarding this capital project.

Moreover, as discussed in previous sections, the Commission approved SoCalGas's similar funding request for its IT capital projects in SoCalGas/SDG&E's 2019 GRC, and the Commission ruled: "we find that it is more appropriate in this case to review each project individually as we

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[1957] *Id* at 270 (citing to D.20-12-005 at 174-175).

[1958] *Id.*

[1959] *Id.*

[1960] D.20-12-005, at 174-175.

[1961] *Id.* at 175 (emphasis added).

find it more reasonable that necessary projects provide the basis of the funding amount rather than for the funding amount to determine which projects are implemented."[1962] The Commission, in approving SoCalGas's funding request for the IT capital projects, also ruled: "[b]ased on our analysis and review of each proposed project, we find all of the projects to be necessary and the requested funding levels for each project reasonable."[1963] Finally, the Commission made the following ruling, in finding the projects to be necessary:

> **Many of the projects are upgrades or refresh projects to replace obsolete, incompatible, no longer supported by the vendor, or at the end-of-life**. The upgrades and refresh projects provide increased performance and functionality to meet business needs that are growing in complexity. SoCalGas is also moving away from certain legacy systems and so equipment and applications relating to those old systems are in need of replacement. Other projects include increasing storage and network capacity to handle increased computing loads. Several projects also impact safety as more data will be used and the new systems will provide better analytics and improved response times in identifying and responding to issues and anomalies. Improvements to the GIS system will support improved analysis of how the physical environment affects SoCalGas' equipment and systems. The projects listed also include improvements to communication centers and improvement to communication equipment in several areas.[1964]

In this case, SoCalGas has fully justified the reasonableness of the CCC Technology Modernization Project, which is 10 years old and has reached the end of support. As stated in SoCalGas's Opening Brief, SoCalGas has already provided necessary details regarding the project in testimony, workpapers, and data request responses that included its business case for the project, including a business case, cost-benefit analysis, project costs & benefits, the project timeline, and other information.[1965] The CCC Technology 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

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1962 D.19-09-051 at 460.

1963 *Id.* at 461.

1964 *Id.* at 460 (emphasis added).

1965 SCG/SDG&E OB at 517-518.

and CCPA response purposes.[1966] As explained previously, absent the 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.[1967] The Commission should therefore reject TURN's proposal and approve SoCalGas's proposed funding request for the CCC Technology Modernization Project as reasonable.

21.3.1.8 The Commission Should Approve Funding for Advanced Meter Headend and Meter Data Management Next Generation (AclaraOne)

In its Opening Brief, TURN argues that "[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. A cost-benefit analysis is a critical component for the Commission to determine whether the project is cost-effective."[1968] Similar to the CCC Technology Modernization Project, TURN also argues that "some of the benefits asserted by SoCalGas should result in operational efficiencies and savings (meet future business demands, mitigate interruption of billing processes)" and that "[i]f the Commission approves the proposed project, it should at a minimum account for the projected O&M savings in 2026 and 2027 by proportionally reducing the 2024 forecast. That is, since the project is forecasted to result in a total O&M benefit of $17.4 million during this GRC cycle ($5.8 million in 2025, $5.8 million in 2026, $5.8 million in 2027), the Commission should reduce the 2024 O&M forecast by 1/4 of the projected benefit, or $4.35 million."[1969] TURN again relies on Commission decision (D.20-12-005) approving a stipulation between TURN and PG&E in PG&E's 2020 GRC.

Again, TURN does not contend the project is not needed or prudent, but instead focuses on whether SoCalGas provided a "cost-benefit analysis" at the time it filed its initial application. However, TURN provides no support for its argument that a quantitative cost-benefit analysis is required, which is this not the standard of proof required for a project in a GRC. In addition, although SoCalGas reflects a $12 million capital forecast for 2024 alone, TURN incorrectly asserts that SoCalGas seeks "nearly $50 million" for its project.[1970] TURN misreads and misapprehends

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[1966] *Id.*

[1967] SCG/SDG&E OB at 624.

[1968] TURN OB at 271.

[1969] *Id.* at 272-273.

[1970] *Id.* at 271.

SoCalGas's request. TURN's reliance on D.20-12-005 as precedent for reducing the AclaraOne Project's "2024 O&M forecast by ¼ of the Project's benefit" is also misplaced. As discussed in the section above, the Commission in D.20-12-005 approved a compromise or settlement between TURN and PG&E, which is not the case here.

Finally, 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.[1971] TURN's remark that "[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,"[1972] ignores the commercial reality that a vendor may independently determine that early generation products have reached end of support and should be replaced. As discussed in the section above, the Commission in SoCalGas's 2019 GRC found it reasonable to evaluate each individual IT capital project and found similar IT capital projects to be necessary as "[m]any of the projects are upgrades or refresh projects to replace obsolete, incompatible, no longer supported by the vendor, or at the end-of-life."[1973]

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.[1974] 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, resulting in higher costs to support SoCalGas's operations and leading to customer confusion and frustration.[1975] 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.

1971 SCG/SDG&E OB at 625-626.

1972 TURN OB at 271.

1973 D.19-09-051 at 460.

1974 SCG/SDG&E OB at 624.

1975 *Id.* at 626.

Contrary to TURN's argument, SoCalGas also provided reasonable justifications for AclaraOne and its many benefits, which include, but are not limited (1) mitigating interruption of billing 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.[1976] 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.[1977] For all the foregoing reasons, the Commission should approve SoCalGas's funding request for the AclaraOne Project.

21.3.1.9 UWUA Local 132's Workforce Proposal to Eliminate "Double-Time" Work is Without Merit

The Utility Workers Union of America, Local 132 (UWUA or Local 132) claims in its Opening Brief that SoCalGas should be required to "submit, within thirty days, a plan under which it will recruit, hire, train and deploy enough new employees to eliminate double-time work."[1978] SoCalGas addresses UWUA's argument in more detail in Section 33.2.1. While SoCalGas agrees that additional employees are needed in this GRC cycle to support anticipated projects and programs, it does not agree with (and takes exception to) UWUA's rationale for the increase.

21.3.2 Customer Services – Office Operations[1979]

SDG&E seeks $37.922 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

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1976 *Id.* at 518-519.

1977 *Id.* at 624.

1978 UWUA OB at 10.

1979 In the Opening Brief, SoCalGas and SDG&E inadvertently numbered this section 21.4. The Common Briefing Outline indicates this area should be numbered 21.3. This section is numbered consistent with the Common Briefing Outline, but therefore deviates from the Opening Brief.

and related supporting functions including CCC Support and Remittance Processing.[1980] 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.[1981] CSOO also sponsors the business justification for IT Capital expenditures of $19.233 million in 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.[1982]

TURN, UCAN, and CLS submitted Opening Briefs opposing SDG&E's request. The arguments made in Parties' Opening Briefs are largely regurgitated from intervenor testimony. SDG&E addressed the bulk of TURN, UCAN, and CLS' comments in its Opening Brief. As such, the omission of any argument in SDG&E's Reply Brief is not acceptance of a Parties' argument. Instead, SDG&E addresses the arguments in their entirety in direct testimony, rebuttal testimony, and the joint Opening Brief.

21.3.2.1 Customer Services – Office Operations Request

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 increases in call volume and handle time, full year labor impact of vacancies and new hires, and incremental staff to support Contact Center of the Future (CCotF).[1983] 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

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1980 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. *See also* 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.

1981 Ex. SCG-401/SDG&E-401 at 17.

1982 Ex. SDG&E-18-E (Baule) at 38.

1983 SCG/SDG&E OB at 526; *see also* Ex. SDG&E-18-E (Baule) at 5; *see also* Ex. SDG&E-218 (Baule) at 7.

customer account-related inquiries.[1984] SDG&E responds to emergency calls 24 hours per day, 365 days per year from a myriad of residential, commercial, industrial, and agricultural customers.[1985]

21.3.2.1.1 SDG&E's Requested O&M Increases are Supported and Reasonable

First, TURN argues that increased funding for SDG&E's Customer Contact Center Operations is not necessary because "the majority of its customers" have transitioned to CCAs and "SDG&E has implemented and continues to implement increasing self-help options for customers."[1986] Second, that "SDG&E's claims [of] increased call volume and increased complex calls are questionable and unsupported."[1987] For these reasons, "due to vacancies during the pandemic" and "[u]nless SDG&E proposes to return the savings it achieved in O&M costs due to the pandemic to ratepayers," TURN proposes a five-year average to arrive at the estimate "with the most conservative reduction."[1988]

As noted previously, TURN erroneously states that the full year labor impact was due to vacancies during the pandemic and that the Commission should reject this argument. As stated, 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 (CIS) replacement project, not the COVID-19 pandemic.[1989] It would not have been prudent for SDG&E to hire and train new employees on a legacy system while existing employees were being trained to utilize and implement the new CIS. Further, the CCC-Operations Energy Service Specialist (ESS) FTE count at the end of 2022 was 201.3, which is consistent with the 2022 forecast of 201.4 FTEs.[1990] Lastly, TURN's use of the five-year average forecast method, based on the erroneous thinking described above, is arbitrary at best and is not representative of the current organization or what is required to complete anticipated future activities for CCC-Operations.[1991] TURN's assumption disregards the fact that

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1984 SCG/SDG&E OB at 526; *see also* Ex. SDG&E-18-E (Baule) at 22.

1985 *Id.*

1986 TURN OB at 273.

1987 *Id.* at 274.

1988 *Id*.

1989 Ex. SDG&E-18-E (Baule) at 25.

1990 Ex. SDG&E-218 (Baule) at 8.

1991 SCG/SDG&E OB at 489.

changes to business including new regulatory directives for the IOU call centers require incremental resources to complete anticipated future activities.

CLS argues that SDG&E "fails to account for how decreasing call volume will offset workload, and fails to provide calculations demonstrating that 31.9 additional FTEs are necessary to meet any assumed amount of workload increase."[1992] As such, CLS recommends the Commission reject SDG&E's request and reduce the TY 2024 forecast by $2,024,000.[1993] SDG&E reiterates that the 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.[1994] Further, and as noted, past staffing levels and FTE counts have little bearing on future staffing needs.[1995] What has a much larger influence on staffing levels is call volume and average call handle time.[1996] While call volume has been reduced from 2019, average call handle time has increased due to the electric vehicle and solar adoption, new rates and regulatory requirements.[1997] 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 starting in March 2023, which ceased in March of 2020.[1998] As such, SDG&E urges the Commission disregard CLS' erroneous and baseless arguments related to SDG&E's TY 2024 forecast for the CCC Operations.

Further, CLS argues that "SDGE provides no evidence that the current number of supervisors is deficient . . . and . . . fails [to] meet their burden to justify this expense."[1999] As such, CLS recommends the Commission reject the request to hire more supervisors and reduce the

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1992 CLS OB at 18.

1993 *Id.* at 18.

1994 SCG/SDG&E OB at 528; *see also* Ex. SDG&E-218 (Baule) at 9.

1995 SCG/SDG&E OB at 528.

1996 SCG/SDG&E OB at 528; *see also* Ex. SDG&E-218 (Baule) at 9.

1997 *Id.*

1998 Ex. SDG&E-218 (Baule) 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.

1999 CLS OB at 20.

TY 2024 labor forecast by $442,000 and non-labor forecast by $12,000.[2000] As noted, regulatory requirements are ever increasing, and the IOUs are required to comply with various Commission directives and Decisions.[2001] The increased call complexity, described above, and additional regulatory requirements to increase the number of call center agents, coupled with the capabilities the CCotF, described below, will deliver, supports the need for additional supervisors to maintain a supervisor to agent ratio for good quality service levels. As such, SDG&E urges the Commission disregard CLS' proposed disallowances.

Lastly, CLS claims "SDGE fails to meet their burden to prove their claimed need for additional funding to make up for a CIM Advisory vacancy in 2021."[2002] As such, CLS recommends the Customer Operations Compliance and Strategy TY 2024 forecasted labor costs be reduced by $56,000.[2003] Further, "SDGE fails to explain their assumptions regarding how they calculate the Consent to Share contractor support costs" and as such, CLS recommends the Commission "deny this unsubstantiated expense and reduce the Customer Operations Compliance and Strategy 2024 forecast non-labor costs by $220,000."[2004]

First, and as noted, CLS incorrectly asserts that the CIM Advisor position was vacant in 2021.[2005] As noted in discovery, the position was vacant during the first quarter of 2022.[2006] 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.[2007] Instead, the employee was on leave, and during that time, Customer Services O&M labor costs were not incurred, and therefore the incremental labor is needed to reflect the full year's cost for TY 2024.

2000 *Id.* at 20.

2001 Ex. SDG&E-218 (Baule) at 12-13. Examples of regulatory requirements that increase the complexity and handle time of the call include the Building Decarbonization Phase 2 D.21-11-002 and the Residential Disconnection Decision, D.20-06-003. D.21-11-002 mandates the IOUs to collect information about space heating, water heating and propane usage when a customer calls to start service with SDG&E. D.20-06-003 states that IOUs must offer information about benefit programs to residential customers prior to disconnection. IOUs can be cited for each violation of not offering this requirement before disconnection. *Id.* at 12.

2002 CLS OB at 27.

2003 *Id.*

2004 *Id.* at 27-28.

2005 SCG/SDG&E OB at 530.

2006 *Id.*; *see also* Ex. SDG&E-218 (Baule) at 16.

2007 SCG/SDG&E OB at 530; *see also* Ex. SDG&E-218 (Baule) at 16.

Second, and as noted, the Consent to Share application was funded outside of Customer Services in BY 2021.[2008] However, in 2022, there were on-going maintenance costs that became part of base business.[2009] Specifically, the contactor costs in 2022 were $179,125 over the course of 10 months.[2010] When the 2022 cost is annualized (($179,125 x 365/296) = $220,880), SDG&E argues that the forecast is realistic.

As such, SDG&E urges the Commission disregard CLS' claim that SDG&E has failed to meet their burden to justify the costs associated with the CIM Advisor position and the Consent to Share application forecast.

21.3.2.2 Contact Center of the Future (CCotF)

SDG&E's forecast for CCotF for 2022, 2023, and 2024 are $0, $11,285,000, and $9,789,000, respectively.[2011] 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).[2012] Building on the new Customer Information System placed in service in 2021, CCotF will empower employees and customers with tools that further align with SDG&E's customer-centric focus.[2013] This project advances SDG&E's goal of providing customers with an omnichannel experience while creating a framework for continuous improvement. CCotF will also enhance the reliability, resiliency and security of systems and data which is essential during emergency events.[2014]

21.3.2.2.1 SDG&E's Contact Center of the Future Project Costs are Reasonable and Should be Approved

TURN, incorrectly, states that "SDG&E requests a total of over $50 million for its Contact Center of the Future project between 2023 and 2027 ($11.285 million in 2023, $9.789 million in 2024, plus attrition years)."[2015] As noted above, SDG&E's forecast for CCotF for 2022, 2023, and

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2008 *Id.*

2009 *Id.*

2010 *Id.*

2011 *See* Ex. SDG&E-25-CWP-R 00903B (Exon).

2012 Ex. SDG&E-18-E (Baule) at 38.

2013 *Id.*

2014 *Id.*

2015 TURN OB at 275.

2024 are $0, $11,285,000, and $9,789,000, respectively.[2016] As discussed in SDG&E's post-test year ratemaking testimony, SDG&E is proposing a five-year average level of capital additions for the attrition years.[2017] This proposed mechanism provides a reasonable level of funding necessary to maintain operational and financial stability and support important projects.[2018] CCotF was not a project for which SDG&E made a specific request for post-test year capital exception. As such, TURN's assertion that SDG&E is requesting a total of over $50 million is inaccurate and should be disregarded.

Further, TURN argues that because SDG&E's business case "is still under development" that it is "premature for SDG&E to request funding for the project."[2019]

SDG&E's Customer Contact Center is a vital component of SDG&E's daily customer care efforts.[2020] As emphasized, the CCotF project will enable SDG&E to implement capabilities that are commonplace in modern customer contact centers.[2021] 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.[2022] 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.[2023]

Further, the reliability of the current CCC systems is diminishing, as the main Computer Telephony Interface (CTI) was first installed in 2000.[2024] The most recent upgrade to this CTI was in 2015 and is a version that is no longer supported by the vendor.[2025] Other CCC related systems are over a decade old and have reached, or are nearing, functional and support obsolescence, as described in Ex. SDG&E-225-E (Gordon/Exon).[2026] A reliable and resilient CCC system is critical

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2016 *See* Ex. SDG&E-25-CWP-R 00903B (Exon).

2017 Ex. SDG&E-45-R-E (Hancock) at 7.

2018 SCG/SDG&E OB at 835.

2019 TURN OB at 275-276.

2020 Ex. SDG&E-218 (Baule) at 18.

2021 *Id.*

2022 *Id.*

2023 *Id.*

2024 *Id*.

2025 *Id*.

2026 *Id.*; *see also* Ex. SDG&E-225-E (Gordon/Exon) at 40.

for utilities, especially during emergency situations, Public Safety Power Shutoff events, and to aid in ensuring the safety of customers.[2027]

Commission precedent is clear that the Commission, based on their review, can find projects to be necessary, particularly projects replacing outdated technology, such as CCotF. For instance, in the Applicants' last GRC, the Commission reviewed each capital project proposed, including projects to "replace outdated technology that is near or at the end of life and have limited support or are no longer being supported by the vendor."[2028] Based on its review, the Commission found the "proposed projects to be necessary for SDG&E to modernize its communication infrastructure to meet present and future demands."[2029] Witness Baule has made clear in testimony and workpapers that the technologies that the CCotF project would replace are reaching end of life, specifically that the most recent upgrade to this CTI was in 2015 and is a version that is no longer supported by the vendor.[2030] As such, the CCotF project and the projects approved in the 2019 GRC Decision yield the same results – they attempt to replace outdated technology to modernize SDG&E's infrastructure to meet present and future demands. The fact that SDG&E's business case is still under development has no bearing on whether the Commission can, and should, approve a project. Based on this, SDG&E urges the Commission to disregard TURN's proposed reductions and follow precedent by approving SDG&E's forecasts for its CCotF project as reasonable.

TURN reiterates its argument that "SDG&E fail[s] to forecast any cost savings in this GRC."[2031] As noted, 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.[2032] As noted above, the 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, and reliability of the current system is

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[2027] Ex. SDG&E-218 (Baule) at 18.

[2028] D.19-09-051 at 471.

[2029] *Id.* at 471-472.

[2030] Ex. SDG&E-218 (Baule) at 18.

[2031] TURN OB at 276.

[2032] SCG/SDG&E OB at 532; *see also* Ex. SDG&E-218 (Baule) at 18.

diminishing, given it was first installed in 2000.[2033] These technologies, which serve and support SDG&E's customers on a daily basis, are critical and we have come to the point where replacement is absolutely necessary.[2034]

Lastly, TURN argues that "[t]he Commission should reject SDG&E's proposed project unless it quantifies and accounts for the savings."[2035] TURN again incorrectly conflates estimated hours of capacity gained each year with FTEs.[2036] A reduction of FTEs does not equate to hours of capacity gained. Instead, hours of capacity gained could lead to certain cost savings, quantification of which TURN is seeking, including call volume reduction, reduced average handle time, and call prevention.[2037] However, TURN conveniently omits important dialogue from witness Baule's testimony at evidentiary hearings. Specifically, witness Baule stated:

> [Y]es, it could, and these value levers could all create savings but would be offset by either additional work or additional requirements that SDG&E has to consider through the contact center when customers call, so it's – it's really – the questions that you're asking me are very one-sided because there's the – you know, the other side of why SDG&E is asking for this project; and the capacity that we're looking for in order to do new incremental work.[2038]

Additionally, TURN states "SDG&E itself estimated that implementing the Contact Center of the Future would result in a reduction of 32 FTEs, from 265 FTEs (65 in Customer Care Center + 200 Call Center ESS) down to 233 (83 in Customer Care Center + 150 Call Center ESS)."[2039] TURN is correct, that SDG&E is estimating a reduction in FTEs, as the Customer Care Center becomes more digitally enabled. However, TURN ignores the fact that "[p]ast staffing levels and FTE counts have little bearing on future staffing needs."[2040] The more important factor is call volume and average call handle time, which SDG&E expects to increase in 2024, as noted

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[2033] *Id.*

[2034] Tr. V14:2509:17-24 (Baule).

[2035] TURN OB at 278.

[2036] TURN claims "[a]t the same time, SDG&E's internal documents show that the project is estimated to result in 125,653 hours of capacity gained per year, which is more than 60 FTEs." Ex. TURN-09-2R (Cheng) at 31 (citation omitted).

[2037] Tr. V14:2504:1-18 (Cheng/Baule).

[2038] Tr. V14:2505:1-10 (Baule).

[2039] TURN OB at 277.

[2040] Ex. SDG&E-218 (Baule) at 9.

previously.[2041] Further, as noted above, TURN's assumption disregards the fact that changes to business including new regulatory directives for the IOU call centers require incremental resources to complete anticipated future activities.

Based on TURN's outright rejection of SDG&E's proposed CCotF project, TURN similarly requests that $0.243 million of O&M costs associated with the project be disallowed.[2042] As noted, these dollars are associated with SDG&E's request for three additional data analysts as a result of CCotF.[2043] The three additional analysts will manage and analyze data to identify and interpret trends that will inform continuous improvement opportunities for CCC operations and the customer experience.[2044] CCotF will also deliver intelligent self-service capabilities, such as conversational IVR and virtual assistant.[2045] These analysts will implement and manage this capability.[2046] SDG&E believes this request is reasonable and should be approved.

As such, SDG&E urges the Commission disregard TURN's proposed rejection of SDG&E's CCotF and instead approve its forecast as reasonable.

21.3.2.3 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.[2047] As noted, there are several CIS Enhancements, including but not limited to, enhancements to existing CCA reports, system changes and performance testing to support CCA transition, a new capability to extract near-real time customer usage data requested by the CCAs, as referenced in Real Time Pricing proceeding, enhancements to support CPUC requirements of additional program offerings, messaging and related compliance reporting for collections activities, MyAccount security enhancements, and continued enhancements to ensure field employees are provided real-time information to support customers.[2048]

2041 *Id.* at 9-12.

2042 TURN OB at 274-275.

2043 Ex. SDG&E-218 (Baule) at 15.

2044 *Id.*

2045 *Id.*

2046 *Id.*

2047 SCG/SDG&E OB at 534; *see also* Ex. SDG&E-18-E (Baule) at 40.

2048 SCG/SDG&E OB at 534; *see also* Ex. SDG&E-218 (Baule) at 23-25.

21.3.2.3.1 SDG&E's Request for CIS Enhancements is Reasonable and Should be Adopted

Notably, Cal Advocates does not take issue with SDG&E's business rationale for the proposed capital projects for Office Operations, including the CIS Regulatory and Enhancement Project.[2049] SDG&E urges the Commission to adopt SDG&E's request for the CIS Enhancements.

To the contrary, TURN, incorrectly, states that "SDG&E requests a total of over $130 million for its CIS Enhancement Project between 2023 and 2027 ($19.233 million in 2022, $19.752 million in 2023, $23.768 million in 2024, plus attrition years)."[2050] As noted above, 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.[2051] As discussed SDG&E's post-test year ratemaking testimony, SDG&E is proposing a five-year average level of capital additions for the attrition years.[2052] This proposed mechanism provides a reasonable level of funding necessary to maintain operational and financial stability and support important projects.[2053] CIS Enhancements was not a project for which SDG&E made a specific request for post-test year capital exception. As such, TURN's assertion that SDG&E is requesting a total of over $130 million is inaccurate and should be disregarded.

Further, TURN argues that SDG&E has "not met its burden of proof to present clear and convincing evidence that its requested increase is just the [and] reasonable"[2054] and therefore, the Commission should deny SDG&E's requested capital dollars for CIS Enhancements. However, TURN incorrectly demands a clear and convincing level of proof. This is not the standard of proof required for a GRC. Instead, the evidentiary standard that applies to ratemaking proceedings is one of a preponderance of the evidence.[2055] Preponderance of the evidence simply means that

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2049 Cal Advocates OB at 216.

2050 TURN OB at 278 (citation omitted).

2051 SCG/SDG&E OB at 534; *see also* Ex. SDG&E-18-E (Baule) at 40.

2052 Ex. SDG&E-45-R-E (Hancock) at 7.

2053 SCG/SDG&E OB at 835.

2054 TURN OB at 279-280.

2055 The Commission affirmed in D.14-12-025 that this standard specifically applies to a GRC. D.14-12-025 at 20-21 (affirming "[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.").

something is "more likely to be true than not true."[2056] In short, "[the utility] must present more evidence that supports the requested result than would support an alternative outcome."[2057]

SDG&E has met its burden by providing extensive details in numerous pages of testimony and workpapers, oral testimony at evidentiary hearings, and data request responses, that the CIS Enhancements are necessary. SDG&E has provided more evidence that supports SDG&E's request, than would support an alternative outcome, and as such, has arguably met its burden.

Further, TURN states that "SDG&E acknowledges that it did not conduct a business case or cost-benefit analysis for this project."[2058] TURN's focus on a formal business case or cost-benefit analysis is misplaced. As SDG&E noted, the reasons there was no formal business case or cost-benefit analysis conducted is "because the CIS will be utilized to support the ever-evolving business operations and regulatory requirements for the foreseeable future."[2059] Further, the new CIS is foundational for SDG&E in supporting California's policy goals related to improved customer choice, deployment of advanced technologies, and increased reliance on distributed energy resources.[2060] The designs and functionality delivered by the CIS Replacement project were based on the known requirements and assumptions prior to April 2021, when the system went live.[2061] As with any system, on-going support, maintenance, and enhancements are required to meet new regulatory directives and orders and changing operational and customer needs.[2062] As such, SDG&E urges the Commission disregard TURN's misplaced assumptions and reasons for seeking denial of SDG&E's CIS Enhancements.

21.3.2.4 Postage

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

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2056 Witkin, Cal. Evid. (5th ed., Vol. 1), "Burden" § 36 (2022).

2057 D.16-06-056 at 23.

2058 TURN OB at 280.

2059 Ex. TURN-09-2R (Cheng) at 33, citing DR TURN-SEU-053, Question 2a.

2060 Ex. SDG&E-218 (Baule) at 21-22.

2061 *Id.* at 22.

2062 *Id.*

original application and corresponding testimony.[2063] Postage includes the expense for mailing customer bills and notices through the United States Postage Service (USPS).[2064]

21.3.2.4.1 SDG&E's Request for Postage is Reasonable and Should be Adopted

CLS proposes a reduction of $179,343 to SDG&E's request for postage given the Group Mail error, despite SDG&E's intention to correct in Q1 2024.[2065] Further, CLS makes their recommendation based on the fact that "[h]istorically, SDGE Postage costs have decreased every year from 2017 to 2020."[2066]

First, when SDG&E initially forecasted its Postage-related costs, SDG&E believed that all quantities of bills fell within the Group Mail definition.[2067] After further discussion, SDG&E's IT department clarified that the capability was only for two bills, leaving SDG&E to continue to incur additional postage costs for group mail with three or more bills.[2068] 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.

Second, CLS's proposal, based on historical costs of postage, ignores the fact, as noted, that since filing its initial application and corresponding testimony, postage rates increased three times – 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.[2069] The Commission, in the Applicant's last GRC, found the forecast for postage costs to be reasonable and noted that it "takes into account declining" – in this case, increasing – postage costs.[2070] SDG&E believes that the postage costs are reasonable, and take into consideration the increases in postage rates, which CLS conveniently ignores in their recommendation.

[2063] SCG/SDG&E OB at 520; *see also* Ex. SCG-401/SDG&E-401 at 17.

[2064] SCG/SDG&E OB at 535; *see also* Ex. SDG&E-18-E (Baule) at 19.

[2065] CLS OB at 10-11.

[2066] *Id.* at 9.

[2067] SCG/SDG&E OB at 535.

[2068] *Id.* at 536; *see also* Ex. SDG&E-218 (Baule) at 5.

[2069] SCG/SDG&E OB at 535; *see also* Ex. SCG-401/SDG&E-401 at 17.

[2070] D.19-09-051 at 346.

As such, SDG&E urges the Commission to ignore CLS' recommendation to reduce its Postage request.

21.3.2.5 Branch Offices

SDG&E provides local payment offices and customer services through a network of Branch Offices and APLs.[2071] SDG&E operates four dedicated Branch Office facilities.[2072] SDG&E is requesting $1.517 million for its Branch Office TY 2024 forecast.[2073]

21.3.2.5.1 CLS' Recommended Reduction to SDG&E's Branch Offices Should be Ignored

CLS argues that SDG&E has not met its burden of proof to demonstrate that it is reasonable to maintain the 14.2 FTE level from 2021.[2074] Further, because SDG&E's Branch Office FTE count has historically decreased, and SDG&E recently closed two Branch Offices, that SDG&E's request is unreasonable.[2075] As such, CLS recommends staffing the four remaining Branch Offices with an average of 1.5 FTEs each, for a total of 6 FTEs, resulting in a reduction of $593,634.[2076]

First, CLS' recommendation conveniently ignores Commission precedent, which SDG&E reiterates – 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."'[2077] As noted, SDG&E's Corporate Security views 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.[2078]

2071 Ex. SDG&E-18-E (Baule) at 20.

2072 Since SDG&E's original application filing and corresponding testimony, the Commission issued D.22-06-008, approving the closure of SDG&E's Downtown San Diego and National City branch offices.

2073 Ex. SDG&E-18-E (Baule) at 20

2074 CLS OB at 14.

2075 *Id.; see also* D.22-06-008 (approving the closure of SDG&E's Downtown San Diego and National City branch offices).

2076 CLS OB at 14.

2077 SCG/SDG&E OB at 525 (citing D.08-07-046 at 44.).

2078 *Id.* at 526; *see also* Ex. SDG&E-218 (Baule) at 6.

Second, CLS's alternative proposal, to reduce SDG&E's request from 14.2 FTEs to 12, ignores the need for supervisors.[2079] SDG&E's 14.2 FTE request consists of 11 ESS/Associates, one supervisor, one associate supervisor, and one branch office specialist.[2080] The two supervisors and branch office specialist rotate between the four branch offices.[2081] 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.[2082]

As such, based on Commission precedent, SDG&E urges the Commission disregard CLS's proposed reductions to SDG&E's Branch Office request.

21.3.2.6 Language Line

SDG&E CCC agents, or ESS', are not purely transaction-focused, but also provide customer support on complex billing issues, applicable pricing plan choices, and the offering of tools and solutions to aid in energy or bill reduction.[2083] Calls are routed to the first available ESS with the right skillset to address the customer's need.[2084] SDG&E's representatives provide telephone service in English, Spanish, and Vietnamese as well as for the hearing impaired via text telephone (TTY).[2085] SDG&E also provides services in other languages via Language Line Services.[2086]

21.3.2.6.1 CLS' Recommendation to Supply Testimony in the Next GRC Regarding Language Line is Unsupported and Should be Disregarded

CLS recommends that "SDGE file testimony in their next GRC justifying the evaluation and criteria they develop to identify which languages to support in-house, specify how many representatives they had each year that spoke each language, and what steps they will take to maintain appropriate in-house language resources and to meet ongoing language support

2079 SCG/SDG&E OB at 526; *see also* Ex. SDG&E-218 (Baule) at 6.

2080 *Id.*

2081 *Id.*

2082 *Id.*

2083 Ex. SDG&E-18-E (Baule) at 22.

2084 *Id.*

2085 *Id.*

2086 *Id.*

needs."[2087] However, as SDG&E pointed out, CLS offers zero evidence showing that SDG&E Language Line services are inadequate or a deterrent to customers contacting SDG&E.[2088] To the contrary, "[t]here have been no known customer complaints about the availability of in-house language support or support received from Language Line."[2089] As such, creating an additional requirement in the next GRC, without an appropriate justification, is baseless and inappropriate. SDG&E urges the Commission to disregard CLS' recommendation.

21.4 Customer Service Information[2090]

21.4.1 SoCalGas Customer Services Information

SoCalGas has fully justified approval of its reasonable TY 2024 Customer Services-information (CS-I) O&M and IT capital expense forecast, as fully shown in testimony and in SoCalGas's Opening Brief.[2091] CS-I seeks $27.178 million for O&M expenses, as well as IT Capital expenditures of $3.587 million in 2022 and $2.565 million in 2023.[2092] No party opposed SoCalGas's IT Capital project business justifications.

On August 11, 2023, SoCalGas and TURN reached a proposed resolution for SoCalGas's CS-I 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 in accordance with ALJ Lakhanpal's August 18, 2023, Ruling extending the deadline for proposed settlements to October 2, 2023.

Except as detailed below, the parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have presented. SoCalGas's Opening Brief addressed the remaining issues contested by Intervenors and is

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2087 CLS OB at 24-25 (citation omitted).

2088 SCG/SDG&E OB at 529.

2089 Ex. SDG&E-218 (Baule) at 13.

2090 In the Opening Brief, SoCalGas and SDG&E inadvertently numbered this section 21.5. The Common Briefing Outline indicates this area should be numbered 21.4. This section is numbered consistent with the Common Briefing Outline, but therefore deviates from the Opening Brief.

2091 SCG/SDG&E OB at 537-548.

2092 *Id*. at 537.

incorporated by reference herein to avoid repeating the same arguments.[2093] This reply addresses only new details or arguments raised by Intervenors on the same contested issues.

21.4.1.1 TURN No Longer Opposes SoCalGas's CS-IO&M Forecast Based on an Intended Settlement

As acknowledged in TURN's Opening Brief[2094] and SoCalGas's Opening Brief,[2095] the parties reached agreement on O&M forecast for 2024 of $25.445 million, a reduction of $1.732 million and intend to formalize this agreement via motion. The following table updates the summary of differences between the parties to reflect the settled amount with TURN:

Table 21.2

TOTAL O&M - Constant 2021 ($000)			
	Base Year	**Test Year**	**Change to Base Year 2021**
SOCALGAS[2096]	**21,647**	**25,445**	**3,798**
CAL ADVOCATES[2097]	**21,647**	**4,415**[2098]	**(17,232)**
TURN	**21,647**	**25,445**	**3,798**
CEJA	**21,647**	**21,647**	**0**
INDICATED SHIPPERS	**21,647**	**25,966**	**4,319**

2093 SCG/SDG&E OB at 537-548.

2094 TURN OB at 281.

2095 SCG/SDG&E OB at 537.

2096 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 adjusted the numbers reflected in this Summary of Differences Table 21.4.1.1.

2097 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 21.4.1.C.

2098 Cal Advocates does not specify their total recommended TY 2024 forecast for Customer Services – Information. SoCalGas has first applied the 80% reduction recommended in Exhibit CA-23, and then further reduced by the amount recommended in Exhibit 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.)

21.4.1.2 Cal Advocates Fails to Justify its Proposed Reductions or Refute the Broader Benefits from the Kitchen Management Pilot Project

In its Opening Brief, Cal Advocates largely repeats the same arguments it made in its testimony, claiming SoCalGas's funding request "is not justified" or "not supported," and recommends a reduction based on its opposition to the incremental funding request for the Innovative Kitchen Management Pilot Project.[2099] SoCalGas has fully justified the reasonableness of both the labor and non-labor forecast in its testimony, as already explained extensively in SoCalGas's Opening Brief.[2100] Moreover, Cal Advocates does nothing in its Opening Brief to shore up its lack of basis for its proposed reductions and should be rejected.

As for its recommended reductions to SoCalGas's non-labor expense forecast, Cal Advocates continues to take issue with the Innovative Kitchen Management Pilot Project and argues that "[i]t is not appropriate for SCG to request ratepayer funding for a project that benefits only certain customers in the commercial food service industry."[2101] SoCalGas previously explained the benefits that it will have on several types of customers (*e.g.* schools, offices, retail, lodging, multi-meter facilities, etc.), including residential customers, and not just customers in the commercial food service industry. Benefits to a broader set of customers include avoided procurement cost by addressing incomplete combustion, reduced fugitive methane emissions, GHG reductions aligned with State's carbon neutrality goal, and an emissions predictive model, as further elaborated in SoCalGas's Opening Brief.[2102] Therefore, the Commission should reject Cal Advocates' recommendations and adopt SoCalGas's forecast as reasonable.

Moreover, to the extent that Cal Advocates is addressing a cost allocation issue between different customer classes, that is outside the scope of the GRC and belongs in a subsequent Cost Allocation Proceeding (CAP). Cost allocation issues should not drive ratemaking in a GRC, which is why these are separate and sequential scopes for GRC Phase 1 (this GRC) and Phase 2

[2099] Cal Advocates OB at 217-218. SoCalGas assumes this statement in Cal Advocates' summary of recommendations in their OB at 27 is in error: "For SCG's Information, Cal Advocates accepts SCG's O&M requests for non-shared expenses and shared expenses."

[2100] SCG/SDG&E OB at 545-546.

[2101] Cal Advocates OB at 218.

[2102] SCG/SDG&E OB at 546.

(CAP).[2103] SoCalGas is unaware of any standard in GRCs that a project or activity must benefit all customer segments to receive funding approval. Indeed, many customer programs benefit mainly or only residential customers.

21.4.1.3 Indicated Shippers Ignores the Safety, Reliability, and Affordability Benefits of the Clean Fuels Transportation Program

Indicated Shippers continues to recommend removing $1.211 million associated with the Clean Fuels Transportation Program, claiming that "[t]he programs in this application are not related to safety, reliability, or affordability."[2104] Safety, reliability, and affordability are foundational to SoCalGas and to the Clean Transportation Program. As explained previously in testimony and rebuttal, and in SoCalGas's Opening Brief,[2105] the Clean Transportation group's activities include customer outreach tools and materials, grant funding assistance, truck loan program, safety measures, and training on market subjects and regulations. The program and services provided by the Clean Transportation group meet these safety, reliability, and affordability goals and the Commission should adopt SoCalGas's request to continue its efforts to provide necessary information, education, and training related to Clean Transportation.

Assisting customers in obtaining grant funds and educating them on the Low Carbon Fuel Standard (LCFS) program provides the customer with lower-cost options. In addition, the team continues to support communication on tariff explanation, hook-up concerns, and fueling safety issues. Moreover, the Commission previously believed SoCalGas demonstrated the need for utilities to remain involved with customer education and training on clean transportation, as it met the goals of safety and reliability.[2106]

2103 *See, e.g.*, D.20-02-045 at 1 ("The purpose of a triennial cost allocation proceeding (TCAP) is to consider proposals to allocate costs of providing natural gas service among customer classes…"); D.20-01-002 at 10, 45 (In this Decision Modifying The Commission's Rate Case Plan For Energy Utilities, the Commission reviewed the history of separating "gas cost allocation proceedings" from the rate case and noting that cost allocation issues are to be resolved in "Phase 2 applications."); *Id*. at 2, fn. 2 ("For natural gas utilities, the allocation issues are addressed in subsequent cost allocation proceedings…"); R.98-01-011 at 19 (The "level of utility costs has traditionally been determined in a general rate case proceeding (GRC)" and that those "costs are then allocated to the different customer classes" in cost allocation proceedings.).

2104 Indicated Shippers OB at 8.

2105 Ex. SCG-16-2E (Prusnek) at 37; Ex. SCG-12-R (Infanzon) at 28-29; SCG/SDG&E OB at 548.

2106 *See* D.05-05-010 at 8-10.

In addition, the argument that "D.05-05-010 only applies where it furthers safety, reliability, affordability"[2107] is incorrect. Other elements include "benefits gained from air quality improvements achieved through utility services and instrumentalities that facilitate LEV adoption throughout California"[2108] and "LEV education and training efforts program elements that incidentally educate the public generally about the societal benefits of clean air or LEVs in fulfillment of the utility's obligations under Pub. Util. Code § 451 to provide services promoting the health and comfort of their patrons and the public."[2109] As discussed in Armando Infanzon's testimony, state policy encourages the adoption of LEVs in order to achieve regional air quality improvements and to mitigate climate change.[2110] SoCalGas's LEV customer information, education, and training programs thus focus on enhancing customer safety, reliability, and affordability as well as LEV adoption and associated environmental benefits, which are in alignment with both Commission and state policy.

21.4.1.4 CEJA's Argument that Activities Performed by CS-I Constitute Promotional Advertising Communications Is Without Merit

In its Opening Brief, CEJA recommends a wholesale rejection of the $5.530 million increase for CS-I's non-shared O&M costs based on its erroneous argument that "SoCalGas' use of CS-I funds for marketing and outreach related to the adoption of hydrogen and "renewable gas" (biomethane) technologies constitutes promotional advertising, which is a below-the-line, shareholder activity."[2111] CEJA also argues that CS-I's "increasing support" for "renewable gas projects and offerings," such as hydrogen and biomethane, are promotional communications that "constitute advertising and are not recoverable."[2112]

CEJA's recommendation should be rejected as it continues to misunderstand and misstate the detailed explanations of activities performed by CS-I. As explained in its testimony and in Opening Brief, CS-I performs many activities that are much broader than supporting clean fuels related communications. These series of communication methods are fundamental in educating

[2107] Indicated Shippers OB at 8.

[2108] D.05-05-010 at 15, Conclusion of Law (COL) 1.

[2109] *Id.* at 16, COL 3.

[2110] Ex. SCG-12-R (Infanzon) at 28.

[2111] CEJA OB at 63-64.

[2112] *Id.* at 63.

customers, which requires creating and developing content that can be easy to comprehend through: (1) all customer communications including content creation, research, community outreach activities, and continuous education of customers on the benefits of and advancements in sustainability; (2) safety communications to the public, customers, contractors, and employees; (3) services for low-income and disadvantaged customers; (4) account management services to residential, small and medium business, commercial, and industrial, clean transportation customers, energy market customers, and producers; and (5) services that focus on a sustainable future by reducing greenhouse gas emissions (GHG) emissions and improving local air quality including supporting cleaner transportation, renewable gas options to decarbonize, and acceleration of the transition to clean energy fuels.[2113] While SoCalGas has repeatedly explained all the functions that CS-I performs, CEJA selectively scrutinizes one area of focus, arguing that these activities do not align with state policy (which is also incorrect) and asks that the entire request be denied.

In addition, CEJA's recommendation is inconsistent with CS-I's activities that align with state policy allowing the use of hydrogen and biomethane to combat regional air pollution and climate change.[2114] As elaborated by witness Armando Infanzon in Exhibit SCG-212 and in the clean fuels policy sections of SoCalGas's Opening Brief,[2115] there is strong and growing support by all levels of California state government (in particular, the Governor's Office, California Energy Commission, California Air Resources Board (CARB) and the CPUC) for the role of hydrogen and other clean fuels as essential to achieving the State's environmental goals.[2116] These

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2113 SCG/SDG&E OB at 541-542.

2114 *Id.*

2115 Ex. SCG-212 (Infanzon) at 6-9; SCG/SDG&E OB at 46-55, 244-248.

2116 *See* Office of the Governor of California, *Governor Newsom Announces New Strategy to Develop a Hydrogen Economy of the Future*, August 8, 2023 ("Governor Newsom has directed … an all-of-government approach to building up California's clean, renewable hydrogen market. 'California is all in on clean renewable hydrogen – an essential aspect of how we'll power our future and cut pollution,' said Governor Newsom."), available at: https://www.gov.ca.gov/2023/08/08/governor-newsom-announces-new-strategy-to-develop-a-hydrogen-economy-of-the-future/; D.22-12-055 at 2 ("Clean renewable hydrogen holds promise as a potential solution to decarbonize California's energy future. . ."); *see also* Ex.SCG-12-R (Infanzon) at 32 (Discussing CARB regulations and rules when stating, "To aggressively address climate change, state policies are increasingly mandating the use of zero emission vehicles, including hydrogen FCVs."); *Id.* at 35-36; Ex. SCG-212 (Infanzon) at 6-10 (Detailing Executive Orders, CEC, CARB, CNRA, and DOE commitments to expanding use of hydrogen and clean fuels); Ex. SCG-02-R, Ch. 2 (Sims) at 13 (SoCalGas's clean fleet objectives state policies include SB 100, SB 32, SB 350, SB 1440, and SB 1383 which supply the groundwork and programs for utilities to assist their customers in managing their energy usage more efficiently to reduce GHG emissions and increase the use of clean energy resources. From a state agency perspective, the CARB 2022 Scoping Plan acknowledges the urgent need for clean fuels and developing a clean fuels network at scale.[2117] SoCalGas does not disagree that "ratepayer-funded communications must align with State climate and public health objectives,"[2118] but CEJA has not shown that the requested funding for clean fuels-related activities are not aligned.[2119] Just like for electric IOUs communicating with their customers on the role of electrification in meeting State climate objectives, there is an important need for gas IOUs' clean fuels communications in meeting those same State objectives.

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support Executive Orders to replace internal combustion vehicles); Ex. SCG-202-E (Niehaus/Arazi) at 4 (CEC's Integrated Energy Policy Report highlights the role of hydrogen in California's clean energy future); *Id.* at 4-5 (CARB's Advanced Clean Cars II regulations and Clean Fleet Rules mandates transition to zero-emission vehicles); *Id.* at 8-9 (discussing CARB's 2022 Scoping Plan and the need for decarbonization tools, including clean fuels); *Id.* at 6 (CPUC Resolution E-5254 permits utilities to seek funding through rate cases relating to the Infrastructure Investment and Jobs Act, Inflation Reduction Act, and Clean Energy Infrastructure Grant Programs administered by the DOE); Ex. SCG-201 (Brown) at MSB-1 ("In this time of the State's transition to clean energy, SoCalGas supports the energy transition by increasing delivery of clean fuels, adapting its system for hydrogen, developing carbon management technologies, and supporting customer decarbonization.").

2117 CARB, *2022 Scoping Plan for Achieving Carbon Neutrality*, December 2022, at 1, 7-8, 24, 63, and 109, available at: https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf.

2118 CEJA OB at 63.

2119 Moreover, there are other important State objectives and mandates that may be part of utility communications such as safety, reliability, and affordability. Limiting alignment to one aspect regarding climate change, albeit an important one, would inappropriately limit the breadth of ratepayer benefits that may be part of such communications. For instance, clean fuels are not just important from a climate change perspective, but also because there can be safety, reliability, and resiliency benefits, such as dispatchable clean power generation. The value of such communications should not turn on whether this is communicated by a gas utility versus other stakeholders who recognize these multiple benefits, including state agencies, academia, and others. *See, e.g.*, Ex. SCG-01-2R (Brown) at 10-11 ("SoCalGas is furthering the State's decarbonization efforts" and "expects that an integrated electric and gas energy network with growing penetration of renewable electricity and cleaner fuels will achieve carbon neutrality faster, more reliably, and more affordably than a system that does not integrate renewable electricity and clean fuels … SoCalGas's proposals in this GRC will result in meaningful enhancements in technology, reliability, and safety, while at the same time helping support the State's transition to clean energy."); Ex. SCG-12-R (Infanzon) at 1; Ex. SCG-02-R, Ch. 1, (Peress) at 9; Ex. SCG-02-R, Ch. 2 (Sims) at 4; Ex. SCG-202 (Niehaus/Arazi) at 2, 14-15 ("In October 2021, SoCalGas released an economy-wide technical analysis underscoring the essential role that clean fuels like hydrogen and renewable natural gas will play in a carbon neutral California. … The analysis supports existing state climate and energy policies, including resilient and reliable electrification …").

CEJA's use of Public Utilities Code Section 796(a) as support for its position that such clean fuels communications are not recoverable is misplaced.[2120] First, CEJA continues to mischaracterize customer education and outreach as *advertising* without even establishing what advertising is or whether these activities should be considered as advertising. Second, Public Utilities Code section 796(a) is not applicable to any activities that CEJA is alleging should not be funded by ratepayers. SoCalGas is not asking its customers to increase their consumption of any particular fuels. Educating customers about replacing their existing use of fuels with cleaner, lower carbon fuels, is not and cannot be considered "advertising which encourage increased consumption...." Nowhere has CEJA demonstrated that any SoCalGas customer communication is asking customers to increase consumption. SoCalGas is permitted and should be encouraged to work with its customers to reduce their consumption and to replace existing consumption with cleaner, lower carbon fuels. In fact, this is the same activity that electric utilities engage in through their electric vehicle and building decarbonization programs. The utilities are not asking customers to increase overall consumption, they are simply educating customers about cleaner fuel switching opportunities to result in lower emissions.

CEJA appears to rely on its faulty premise that clean fuels activities have no ratepayer benefit, which is ideologically driven, not based on facts, nor aligned with the strong direction the State has taken in support of such activities. Those activities and related CS-I communications will be particularly critical over the next few years, and it would be detrimental to those State efforts to hamstring funding to support them. Activity that qualifies under the FERC 426.4 definition of certain below-the-line costs, other FERC guidance, or CPUC rules regarding non-recoverability of certain expenses should continue to be accounted for as appropriate; but not all clean fuels communications should be deemed to be non-recoverable as CEJA appears to suggest.[2121] SoCalGas would welcome further clarity from the Commission on appropriate bounds around what constitutes climate-change related advocacy activities that should not be recoverable by any IOU going forward. Such rules should be clear, consistent, and not single out one

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2120 CEJA OB at 64.

2121 *See, e.g.*, FERC Uniform System of Accounts, FERC Account 909, Informational and Instructional Advertising Expenses: "This account shall include the cost of labor, materials used and expenses incurred in activities which primarily convey information as to what the utility urges or suggests customers should do in utilizing gas service to protect health and safety, to encourage environmental protection, to utilize their gas equipment safely and economically, or to conserve natural gas." (18 C.F.R. § 367.0909(a).)

particular IOU or decarbonization pathway for different treatment. The State's ambitious climate change goals will require both clean electrons paired with clean molecules (*i.e.*, clean fuels) to accomplish them.[2122] SoCalGas has an important role to play along with the other California utilities to enable the State to be successful.

CEJA's Opening Brief also states that, "when CEJA sought a detailed breakdown of the incremental costs SoCalGas has requested for CS-I to determine what portions of the activity are improper for recovery, the Company responded that it 'does not have that level of specificity.'"[2123] CEJA's selective quotes here do not reflect SoCalGas's provision of over one hundred pages of testimony, workpapers, and data request responses for CS-I to support its request. In fact, CEJA's data request asked the question: "How much of the requested $2.253 increase in funding is attributable to communications related to climate change policies or clean fuels network?" This specific data request was about the funding request for Strategic Communications and Engagement, not CS-I as a whole, yet CEJA is quoting this data response to support its view that the totality of the request for CS-I should be rejected. The costs at issue in the data request response are forecasted costs, not actual costs, and SoCalGas did provide CEJA with a breakdown of the costs as seen in the data response in Table BP-9. Table BP-9 explains the categories of costs that SoCalGas used to build its forecast based on 5-year averages of actual costs. SoCalGas responded to the data request that it does not have the level of specificity that CEJA requests because they asked how much of Strategic Communications and Engagement's request is "attributable to communications related to climate change policies or clean fuels network."[2124] SoCalGas does not forecast down to that level of granularity nor was there a specific campaign that was a line-item request. Using this data response out of context and applying it to the whole request for CS-I is inappropriate and the Commission should reject this argument. Contrary to CEJA's assertions, SoCalGas has supported its forecast in this proceeding.

Furthermore, CEJA tries to paint a picture that SoCalGas is not properly tracking costs that should be paid for by shareholders. CEJA again confuses education and outreach with advocacy by using the example of SoCalGas's website on carbon monoxide poisoning as justification for not

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2122 SCG/SDG&E OB at 50-52.

2123 CEJA OB at 63.

2124 Ex. CEJA-01, Attachment 4, at pdf pg 81 (SoCalGas Response to DR CEJA-SEU-016, Question 2(c).)

funding the incremental request for CS-I. CEJA states that, "Nowhere in SoCalGas' carbon monoxide poisoning materials does SoCalGas state that replacing combustion equipment with non-combustion electric equipment reduces the risk of carbon monoxide poisoning from household appliances to zero."[2125] CEJA appears to be asking SoCalGas to advocate for CEJA's favored electric solutions instead of informing customers about safety regarding carbon monoxide from their existing natural gas use. CEJA appears to argue for denying SoCalGas funding for customer education and outreach unless the message is about electrification. As previously stated, CEJA is clearly pushing an ideological climate policy agenda, which should not underpin safety-related education or contradict FERC definitions of above-the-line costs. In this instance, SoCalGas's website on carbon monoxide is in compliance with its Gas Safety Plan.[2126] While SoCalGas supports electrification,[2127] educating its own gas customers on the dangers of carbon monoxide for existing gas use is not the place for a gas utility to be talking about an electric end use.

For all the reasons above, the Commission should approve SoCalGas's TY 2024 CS-I O&M and IT capital expense forecast as reasonable.

21.4.2 Customer Services – Information[2128]

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.[2129] 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

[2125] CEJA OB at 65.

[2126] *See* SoCalGas, *2021 Gas Safety Plan*, March 15, 2021, *available at* https://www.socalgas.com/sites/default/files/2021_SoCalGas_Gas_Safety_Plan_Final.pdf. As detailed further in the SoCalGas Safety Plan, SoCalGas has a robust Public Awareness Plan, of which carbon monoxide education is one component of, to enhance public pipeline safety and property protection through improved public awareness and to comply with Federal Regulations 49 C.F.R. § 192.616 and § 196.12

[2127] SCG/SDG&E OB at 50-52.

[2128] In the Opening Brief, SoCalGas and SDG&E inadvertently numbered this section 21.5. The Common Briefing Outline indicates this area should be numbered 21.4. This section is numbered consistent with the Common Briefing Outline, but therefore deviates from the Opening Brief.

[2129] Ex. SDG&E-19-E (Baule) at ii.

services, business services, marketing and communications, research and analytics, customer assistance programs, and customer pricing, among other services.[2130]

The only parties to rebut portions of CSIN's O&M revenue request were TURN and UCAN.[2131] Cal Advocates does not oppose SDG&E's TY 2024 CSIN forecast.[2132]

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 table below reflects the proposed settlement with TURN.

TOTAL O&M - Constant 2021 ($000)			
	Base Year 2021	**Test Year 2024**	**Change**
SDG&E[2133]	21,021	22,691	1,670
CAL ADVOCATES	21,021	24,353	3,332
TURN	21,021	22,691	1,670
UCAN	21,021	24,233	3,212

22. Supply Management, Logistics, and Supplier Diversity

Supply Management, Logistics, & Supplier Diversity (Supply Management) is responsible for identifying, purchasing, and managing the procurement contracts of products and services needed to run SoCalGas and SDG&E. Supply Management delivers value to its internal business clients and ratepayers by leveraging technology and tools to assess market and spend intelligence to meet purchasing needs, while reducing costs and managing contract performance. The Supplier Diversity programs advocate for diverse businesses to encourage participation in contracting opportunities with SoCalGas and SDG&E.

2130 *Id*. at ii – iii.

2131 SDG&E notes that UCAN recommends a disallowance of $120,000 for marketing and outreach materials in support of SDG&E's Smart Meter 2.0 request. *See generally* Ex. UCAN-01-E (Woychik) at 13-14.

2132 Ex. CA-10 (Campbell) at 8.

2133 As noted above, and in Opening Briefs, SDG&E and TURN have reached a proposed resolution of the TY 2024 O&M forecast. This resolution would adjust the amount forecasted by SDG&E in TY 2024 to $22.691 million. This table reflects a TY 2024 forecast that has been updated to reflect this adjustment. *See also* SCG/SDG&E OB at 549.

Only two parties mentioned Supply Management in Opening Briefs: Cal Advocates and CLS. Cal Advocates did not oppose the Utilities' Supply Management requests. CLS did not oppose SoCalGas's request, but did make certain recommendations for the Supplier Diversity group to focus on and certain new data tracking for the next GRC. Similarly, for SDG&E, CLS made certain recommendations for the Supplier Diversity group to focus on and certain new tracking for the next GRC. However, for SDG&E, CLS recommends certain reductions to SDG&E's revenue request if its recommendations are not implemented.

On the whole the Utilities appreciate CLS's earnest emphasis on improving the Supplier Diversity program within Supply Management. The Utilities are proud of, and take seriously, efforts to maintain and increase the diversity of the suppliers we do business with and explore ways to improve the program.[2134] However, CLS is attempting to offer suggestions for the Supplier Diversity program without a full understanding of the program. CLS's recommendations, some with a reduction to revenue request if they are not implemented, would not necessarily improve the program, and there is no meaningful evidence that they would. The additional reporting metrics for the next GRC are also not necessary, and would emphasize areas that the Commission has not indicated utilities should focus on. CLS's recommendations (other than those that the Utilities have agreed to) and additional reporting should not be adopted.

22.1 CLS's Recommendations for the SoCalGas Supplier Diversity Program Should Not Be Imposed

As explained in the Opening Brief, one area within Supply Management is the Supplier Diversity group, which conducts outreach efforts in under-represented areas with woman, minority, disabled veteran, lesbian, gay, bi-sexual and transgender (WMDVLGBT) owned business enterprises and persons with disabilities-owned business enterprises (diverse businesses). 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.

CLS first argues that SoCalGas should emphasize its outreach, assistance, and capacity training efforts and report on such efforts. SoCalGas explained that it already has programs that conduct outreach, assistance, and capacity building.[2135] With this information, CLS argues that SoCalGas should report on such offerings, costs, and effectiveness of these programs, including

[2134] *See, e.g.,* CLS OB at 70 (acknowledging SoCalGas's agreement with respect to training programs).

[2135] SCG/SDG&E OB at 565.

"anticipated benefits, including a breakdown of forecast expenses, participation and evaluation metrics, and modifications."[2136] This required reporting is vague and unnecessary. For example, CLS assumes that metrics such as "anticipated benefits" are calculable for any particular program, and that the costs of any particular program are calculable without burdensome and potentially intrusive additional tracking.[2137] It is difficult to imagine a metric that could be used for tracking the usefulness of a program that generally aims to assist diverse business suppliers with building their capacity. Furthermore, in the next GRC, CLS or other intervenors could request whatever information is available on the costs or effectiveness of the program. Adding affirmative requirements in the GRC would make direct testimony or the application more cumbersome and would set a precedent that would be a slippery slope if each individual intervenor could request metrics for any area of interest. The additional reporting requirement should not be imposed.

CLS next argues that SoCalGas should set goals for small diverse businesses. As SoCalGas explained in its OB, such efforts would divert resources from other aspects of the Supplier Diversity program. Although CLS welcomes whatever tradeoffs need to be made, without further information, evidence, and consideration in collaboration with the Commission about such tradeoffs, if they are even possible, and whether they would be beneficial on the whole, are all necessary before shifting the focus of the Supplier Diversity program to goals for small diverse businesses. CLS's recommended new goals should not be required.

Finally, CLS argues that SoCalGas should report on the specifics of the training done for its Supplier Diversity program. Specifically, CLS argues that SoCalGas should provide "provide descriptions, cost breakdowns, and evaluations of the effectiveness of their training programs in the next GRC."[2138] Once again, CLS is asking for metrics and vague information on Supplier Diversity endeavors. SoCalGas is in the process of providing additional specialized training, and CLS or other intervenors can provide data requests in the next GRC regarding that training. However, an affirmative obligation to provide information such as "evaluations of the effectiveness" should not be imposed. As stated above, an obligation to provide affirmative information in a GRC is not something to be taken lightly lest GRC applications become

[2136] CLS OB at 66-67.

[2137] Providing the costs of any program could require additional time tracking for any employee supporting Supplier Diversity in developing the program.

[2138] CLS OB at 71.

cumbersome with extensive affirmative obligations which may not even be an area of focus or concern in the next GRC.

22.2 Supply Management & Logistics and Supplier Diversity (SDG&E)

Similar to SoCalGas, SDG&E's Supplier Diversity program within Supply Management has a long history of exceeding the minimum Commission goals for Supplier Diversity. For 18 consecutive years, SDG&E has exceeded the minimum Commission goal.[2139] Even when the spending with diverse businesses came down some from 2018 (43.9%), it still remained at 39.1% of SDG&E's spending in 2021, and has been increasing since (39.8% in 2022).[2140] Moreover, it is still almost double the Commission goal of 22%.[2141] All of this occurred while the program was making adjustments due to COVID-19,[2142] and with challenges in the market to locate certified diverse suppliers in key areas of spend.[2143] SDG&E has shown it is on track to continue improving the diversity of its spending. Despite this CLS makes a number of recommendations for how to change the program. These recommendations are not based on any meaningful evidence and could disrupt the program. The additional data tracking CLS recommends, as discussed in the SoCalGas sections above, is vague and unnecessary.

CLS first argues that SDG&E should bring back its Best in Class (BIC) program. CLS states that SDG&E's Supplier Diversity "reduced performance levels are likely due to a number of factors," but argues that "Reinstating BIC, or similar capacity building program, is a reasonable requirement," to help address the decline in diverse spending from 2017 to 2021.[2144] However, CLS assumes that the correlation of the decrease with the timing of BIC being discontinued amounts to causation.[2145] It also assumes that any programs result in simultaneous benefits tied to increased spending – a point which is illogical and unsupported by evidence. Moreover, not only

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2139 Ex. SDG&E-220 (Castillo) at 4:5-17.

2140 *Id*. at 4:2-5:16.

2141 *Id.*, Appendix B at B-12.

2142 *Id.*, Appendix B at B-16, 18, 21.

2143 *Id.* at 3:14-16.

2144 CLS OB at 55.

2145 CLS cites as support for its position that SDG&E "SDGE admits that it cannot determine whether the discontinuation of the BIC program had any indirect impact on their declining levels of diverse spending at SDGE." *Id.* at 56. However, this supports SDG&E's position that simply because the two are correlated does not mean that the BIC change altered diverse supplier spending.

has SDG&E been increasing the spending on and number of "technical assistance, supplier outreach, and capacity building programs" since the COVID-19 pandemic, but increases in spending do not directly correlate to increased diverse supplier spending.[2146] Most importantly, as stated above, SDG&E has reversed the downward trend through its efforts, and there is no reason to disrupt that progress. CLS's recommendation to impose the BIC program or reduce revenue for it should be disregarded.

CLS next argues that "the Commission should also require SDG&E to provide information on the goals they set for prime supplier DBE spending in the next GRC" because the number of diverse suppliers and small diverse suppliers is decreased.[2147] As explained above with respect to SoCalGas, the focus on small diverse suppliers and goals for such suppliers requires a more robust discussion and analysis than CLS's observations on the issue. Should the Commission be interested in this changed focus, it could be explored in a separate proceeding concerning GO 156 and obligations for all California utilities.

CLS argues that SDG&E should set spending goals for contractors with their sub-contractors.[2148] SDG&E does not have a separate *internal* goal for its prime suppliers, but does set subcontracting goals on an individual basis in individual supplier agreements.[2149] CLS does not explain why this individualized basis is improper. Instead, CLS suggests, without evidence, that this is a cause of SDG&E's prior decline in diverse spending. As this is unsubstantiated, and the decline has been reversed, the recommendation should be disregarded. As for CLS's argument that SDG&E's revenue requirement for Supplier Diversity should not be increased without such goals, SDG&E notes that the only increase from the base year is $25,000 to address the 20% increase in Supplier Clearing House fees – costs for compliance with GO 156 to verify diverse supplier status. The two costs are entirely unrelated. Costs related to the BIC are not included in the BY 2021 actuals (the last charge related to the BIC occurred in 2020). Supply Management

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2146 *Compare* Ex. CLS-01 (Gondai), Appendix at 102 to Ex. CLS-01 (Gondai), Appendix at 1.

2147 CLS OB at 62.

2148 *Id.* at 60.

2149 Although CLS suggests SDG&E was misleading in its response regarding whether it sets goals for subcontractors, the difference was explained in rebuttal testimony. Ex. SDG&E-220 (Castillo) at 4:18-26.

used a BY forecast methodology, therefore the BIC costs are not reflected in the forecast.[2150] The Commission should not adopt the proposed reduction.

Finally, CLS suggests that SDG&E has not identified steps needed to counteract the decline in Supplier Diversity performance, and that SDG&E "[has] not identified what modifications they will make to [its] training efforts."[2151] CLS adds that "it is reasonable for the Commission to require SDG&E to report in the next GRC on what training they have done for their staff, what the costs were, and how they evaluated its effectiveness."[2152] As discussed above for SoCalGas, the demand to impose reporting on training is a vague demand and would add unnecessarily to the administrative burden of the next GRC.

23. SDG&E Clean Transportation

No party opposes SDG&E's $4.831 million for TY 2024 Clean Transportation O&M expense.[2153] As noted in its opening brief, SDG&E recommends Cal Advocates' capital proposal of for SDG&E to have a two-way Electric Vehicle Infrastructure Rule Balancing Account (EVIBA) with a funding level of $7.58 million.[2154]

TURN generally opposes the recovery of undercollected balances in multiple SDG&E proposed balancing accounts—including the EVIBA—through SDG&E's annual regulatory accounts update advice letter.[2155] TURN asserts that the Commission should require a "more robust demonstration of reasonableness."[2156] But as TURN acknowledges, SDG&E's recommendation is consistent with Commission precedent.[2157]

2150 OB at 559.

2151 CLS OB at 63.

2152 *Id.* at 63-64.

2153 *See* Cal Advocates OB at 220 (*citing* Ex. CA-11 at 9). *See generally* SCG/SDG&E OB at 572-573 (summarizing O&M request).

2154 *See* Cal Advocates OB at 27 (recommending a $7.6 million capital forecast for 2024); SCG/SDG&E OB at 572.

2155 TURN OB at 445.

2156 *Id.* at 446.

2157 *Id.* at 447 ("TURN understands and acknowledges that the Commission has up to this point relied on the update advice letter as the vehicle for permitting the utility to recover above-authorized spending recorded in certain specified regulatory accounts.").

Such a recovery process is particularly appropriate for the EVIBA. As noted, it is difficult to project the results from the Commission's brand-new Electric Infrastructure Rule.[2158] Requiring an application would require significantly more resources from the Commission and parties—through no fault of anyone other than forecasting the use of this program is exceedingly difficult in its infancy. SDG&E's O&M recommendation and Cal Advocates' capital recommendation should thus be adopted.

24. Fleet Services

Five intervenors addressed the SoCalGas Fleet Services' and SDG&E Fleet Services' TY 2024 GRC funding requests: Cal Advocates, CEJA, TURN, EDF, and Air Products. EDF and Air Products focused their criticisms primarily on the Companies' proposal to produce hydrogen and construct hydrogen refueling stations for hydrogen fuel cell electric vehicles (HFCEVs). Cal Advocates, CEJA, and TURN proposed significant reductions in SoCalGas Fleet Services' request of $82.510 million and in SDG&E Fleet Services' request of $52.731 million, based on the assertion that the Companies should only receive what they received in the past.

TURN asserts in its Opening Brief that the Companies "continue the unsupported practice of forecasting significant increases to fleet lease and license cost and propose replacement programs that are overly aggressive when compared with historical norms …."[2159] Cal Advocates goes further in its Opening Brief by indiscriminately devaluing the evidence provided by the Companies when it proclaims without proof that each Company's "forecasting methodology is unreliable notwithstanding the purported support and rationale."[2160] And CEJA urges the Commission to not only reject all of the Companies' HFCEV procurement costs, but to also reduce SoCalGas's request by an additional $4 million.[2161]

These attempts to reduce the Fleet Services' forecast requests by superficially limiting future spending to historical recorded costs, while belittling the Companies' extensive evidence and well-grounded forecasting methodology, provide no useful insights and no new information. Therefore, SoCalGas and SDG&E urge the Commission to reject such arguments.

2158 SCG/SDG&E OB at 574 (*citing* Ex. SDG&E-221 (Faretta) at 2).

2159 TURN OB at 282.

2160 Cal Advocates OB at 221, 226 (citation omitted).

2161 CEJA OB at 74-76.

SoCalGas and SDG&E Fleet Services take pride in their responsibility to prudently provide its employees with reliable and sustainable fleet solutions that are procured and maintained cost-effectively and in compliance with all applicable laws and regulations. Accordingly, the Utilities take issue with the intervenors' diminishing of the hundreds of pages of data and analyses gathered, developed, and presented by Fleet Services in requesting the funding needed to meet their responsibilities.

Another criticism comes from Cal Advocates when it derides both Companies for tracking actions to keep Fleet Services spending within the limits set forth in the 2019 GRC. Cal Advocates proclaims that if SoCalGas and SDG&E had "added vehicles when needed, rather than curtail spending resulting in under-procurement, then that is the nature of ratemaking."[2162] TURN falsely declares that the Companies blame the Commission for their inability to procure and replace vehicles when needed, because the 2019 GRC "represents some sort of hard and fast funding level above which they cannot spend."[2163]

For the reasons stated herein and in the Opening Brief, SoCalGas Fleet Services and SDG&E Fleet Services respectfully request that the Commission grant their full TY 2024 forecast requests.

24.1 SoCalGas Fleet Services

24.1.1 The Intervenors Have Failed to Provide a Compelling Reason for Reducing SoCalGas Fleet Services' Lease and License Forecast Request

Cal Advocates wants the Commission to reduce SoCalGas Fleet Services' lease and license O&M forecast from $48.333 million to $29.069 million, arguing that the reduced amount "is based on 2020 recorded adjusted as this represents the highest costs of SCG's recorded years."[2164] This over-simplified view of SoCalGas's vehicle procurement approach ignores how SoCalGas's financial commitment for these vehicles extends into future years and that 2020 recorded costs do not account for these future costs.[2165] Not only have vehicle prices increased tremendously since

[2162] Cal Advocates OB at 221-222, 226.

[2163] TURN OB at 295.

[2164] Cal Advocates OB at 221.

[2165] Ex. SCG-218 (Franco) at 5.

2020,[2166] but as inflation rose, so did interest rates for financing these vehicles.[2167] In addition, as SoCalGas's Fleet Services witness Michael Franco stated in his rebuttal:

> 2020 adjusted-recorded figures do not present a true depiction of SoCalGas's 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. In addition, in some instances, the orders that SoCalGas was able to place were canceled by the vehicle manufacturers. 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.[2168]

The COVID-19 pandemic that seized the world in 2020 had disrupted normal business operations and caused supply chain delays on a global scale, affecting many industries including the automotive industry. Consequently, vehicle orders that SoCalGas placed in 2020 could not be fulfilled in 2020 and, therefore, their costs were not recognized until months, sometimes years later when SoCalGas eventually took delivery of these vehicles. Therefore, while 2020's actual costs may be SoCalGas's highest of its recorded years, these costs paint an incomplete picture of SoCalGas's future needs.

TURN proposes reducing the same forecast to $33.317 million by removing 50% of SoCalGas's planned replacements, 100% of its incremental vehicles, and 100% of its HFCEVs, asserting that SoCalGas's forecast is "overly aggressive when compared with historical norms."[2169] But TURN does not identify how SoCalGas should handle the need to replace aging vehicles with only half the funding to do so, given that 71% of SoCalGas's fleet is eight years or older,[2170] and continued replacement deferral is neither prudent nor cost-effective.

TURN also ignores the need for SoCalGas to decarbonize its fleet and replace its petroleum-fueled vehicles with zero-emission vehicles (ZEVs) and alternative-fuel vehicles (AFVs), such as battery-electric vehicles (BEVs), renewable natural gas vehicles (RNGVs), and

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2166 *Id.*

2167 *Id.* at 6.

2168 *Id.* at 5.

2169 TURN OB at 282.

2170 Ex. SCG-18-R-E (Franco) at 2, Table MF-2.

HFCEVs. As stated in SoCalGas and SDG&E's Opening Brief,[2171] the need to decarbonize the fleet is driven by the California Air Resources Board's (CARB) Advanced Clean Truck Regulation[2172] which accelerates the transition to emissions-free medium-duty and heavy-duty trucks, and California Governor Gavin Newsome's Executive Order[2173] which mandates that all new cars and light-duty vehicles sold in the state be emissions-free by 2035. TURN is silent as to how SoCalGas is supposed to comply with these requirements and meet the State's climate goals without the full funding needed to do so.

Finally, Cal Advocates and TURN oppose funding the incremental vehicles needed by the incremental projects and FTEs that they did not object to funding for. Cal Advocates specifically objected to funding "440 of the 482 incremental vehicles associated with operating departments incremental FTEs, programs or projects…."[2174] However, Cal Advocates and TURN they did not oppose these incremental requests for the underlying work. Opposing the needed vehicles for work that you acknowledge must be done creates challenges for completing the additional work. By contrast, "SoCalGas is consistent when aligning Fleet's incremental vehicle requirements with SoCalGas's incremental workforce requests by other SoCalGas witnesses responsible for operating functions."[2175] SoCalGas wants to avoid what happened when the 2019 GRC decision disallowed funding for incremental vehicles while allowing funding for the incremental FTEs. "This forced individual business units within SoCalGas to rent vehicles to meet their workforce needs and spend over $6.2 million on rental costs over the past three years, which could have been used towards incremental vehicle purchases."[2176] SoCalGas urges the Commission not to accede to Cal

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2171 SCG/SDG&E OB at 577.

2172 13 CCR §§ 1963-1963.5; 13 CCR §§ 2012-2012.2; *see* 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.

2173 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.

2174 Ex. SCG-218 (Franco) at 10.

2175 *Id*.

2176 *Id*.

Advocates' and TURN's short-sighted proposals to deny SoCalGas's funding request for incremental vehicles and replacement vehicles.[2177]

24.1.2 The Intervenors' Bias Against HFCEVs and RNGVs in Favor of BEVs Will Impede SoCalGas's Efforts at Transitioning to a Safe and Efficient Fleet While Achieving the State's Climate Goals

Four intervenors oppose SoCalGas's proposal to produce and utilize hydrogen as an alternative motor vehicle fuel, with two of them not directly objecting to the acquisition of HFCEVs. Air Products, for example, questions the need to construct a dedicated hydrogen refueling station, although it "does not take a position on the reasonableness of the [Companies'] request to acquire HFCEVs."[2178] And while EDF's opening brief criticizes both Companies' hydrogen projects, it barely mentions HFCEVs.[2179]

Both TURN and CEJA, however, reject SoCalGas's entire HFCEV procurement strategy, proclaiming with no proof that SoCalGas's plan "is designed to serve its shareholders' interest in justifying costly refueling infrastructure at the expense of ratepayers, public health, and the environment."[2180] They also declare without evidence that "[b]usinesses overwhelmingly choose to decarbonize their fleets with BEVs instead of hydrogen vehicles,"[2181] and that BEVs are supposedly "less costly to fuel and maintain" than HFCEVs.[2182]

In its testimony and in its opening brief, CEJA cites a Volkswagen online marketing brochure that BEVs are more energy efficient than HFCEVs,[2183] and yet that same marketing brochure acknowledges that HFCEVs have a role to play "in long-distance and heavy-duty traffic."[2184] CEJA also criticizes SoCalGas's proposed acquisition of RNGVs, claiming that it is

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2177 TURN states in its Opening Brief that SoCalGas erred by including short-term rental costs in a business unit's O&M forecast, but this alleged double-counting has since been remedied, as TURN acknowledges. See TURN OB at 293-294.

2178 Air Products OB at 36.

2179 EDF OB at 26.

2180 CEJA OB at 67.

2181 *Id.* at 69.

2182 *Id.* at 70.

2183 *Id.* at 71 (*citing* Ex. CEJA-01, CEJA Testimony at 65:18–21 (*citing* Volkswagen, Battery or fuel cell, that is the question (Mar. 12, 2020), https://www.volkswagen-newsroom.com/en/stories/battery-or-fuel-cell-that-is-the-question-5868).).

2184 Ex. CEJA-01 (Vespa/Gersen/Saadat/Baker) at 59.

inconsistent with the Commission's directive to "'sincerely explore what portions of its fleet could transition to either battery electric or hybrid electric vehicles.'"[2185]

SoCalGas challenges TURN's and CEJA's view that SoCalGas's HFCEV and RNGV procurement strategy should not be funded. SoCalGas submits that not only are both CEJA and TURN factually wrong about SoCalGas's clean vehicle strategy, but they are also misinformed about SoCalGas's fleet procurement goals.

First, CEJA and TURN have missed the fact that SoCalGas's clean vehicle procurement strategy already includes BEVs. As Mr. Franco stated:

> SoCalGas supports both battery electric vehicles and hydrogen fuel cell electric vehicles in its fleet. … To date, SoCalGas has 50 hydrogen fuel cell vehicles in its fleet and the utility has ordered over 200 battery electric vehicles. Currently, 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.[2186]

Indeed, despite the pandemic-induced supply chain disruption, SoCalGas was even "able to order 21 Ford E-Transit connect vans, 85 hybrid Ram pickups and 184 Chevy Silverado EVs."[2187]

SoCalGas is evaluating Ford's E-Transit van – a BEV – as a potential replacement for its gasoline and renewable natural gas-powered service vans. Although it has some concerns with the E-Transit van's limited range of 126 miles between charges, which could be further reduced by its added payload, the Company has nonetheless ordered 21 E-Transit vans.[2188] SoCalGas wants to explore "an option to pilot a 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."[2189] The fact that SoCalGas is studying these different ZEV and AFV demonstrates SoCalGas's "sincere[] explor[ation]" of alternatives – something that the intervenors fail to acknowledge, let alone recognize.

Second, CEJA and TURN are incorrect with respect to why SoCalGas is seeking to acquire RNGVs. SoCalGas did, in fact, "sincerely explore" BEVs and hybrid vehicles as possible platforms for its crew trucks which are used to perform utility work out in the field, such as main

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2185 CEJA OB at 74 (citation omitted).

2186 Ex. SCG-218 (Franco) at 11.

2187 *Id.* at 13.

2188 *Id.* at 16.

2189 *Id.*

line installations and pipe repairs, among others.[2190] "All of these [crew trucks] are built on 26,000-pound vehicles chassis that utilize up to three pieces of power take-off equipment such as backhoes, air compressors and welders."[2191] CEJA may have identified what they surmise are comparable BEVs and hybrid vehicles, but what "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."[2192] As Mr. Franco explained:

> Contrary to CEJA's testimony, there are currently no offerings for a 26,000-pound truck that runs on [electricity] with the option to power three separate pieces of PTO equipment utilized by SoCalGas. While there are EV powered fleet vehicles with available PTO equipment in this weight class, the available PTO options are for less demanding equipment such as bucket lifts and small electric generators, both of which do not meet SoCalGas's operational needs.[2193]

SoCalGas urges the Commission to disregard both TURN's and CEJA's inaccurate description of SoCalGas's overall ZEV and AFV procurement strategy.

Third, CEJA and TURN are incorrect about state policy concerning HFCEVs and RNGVs. HFCEVs are ZEVs just as much as BEVs, and RNGVs are AFVs; and the State of California's climate policy promotes and encourages all forms of ZEVs and AFVs:

> 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.[2194]

This position, consistent with state policy, is contrary to TURN's and CEJA's predisposition towards BEVs. While light-duty BEVs may currently appear to be relatively ubiquitous and cheaper compared to HFCEVs, that in itself does not discount the overall feasibility of HFCEVs

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2190 *Id.* at 15.

2191 *Id*.

2192 *Id*.

2193 *Id.* at 16.

2194 Ex. SCG-218 (Franco) at 11, (*quoting* 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).

given the demanding light-duty and medium-duty vehicle needs of utilities such as SoCalGas. HFCEVs have longer ranges than BEVs and take minutes to refuel, while BEVs can take up to several hours to recharge depending on the charging station.[2195] These are critical operational issues that transcend short term costs.

To ensure safety, reliability, and responsiveness, particularly during emergencies and power shutoff events, SoCalGas, therefore, requests that the Commission dismiss TURN's and CEJA's opposition and grant SoCalGas's full forecast request for procuring HFCEVs and RNGVs, in addition to its plans to procure BEVs.

24.1.3 Cal Advocates' Proposed Reduction to SoCalGas's Fleet Maintenance Operations Costs Should Be Rejected

Cal Advocates' proposed reduction to SoCalGas's Fleet Maintenance Operations costs is only 2% lower than SoCalGas's request, primarily because the reduction was initially based on a laptop and training cost calculation error which SoCalGas subsequently corrected.[2196] Nonetheless, Cal Advocates also wants to reduce maintenance operations costs associated with incremental vehicles,[2197] predicated on its argument that if SoCalGas does not get approval to procure incremental vehicles, then it should not receive funding for their maintenance costs. SoCalGas requests that the Commission reject such a reduction in maintenance costs. If SoCalGas's business units' incremental projects and FTEs get approved, then forecast costs for the incremental vehicles needed for these projects and FTEs should also get approved together with their maintenance costs. If both incremental vehicles and maintenance are not approved, then the approved incremental projects will be burdened with unplanned vehicle rental and fuel costs. Further, if only the vehicles are approved yet incremental maintenance costs are not approved, then the approved incremental projects will still be burdened with the unplanned cost to maintain the incremental vehicles. These unplanned vehicle rental and maintenance costs will negatively affect the success and completion of these approved incremental projects. Therefore, SoCalGas urges that the Commission approve both the incremental vehicle and maintenance costs if the Commission also approves the associated incremental projects and FTEs.

[2195] *Id.* at 11.

[2196] *Id.* at 17-18.

[2197] Cal Advocates OB at 224.

24.1.4 Cal Advocates' Proposed Reduction of SoCalGas's Telematics Funding Request Should Also Be Rejected

Cal Advocates is recommending a reduction of $881,000 from SoCalGas's Telematics subscription request of $2.635 million, primarily because SoCalGas has found a lower cost vendor. SoCalGas, however, requests the Commission to approve the full amount requested, because the additional funds will enable SoCalGas to add video capabilities which would further enhance the safety and training of its drivers.[2198]

24.2 SDG&E Fleet Services

24.2.1 The Intervenors Have Provided No Compelling Rationale for Reducing SDG&E's Fleet Services' Lease and License Forecast Request

Cal Advocates requests the Commission to reduce SDG&E Fleet Services' lease and license O&M forecast from $24.050 million to $16.660 million, arguing that the reduced amount "is based on 2020 recorded adjusted [sic] as this represents the highest recorded year's costs."[2199] Cal Advocates generally argues that in the past SDG&E had always requested sums higher than what it was eventually granted, and despite those reduced sums, SDG&E still managed to stay below such limits.[2200] Cal Advocates also asserts without proof that SDG&E's forecasting methodology "is unreliable notwithstanding the purported support and any rationale."[2201]

SDG&E submits that this forecast reduction is flawed, given that Cal Advocates' proposed sum of $16.660 million is not even enough for SDG&E to cover its existing lease obligations which total at least $18.7 million.[2202] This would also mean cancelling vehicle orders, including ZEVs and AFVs, which would undermine SDG&E's sustainability efforts and contravene the State's climate goals.[2203] Furthermore, Cal Advocates' seems to have missed the "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

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[2198] Ex. SCG-218 (Franco) at 21.

[2199] Cal Advocates OB at 226 (citation omitted).

[2200] *Id.*

[2201] *Id.*

[2202] Ex. SDG&E-222-E (Alvarez) at 10.

[2203] *Id.*

asset in support of SDG&E's Lease & License forecast of $23.824 million."[2204] If Cal Advocates analyzed each of these vehicle data points which SDG&E assembled, then it would understand why SDG&E needs its full TY 2024 lease and license cost forecast request approved.

TURN argues that the same forecast should be reduced to $20.027 million by removing 75% of SDG&E's planned replacements and 100% of its incremental vehicles, asserting that SDG&E's forecast is "overly aggressive when compared with historical norms."[2205] For instance, TURN is contending that while SDG&E historically replaced an average of 72 vehicles a year, SDG&E is now proposing to triple that amount to replacing 226 vehicles a year, including 285 in 2024.[2206] TURN also wants to disallow $900,000 that SDG&E is requesting for incremental vehicles.[2207]

However, that TURN – like Cal Advocates – failed to examine the data and analyses provided by SDG&E for each vehicle it wants to replace or acquire as an incremental vehicle. "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."[2208] Furthermore, because TURN did not object to the Company's incremental FTEs and projects that trigger the need for incremental vehicles, it has no basis for eliminating 100% of the incremental vehicles requested. Indeed, some of those incremental vehicles are "fully electric medium- and heavy-duty aerial utility trucks,"[2209] intended for a pilot study in furtherance of SDG&E's and the State's sustainability and climate change goals. "Should TURN's recommendation be adopted, the result would be limiting SDG&E's ability to replace internal combustion engines (ICE) vehicles with BEV, Hybrid Electric, and Hydrogen Fuel Cell Electric Vehicle (HFCEV's), which supports the State's climate goals."[2210]

2204 *Id.* at 7.

2205 TURN OB at 282.

2206 *Id.* at 295.

2207 *Id.* at 292.

2208 Ex. SDG&E-222-E (Alvarez) at 7.

2209 *Id.* at 13.

2210 *Id.* at 21.

SDG&E submits that Cal Advocates and TURN have failed to provide any evidence as to why such reductions in SDG&E's lease and license costs are necessary. SDG&E, therefore, requests that the Commission reject Cal Advocates' and TURN's proposed reductions and grant SDG&E's TY 2024 lease and license cost forecast request in full.

24.2.2 CEJA's Objection to SDG&E's Proposal to Pilot Six HFCEVs for $26,000 in TY 2024 is Devoid of Reason and Should Be Rejected

CEJA inexplicably opposes SDG&E's request for $26,000 in TY 2024 to acquire and pilot test six HFCEVs. CEJA claims that HFCEVs "have significant cost, maintenance and efficiency disadvantages when compared with BEVs."[2211] Whether or not that is true, given SDG&E's specific needs as a utility, however, is all the more reason why SDG&E needs to acquire and study these HFCEVs.[2212] SDG&E agrees with CEJA that BEVs are generally cheaper than HFCEVs, but it needs to conduct this pilot study to determine if HFCEVs "could be a viable alternative to convert existing ICE vehicles to zero emission vehicles where existing or future BEV options do not meet SDG&E's operational needs such as vehicles that 'require long duty cycles and short refueling times,' vehicles with towing demands and or cargo capacity not available as BEVs, or hybrid electric offerings."[2213]

Therefore, SDG&E respectfully requests that the Commission dismiss CEJA's objection and grant SDG&E the $26,000 it needs to conduct this HFCEV pilot study.

24.2.3 Cal Advocates' Proposed Reductions in SDG&E's Maintenance and Fuel Cost and Garage Operations Costs are Without Merit and Should be Rejected

Cal Advocates proposes a reduction in SDG&E's maintenance and operations costs, garage operations costs, and fuel costs from a total of $25.123 million to $19.481 million, a reduction of $5.642 million.[2214] They argue, first, that SDG&E's automobile fuel cost forecast is too high, because it "is based on the price of fuel when fuel costs were at an excessively high level."[2215] Secondly, SDG&E's garage operations costs are based on maintenance costs associated with

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2211 CEJA OB at 76.

2212 Ex. SDG&E-222-E (Alvarez) at 25.

2213 *Id.*, (citation omitted).

2214 Cal Advocates OB at 227.

2215 *Id.*

incremental vehicles that Cal Advocates is opposing, because "SDG&E presented no proof that these additional vehicles will be added outside an overly aggressive vehicle forecast."[2216]

In response, SDG&E does not dispute the allegation that its automobile fuel forecast is high; it is high, because when SDG&E submitted its fuel forecast for TY 2024, the fuel prices at the time were high. SDG&E should not be faulted for taking a conservative, yet reasonable approach for calculating fuel prices.[2217] Indeed, Cal Advocates' own testimony showed that fuel costs went even higher months after SDG&E submitted its fuel forecast which was based on the March 2022 average cost of $5.665 a gallon. According to Cal Advocates, average fuel costs increased after 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.[2218] No one, including Cal Advocates, can guarantee that fuel prices will not increase in TY 2024 and beyond; therefore, SDG&E's reasonable fuel forecast should remain intact.

SDG&E disputes Cal Advocates' reduction in garage operations costs, because the "overly aggressive" cost forecast was based on incremental vehicles which Cal Advocates is opposing. Cal Advocates, however, failed to contest the incremental projects and FTEs that trigger the need for these incremental vehicles. Because it did not object to these incremental projects and FTEs, Cal Advocates has no reasonable basis to object not only to the incremental vehicles needed by these incremental projects, but also to the fuel costs and maintenance costs associated with these incremental vehicles.

SDG&E respectfully requests that the Commission reject Cal Advocates' proposed reductions to SDG&E's garage operations costs and fuel costs, and grant SDG&E's full forecast of $25.123 million.

2216 *Id.* at 228.

2217 Ex. SDG&E-222-E (Alvarez) at 15-16.

2218 Ex. CA-11 (Waterworth) at 28, Table 11-17 (California All Grades All Formulations Retail Gasoline Prices 2019-2022).

24.3 Salvage Process

24.3.1 The Companies Urge the Commission to Admonish TURN and Reject TURN's Preposterous Assertion that the Companies Remain Responsible for the GHG Emissions from the Vehicles Sold for Salvage

TURN makes the bizarre claim in its Opening Brief that both SoCalGas and SDG&E should be held accountable for the GHG emissions from the vehicles they have sold for salvage so that they can be replaced with ZEVs and AFVs. TURN alleges that the Companies' salvage process involves selling the vehicles "to recipients who intend to leave the GHG-producing vehicles in service, rather than demolish them and remove their GHG production altogether."[2219] TURN bases this allegation on its review of the web pages of the purchasers of these vehicles, indicating that these purchasers are in the business of selling used trucks and equipment.[2220] According to TURN, neither SoCalGas nor SDG&E "can reasonably claim that the slowdown of vehicle replacements represented by TURN's recommendations will result in direct prevention of GHG reductions, given that the vehicles will remain in use after the utilities complete the salvage process."[2221] Therefore, TURN recommends that the Companies continue to operate their vehicles beyond their useful lives, because it is "simply not reasonable to remove vehicles from California utility service prematurely to chase phantom GHG reductions."[2222]

SoCalGas and SDG&E strongly object to the characterization. There is no authority, law or regulation that says the seller of a vehicle remains responsible for the emissions from the purchaser's use of that vehicle. Furthermore, TURN's argument is entirely speculative and based on an extreme assumption that is not supported by any evidence: TURN assumes that resale of the utility used vehicles would be environmentally worse than salvaging the vehicle. Without any evidence to support this supposition, the argument cannot be entertained. Moreover, TURN never raised this argument previously, and therefore SoCalGas and SDG&E have not had an opportunity to provide evidence to the contrary.

Notwithstanding the foregoing, if the Companies were to operate their fleet vehicles to the point where the vehicles have to be demolished once they have been replaced, as TURN

2219 TURN OB at 287 (citation omitted).

2220 *Id.* at 287-288, and n.950.

2221 *Id*. at 288.

2222 *Id*.

recommends, then that would mean putting utility workers, pedestrians, as well as customers at risk. Accidents can and would happen more often if vehicles are operated way beyond their useful and safe lives. Repairs to power lines and pipelines cannot be completed in time when fleet vehicles are malfunctioning due to age or are simply unavailable due to breakdowns.

Therefore, SDG&E and SoCalGas respectfully request that the Commission ignore TURN's irresponsible recommendation.

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, designing, constructing, and maintaining real estate and facility assets, including the work environments for their employees, in support of the delivery of safe, reliable, and efficient utility services.

Cal Advocates, TURN, and CEJA each dedicated portions of their Opening Briefs in response to SoCalGas's RE&F revenue request. Only Cal Advocates submitted an Opening Brief addressing SDG&E's REL&F revenue request. The parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have previously presented. With the sole exception of CEJA's spurious Rule 1 argument addressed below, all of the arguments put forth in these intervenors' Opening Briefs have been directly addressed in SoCalGas's and SDG&E's respective Rebuttal Testimonies[2223] and Opening Briefs.[2224] Accordingly, SoCalGas and SDG&E summarize only the key positions raised by these parties. SoCalGas's RE&F forecasts and SDG&E's REL&F forecasts should be adopted by the Commission as reasonable for the reasons stated herein and in the Opening Brief.

25.1 SoCalGas RE&F Operations and Maintenance (O&M) - Shared And Non-Shared Expenses

25.1.1 No Intervenor Dispute

Neither Cal Advocates nor any other intervenor has disputed or commented on SoCalGas's forecast for RE&F Shared and Non-Shared O&M expenses. The Commission should adopt SoCalGas's forecast as just and reasonable.

2223 *See* Ex. SCG-219-E (Guy); Ex. SCG-19-R-2E (Guy); Ex. SDG&E-223 (Tattersall); Ex. SDG&E-23 (Tattersall).

2224 SCG/SDG&E Opening Brief at 590-603.

25.2 SoCalGas RE&F Capital Forecast

25.2.1 Control Center Modernization - Tier 2 Advice Letter Proceeding is Unnecessary and Burdensome

SoCalGas's total request for funding of the Control Center Modernization (CCM) project is \$7.108 million in 2022, \$29.825 million in 2023, and \$40.281 million in 2024. SoCalGas is seeking approval of incremental funding for the relocation of its Gas Control facility. The project as designed includes the construction of a new 68,000 square foot facility located at SoCalGas's Pico Rivera facility. Cal Advocates does not challenge the underlying need, scope, or justification for the CCM project. Rather, they suggest the project be deferred for Commission approval through a Tier 2 advice letter based solely on the "possibility" of the project going into the post-test year.[2225] It should be noted that Cal Advocates did not, in the alternative, challenge the revenue request submitted by SoCalGas.

Cal Advocates provides no meaningful substantiation for its speculation that SoCalGas may not complete the project within TY2024. The relocation project was authorized in the last GRC cycle; however, SoCalGas provided a clear explanation of the reasons the project was originally delayed, including that consolidation planning resulted in additional factors that needed to be addressed in the strategic implementation and design of the new facility.[2226] SoCalGas provided detailed further assurances that each of the possible bases for construction delay had already been considered, and each one has been and continues to be proactively addressed with the contractor.[2227] SoCalGas has been and remains committed to have the CCM building in service in TY 2024.[2228] Accordingly, Cal Advocates recommendation for deferral of cost recovery to a Tier 2 advice letter should be disregarded, as there is no evidence supporting a separate approval process. Moreover, deferral would simply create an unnecessary, additional burden on the Commission for a project that has been demonstrated to be justified and reasonable.

As an aside, Cal Advocates erroneously notes that SoCalGas has no plans for the disposition of the current control site once the CCM project is completed.[2229] Cal Advocates fails

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[2225] Cal Advocates OB at 230.

[2226] *See* Ex. SCG-19-R-2E (Guy) at 27; Ex. SCG-06-2R-E (Chiapa/Hruby/Bell) at 35-38.

[2227] Ex. SCG-219-E (Guy) at 9-11.

[2228] *Id*.

[2229] Cal Advocates OB at 230 (Note there is an incorrect reference to "SDG&E" rather than "SCG.")

to note the detailed explanation SoCalGas provided in its Rebuttal Testimony.[2230] Specifically, SoCalGas identified critical transmission and distribution infrastructure that will need to be maintained at the existing Gas Control facility, as well as use of the facility as a back-up location for Control Room operations and training. That said, disposition of the existing Gas Control facility should not have any bearing on the Commission's approval of SoCalGas's forecasted costs for the CCM project.

25.2.2 The Hydrogen Refueling Station at Pico Rivera Will Provide a Reliable and Efficient Source of Fuel to Support a Diverse and Reduced Emissions Fleet

The Hydrogen Refueling Station at Pico Rivera is an integral component of SoCalGas's commitment to support the State's goals to address climate change air quality and reliance on fossil fuels, as well as SoCalGas's goals to achieve a 100% zero emissions over-the-road vehicle fleet by 2035. In furtherance of those goals, SoCalGas anticipates its fleet will include over 3,000 hydrogen fuel cell electric vehicles (HFCEVs). The Pico Rivera Hydrogen Fueling Station will be centrally located to serve the more populus areas within the SoCalGas territory -- Los Angeles and Orange Counties. To support the transition to zero-emissions fleet, SoCalGas is committed to operating and maintaining a reliable and effective infrastructure to fuel its hydrogen powered vehicles, and the Pico Rivera station will service this purpose. For a more detailed discussion of SoCalGas's fleet goals, *see* the Fleet Services testimony of Michael Franco[2231] and Section 24.1.1.1 of the SCG/SDG&E Opening Brief for Fleet,[2232] and for the Clean Fuels Transportation Program, see the Clean Energy Innovations testimony of Armando Infanzon[2233] and Section 18.1.5.1 of SoCalGas and SDG&E's Opening Brief.[2234]

Cal Advocates opposes this project, arguing SoCalGas has access to hydrogen refueling stations within its territory and that "the market" is expanding in this area.[2235] Cal Advocates provides no data to support their assumption that existing or future hydrogen stations can provide the access and reliability SoCalGas needs to operate the number of HFCEVs SoCalGas has or will

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2230 Ex. SCG-219-E (Guy) at 11.

2231 Ex. SCG-18-R-E (Franco) at 9-12.

2232 SCG/SDG&E OB at 577-586.

2233 Ex. SCG-12-R (Infanzon).

2234 SCG/SDG&E OB at 259-62.

2235 Cal Advocates OB at 230.

have in its fleet. In fact, Cal Advocates expressly acknowledges the issues SoCalGas raised relating to capacity constraint and lack of reliability, posing a risk to customer response times and emergency support.[2236] They further recognize SoCalGas's ability to alleviate these issues by on-site hydrogen production at its own hydrogen refueling facility.[2237] Cal Advocates' opposition is not supported by any data, nor does Cal Advocates actually challenge the very issues and benefits driving the need for the Pico Rivera Hydrogen Refueling Station.

CEJA also opposes the need for the Pico Rivera Hydrogen Refueling Station based on the erroneous conclusion that the acquisition of hydrogen vehicles violates Commission direction.[2238] Among other things, this position completely ignores the California Department of Energy's statement that "hydrogen fuel cell electric vehicles are critical to the state's goal of getting 1.5 million zero-emission vehicles on the California roads by 2025" and that "[hydrogen fuel cell vehicles] are also a vital part of the states work to achieve its climate change goals, improve air quality and reduce reliance on fossil fuels."[2239] SoCalGas's detailed response to this assertion by CEJA is addressed by Fleet Services in its Opening Brief,[2240] as well as in Section 24, above.

CEJA goes on to challenge this project arguing battery electric vehicles (BEVs) offer superior ratepayer benefits.[2241] CEJA speculates that the hydrogen refueling station will be "underutilized as BEVs continue to move into medium- and heavy-duty market segments."[2242] Yet, CEJA provides no data to support the assumption that such vehicles will be available at all, much less in any time frame that will support the critical, on-going activities of gas construction and operations. SoCalGas has confirmed that BEVs on the market are simply not equipped for such purposes.[2243] Moreover, SoCalGas has identified the need to diversify its clean vehicle fleet and forewarned of the dangers of over-reliance on BEVs. Specifically, BEVs may be inferior in

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[2236] *Id*. at 231.

[2237] *Id.* at 231.

[2238] CEJA OB at 83-87.

[2239] California Energy Commission (CEC), *Hydrogen Vehicles & Refueling Infrastructure*, *available at:* https://www.energy.ca.gov/programs-and-topics/programs/clean-transportation-program/clean-transportation-funding-areas-1.

[2240] SCG/SDG&E OB at 585.

[2241] CEJA OB at 84.

[2242] *Id*.

[2243] Ex. SCG-219-E (Guy) at 22.

responding to customer and public needs in emergency situations when there may be insufficient time or available capacity to charge electric vehicles.[2244] In time-sensitive emergencies, such as Public Safety Power Shutoff (PSPS) events, disaster support, and mutual assistance event, HFCEVs can be fueled in less than five minutes, whereas a "fast" charging BEV truck would require a charging time of 41 minutes.[2245] Moreover, although SoCalGas is also pursuing BEV technology, neither the BEV charging infrastructure nor the electric grid can be relied on to support statewide electrification, posing additional concerns about relying solely on BEVs. The benefits to both SoCalGas ratepayers and the general public of a diversified clean vehicle fleet is undeniable. To support that diversified fleet, the Pico Rivera station provides a dedicated, centralized hydrogen fueling station with the ability to produce fuel on-site and a back-up source of electric power in the event of regional electrical outages. Accordingly, this project is, in turn, also in the beneficial interest of the ratepayers and general public.

CEJA also objects to the addition of this dedicated hydrogen station because new stations are expected to be built by private entities and the current "network" of such stations is "underutilized."[2246] Despite the purported anticipated increase in hydrogen stations, it is unclear that additional stations will be available in the immediate future, where they will be located, or that such stations will have sufficient capacity to address the needs of a utility fleet, particularly in the event of an emergency. SoCalGas has clearly demonstrated the fact that the "network" of hydrogen stations remains insufficient and unreliable. A prime example was shared during the oral testimony provided by Brenton Guy, wherein he noted that, despite attempts to locate the Company's hydrogen vehicles in reasonable proximity to at least two existing public hydrogen refueling stations, the Company is regularly finding that those stations are either closed or out of fuel.[2247] In fact, approximately 25% of existing hydrogen stations were not operational as of that morning.[2248] The time spent searching for available fuels, including additional wait times associated with fewer operational stations, all result in increased costs to the ratepayers, as well as increased risk to ratepayers and the general public due to substantially reduced response time and

[2244] *Id.* at 23.

[2245] *Id*. at 23.

[2246] CEJA OB at 84-85.

[2247] *See* Tr. V20:3582:19-3583:14 (Guy).

[2248] *Id.* at 3583:10 (Guy).

vehicle availability. The reliability afforded by the on-site Pico Rivera station provides an important, and potentially critical, benefit to the ratepayers and general public, as the Company diversifies its fleet to meet the state's clean fleet goals.

CEJA further objects to the Pico Rivera station because they believe it gives an unfair advantage to SoCalGas over other independent developers.[2249] It is unclear why CEJA contorts the benefit of low hydrogen fuel pricing and reliability that the Pico Rivera station offers for the benefit of ratepayers and the public in defense of "industry giants" like Chevron and Shell.[2250] While the station is intended to be open for public use, the priority and intended majority of use of the facility will be for the SoCalGas HFCEV fleet, in which case lower fuel costs are directly beneficial to the ratepayers. As noted in Section 18, fuel prices for public access will be addressed in the Cost Allocation Proceeding. Moreover, SoCalGas's installation of a single hydrogen refueling facility should have no chilling effect on the ability of independent developers to enter the hydrogen refueling market.

Finally, TURN is concerned that the Hydrogen Refueling Station at Pico Rivera is to be located in an ESJ Community, thereby "running afoul" of the Commission's Environmental and Social Justice Action Plan (ESJ Action Plan) and would necessarily cause harm to the community.[2251] On the contrary, as one of its nine goals, the ESJ Action Plan explicitly encourages regulated entities to "[c]ontinue to make prioritized resilient, clean energy investments in ESJ communities."[2252] Moreover, the ESJ Action Plan states that "consumer's life choices have many different factors, not focused on one specific issue."[2253] Thus, while clean energy investments may include BEV charging stations, as preferred by TURN, hydrogen refueling facilities offer greater choice for consumers in the area by providing infrastructure support to those consumers who may elect to drive an HFCEV.

As part of its ESJ argument, TURN makes unsubstantiated claims that Pico Rivera station will increase traffic and, therefore, pollution. In fact, to the contrary, SoCalGas's replacement of many gasoline and diesel powered fleet vehicles with HFCEVs is intended to reduce overall

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2249 CEJA OB at 86-87.

2250 *Id.*

2251 TURN OB at 298 (citing to Section 4.1 of TURN OB at 18-42).

2252 CPUC, Environmental & Social Justice Action Plan, Version 2.0, April 7, 2022, at 24.

2253 *Id.* at 63.

vehicle emissions in support of the state's zero emission vehicle goals and consistent with the ESJ Action Plan. TURN's broad assertion that the hydrogen station will necessarily exacerbate pollution, creating health and safety concerns, is also unsubstantiated.[2254] SoCalGas will be meet all applicable local, state, and federal requirements, but it should also be noted that SoCalGas has confirmed the Pico Rivera station will be constructed to meet the California Air Resources Board Zero Emission Vehicle Fueling Infrastructure requirements.[2255]

CEJA also points to the ESJ Action Plan, stating that it is not clear how hydrogen is expected to be produced at the Pico Rivera site and encourages the Commission to presume the facility will employ steam methane reform (SMR) technology. This presumption would be an error because the proposed HRS is designed to use an electrolytic system, not SMR. That said, should SoCalGas find a need for additional hydrogen stations in the future, SoCalGas believes stations using SMR or other technologies is appropriate and in line with State policy as long as they generate clean, renewable hydrogen.[2256]

SoCalGas has demonstrated that the Hydrogen Refueling Station project at Pico Rivera does not contravene the Commission's prior directives or ESJ Action Plan and will provide a reliable and efficient refueling source for SoCalGas's HCEV fleet.

25.2.3 RNG Refueling Provides the Necessary Infrastructure to Support a Diverse Fleet While SoCalGas Transitions to a Zero Emissions Fleet

SoCalGas reiterates its commitment to its zero emissions fleet vehicle goals, including the use of alternative fuel vehicles such as renewable natural gas vehicles (RNGVs), which operate on up to 95% lower emissions than gasoline or diesel fueled vehicles.[2257] It is necessary to continue to support the RNG vehicles in SoCalGas's fleet, both currently existing and contemplated. To do so, SoCalGas must invest in upgrades to its existing aging refueling infrastructure and position additional stations in locations where new RNG vehicles will be most beneficial.[2258] Both Santa

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2254 TURN OB at 22. It should also be noted that the proper forum for addressing traffic, health, and safety concerns is at the time of project permitting, when the lead agency addresses these issues in the context of review under the California Environmental Quality Act (CEQA).

2255 Ex. SCG-19-R-2E (Guy) at 37, n.21 (noting the hydrogen fuel dispensed at utility stations will meet the carbon intensity requirements of Cal. Code Regs., Tit. 17 § 95486.2(a)(4)(F)).

2256 "Clean hydrogen" includes green hydrogen and clean renewable hydrogen, consistent with D.22-12-055 at 66 (FOF 34) (*citing* 42 U.S.C. § 16166). *See* Ex. SCG-212 (Infanzon) at 2, n.2.

2257 *See* Ex. SCG-19-R-2E (Guy) at 36-37.

2258 *Id.*

Maria and Visalia have dozens of utility service body trucks and crew trucks that are eligible for replacement. BEV and HFCEV technology for these vehicles classes is not available on the market, and RNGVs provide a reliable and effective alternative for SoCalGas operations, while still supporting the use of lower-emission vehicles.[2259] On-site RNG refueling at these facilities eliminates non-productive drive time, added fuel costs, and vehicle maintenance necessitated by additional miles driven to source RNG fuel. Moreover, on-site fueling allows for increased response time in emergency situations, including PSPS events, disaster support, and mutual assistance events.[2260]

CEJA and TURN both assert that funding from the prior GRC for the development of new RNG refueling stations is not consistent with the Commission's ruling in that GRC.[2261] SoCalGas reaffirms its understanding that the Commission expected funding approved for natural gas vehicle (NGV) refueling stations would be used for repair and replacement of existing *private* facilities but, consistent with prior Commission decisions,[2262] would not restrict the utility from ratepayer-funded development of new utility-owned facilities on utility property to support alternative fuel fleet vehicles.

While SoCalGas does not deny the benefits of BEVs, SoCalGas must ensure a reliable and efficient fleet, including service vehicles capable of the tasks required to be performed for construction and operations. Even CEJA, in their argument that RNG vehicles should not be needed, confirms that the technology for certain specialty vehicles won't be available until 2030,[2263] though the types of such vehicles are unspecified and they fail to note that the time horizon does not include the actual development and field testing of vehicles to ensure reliability and efficiency. SoCalGas simply cannot rely on the expectations for BEV technology or that the electric grid and charging infrastructure will be sufficiently available and reliable to support its

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2259 *Id.*

2260 *Id.*

2261 *See* CEJA OB at 82; TURN OB at 31.

2262 *See, e.g.*, D.95-11-035 (Removing the authority existing at the time for SoCalGas to recover costs for NGV refueling facilities located on customer property through general rates, and permitting SoCalGas to continue to recover costs through general rates for fueling stations on utility property for the purpose of refueling utility vehicles); D.02-12-056 (Authorizing continued ratepayer funding of low-emission vehicle infrastructure where ratepayer benefit is to support federal mandates that a portion of utilities' fleet purchases must consist of alternative fuel vehicles).

2263 CEJA OB at 79.

entire fleet for routine and emergency purposes. Meantime, SoCalGas expects that it will need to continue to utilize thousands of RNGVs in its fleet over the next 20 years for emergency situations (including PSPS and mutual aid assistance). This need is expressly recognized by the California Air Resources Board's (CARB) Advanced Clean Fleet (ACF) Regulation, which has a 2045 goal for transitioning trucks and buses to zero emissions, where feasible.[2264] Until then, it is imperative that SoCalGas maintain a diverse fleet while it pursues its and the state's zero emission vehicle goals. It should be noted that SoCalGas's RNGVs will be operated and maintained within the requirements if the ACF Regulation, which includes limited use thresholds. To maintain its RNGV fleet, the most efficient and reliable source for RNG refueling is to position refueling infrastructure at the SoCalGas facilities where the vehicles are most heavily utilized and alternative refueling stations are least available. Those locations are the SoCalGas Santa Maria and Visalia base facilities.

CEJA and TURN both oppose the Santa Maria and Visalia RNG Refueling Stations on the basis they will be located in ESJ Communities.[2265] As noted above, the Commission's ESJ Action Plan encourages clean energy investments in ESJ Communities. Again, TURN's broad assertion that these stations will necessarily exacerbate pollution, creating health and safety concerns, is unsubstantiated.[2266] While CEJA "cherry picks" CARB data to argue the RNG stations would create "new pollution," the South Coast Air Quality Management District has criticized the CARB's misuse of such data, stating that when the data is appropriately presented, nitrogen-oxide (NOx) natural gas engines can provide significant emission benefits in comparison to diesel trucks. Also, compared to gasoline, compressed natural gas reduces carbon monoxide emissions by 95 percent.[2267] TURN even recognized the Commission's acknowledgment that, while full electrification is preferred in the long term, RNG is preferred over diesel and "other dirtier fuels."[2268] SoCalGas's increase in its RNGV fleet will, in fact, displace the higher emissions of

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2264 CARB, *Advanced Clean Fleets*, *available at:* https://ww2.arb.ca.gov/our-work/programs/advanced-clean-fleets/about.

2265 TURN OB at 19; CEJA OB at 79.

2266 TURN OB at 22. It should also be noted that the proper forum for addressing traffic, health, and safety concerns is at the time of project permitting, when the lead agency addresses these issues in the context of review under the California Environmental Quality Act (CEQA).

2267 *See* Ex. SCG-19-R-2E (Guy) at 36.

2268 TURN OB at 31.

both diesel and gasoline vehicles -- lowering the pollutants in the communities surrounding the Santa Maria and Visalia facilities. Thus, the use of RNGVs will result in a reduction of overall vehicle emissions in support of the state's zero emission vehicle goals and consistent with the ESJ Action Plan.

Finally, despite the efforts of TURN and CEJA to portray RNG infrastructure as a potentially stranded asset assuming the state achieves full electrification,[2269] the Commission has long recognized the need to continue to allow infrastructure funding to support the use of alternative lower-emission fuel vehicles.[2270] Note that CEJA points to the Commission's encouragement to move away from fossil fuel investment, but the very quote CEJA refers to clearly acknowledges that CARB's 100% percent zero emission medium and heavy duty vehicles goal is qualified "to the fullest extent feasible" and the risk of a stranded asset would occur *if* use of electric trucks continued to expand.[2271] The 20-year depreciation of the Santa Maria and Visalia RNG stations in 2044 would exactly coincide with CARB's 2045 goal, assuming usable electric truck technology is feasible by that time.

If SoCalGas is not able to develop the Santa Maria and Visalia refueling stations, it is likely that a higher percentage of medium- and heavy-duty gasoline and diesel vehicles will remain at the sites and continue to operate with higher emissions within the ESJ Communities. Moreover, if RNGVs and related infrastructure are disallowed, the transition to a zero emissions fleet would be slowed if feasible and reliable BEV technology and infrastructure is not realized before 2035. SoCalGas has demonstrated that the RNG Refueling Station projects at Santa Maria and Visalia do not contravene the ESJ Action Plan and will provide important infrastructure to support a diverse and reliable refueling source for SoCalGas's RNGV fleet.

For more details regarding SoCalGas's fleet requirements and goals, see the Fleet Services testimony of Michael Franco[2272] and Section 24.1.1.1 of SoCalGas and SDG&E's Opening Brief.[2273]

[2269] CEJA OB at 81; TURN OB at 32.

[2270] *See, e.g.*, D.95-11-035; D.02-12-056.

[2271] CEJA OB at 81.

[2272] Ex. SCG-18-R-E (Franco) at 9-12.

[2273] SCG/SDG&E OB at 577-586.

25.2.4 [H2] Innovation Experience (H2IE) formerly known as the [H2] Hydrogen Home

SoCalGas's capital forecast includes $4.573 million for costs associated with the H2IE project. CEJA objects to any funding of the H2IE, arguing that it does not benefit ratepayers and delays deployment of "alternative" technologies.[2274] CEJA also argues that SoCalGas has mislead the Commission as to the true costs of the H2IE project and urges the Commission to find SoCalGas in violation of Rule 1.1.

25.2.4.1 SoCalGas Has Demonstrated the Benefits of the H2IE to Ratepayers

The H2IE demonstrates the relevant energy options available to ratepayers based on their individual needs, while supporting local grid resiliency and reliability. The H2IE project fully aligns with the State's sustainable energy solutions, providing a state-of-the-art project that showcases the role hydrogen could play in attaining California's decarbonization goals. For a detailed description of the project and its benefits, as well as a detailed response to CEJA's concerns regarding ratepayer benefit, see Section 18.1 of SoCalGas's Opening Brief[2275] and this Reply Brief, as well as the original testimony of Armando Infanzon.[2276]

25.2.4.2 SoCalGas is Seeking Limited Funding in this GRC Cycle for the H2IE Home

From the outset of this proceeding, SoCalGas has limited its request for capital costs associated with the H2IE project to $4.573 million. SoCalGas has expressly stated the total cost of the project exceeds this request, a limited portion of the additional costs ($2.569 million) were expended from the TY 2019 GRC, and the remainder of the additional costs are not currently being sought in this GRC cycle.[2277]

CEJA takes the position that the H2IE project was simply an exercise in image building because SoCalGas provided information about the H2IE to the public through its website and other promotional means. As discussed in Section 18, SoCalGas has repeatedly demonstrated the ratepayer benefits of the H2IE project, and its announcement and showcasing of those benefits has

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[2274] CEJA OB at 87.

[2275] SCG/SDG&E OB at 244.

[2276] *See* Ex. SCG-12-R (Infanzon) at 56-58; Ex. SCG-212 (Infanzon) at 12.

[2277] Tr. V20:3540-3543 (Guy); Ex. CEJA-47, July 12, 2023, (Data Request CEJA-SEU-033 re Hydrogen Home).

no bearing on the appropriateness or reasonableness of the capital project costs. CEJA is misleading about which of the particular activities it identifies that were ratepayer funded.

SoCalGas has confirmed that the historical cost of $2,568,658 expended from the TY 2019 GRC is presented as part of this TY 2024 GRC request and is included in the rate base forecast. CEJA argues that such expenditure was not reasonable by improperly characterizing it as a "misallocation" and encourages the Commission to deduct this amount from SoCalGas's $4.573 million request. Yet, CEJA does not deny that SoCalGas has the authority to reallocate funds within its approved GRC cycle. They do, however, infer that SoCalGas is somehow obligated to identify the exact projects from which such funding is allocated. CEJA does not cite any authority or basis for this inference – it is simply attempting to attribute malfeasance on the part of SoCalGas. SoCalGas is not required to specify such details, nor would it even be reasonable or feasible to do so. No improper accounting or reallocation has occurred. The Commission should reject CEJA's request for a deduction of amounts previously reallocated.

CEJA also recommends the Commission disallow any future reallocation of funds from this GRC or any future rate case.[2278] This is both overreaching and unnecessary. SoCalGas has stated that the rate base associated with the total project costs in excess of the current request of $4.573 million is expected to be included in a future GRC. SoCalGas explained that the multiple factors resulting in project cost increases and recognized, consistent with the Commission's prior acknowledgement,[2279] that it would not be feasible or practical to update the revenue request in this GRC to address this increase.[2280] The Commission and intervenors will have a full visibility of the additional H2IE project costs in detail in that future GRC proceeding.

As further discussed in Section 18 or the Opening Brief and this Brief, the H2IE project is fully aligned to benefit ratepayers as a source of renewable and reliable energy. The request for $4.573 million in this GRC is warranted and justified and should be approved by the Commission.

2278 CEJA OB at 92-93.

2279 *See* D.19-09-051 at 60 ("[W]e 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.").

2280 SCG/SDG&E OB at 597.

25.2.4.3 CEJA's Allegation of a Rule 1.1 Violation in Connection with the Costs of the H2IE Home is Uninformed and Meritless

CEJA argues that the Commission should find that SoCalGas violated Rule 1.1 "by misleading the Commission" as to the "true costs" of the [H2] Innovation Experience ("H2IE" or "Hydrogen Home").[2281] While CEJA's opening brief indicates some lack of understanding as to how the GRC process determines the components of a utility's authorized revenue requirement, there is nothing in the record or the briefs of other parties to suggest that the Commission or its staff has been misled on this subject. SoCalGas's request in this GRC has been, and continues to be, for $4.573 million to support the capital expenditure activities to build the H2IE. CEJA's allegations are meritless.

SoCalGas included the H2IE project in its May 2022 TY 2024 GRC application seeking authorization to include the capital additions in rate base. Specifically, in Armando Infanzon's Revised Direct Testimony, he wrote, "In TY2024, SoCalGas is forecasting $4.573 million *to support the capital expenditure activities* to build the [H2] Hydrogen Home project . . . ."[2282] Additionally, Brenton Guy's Capital Workpapers reiterated the 2022 request of $4.573 million.[2283] Neither of these witnesses indicated that $4.573 million was the expected, final total cost of the project.

The H2IE project total costs continued to be reevaluated to consider the impacts of a series of market condition changes, which led to an increase in costs. Many factors contributed to the increase in costs, and these are not at issue in this proceeding. 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, "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."[2284] And while SoCalGas has not chosen to "constantly update data" for the application, it has kept parties apprised of the latest project cost

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[2281] CEJA OB at93.

[2282] Ex. SCG-12-R (Infanzon) at 56 (emphasis added).

[2283] Ex. SCG-19-CWP (Guy) at 43.

[2284] D.19-09-051 at 60.

estimates throughout the proceeding.[2285] Accordingly, the remaining project costs are not part of the pending Test Year 2024 GRC request but rather SoCalGas will defend and request recovery of these costs in a future GRC as explained in the supplemental response to CEJA-SEU-012, Question 1a.

CEJA's unfounded allegation of a Rule 1.1 violation is also based upon its claim that SoCalGas "improperly reallocated" funds approved in the 2019 GRC in order to recover costs for the H21E project that it had spent prior to the $4.573 million cost forecast. CEJA is mistaken. Despite CEJA's attempt to spin their confusion over cost recovery into a Rule 1.1 violation, SoCalGas has been consistent with what it is seeking in this GRC with respect to the H2IE. First, SoCalGas does not agree with the characterization of "improper" when referring to the approximately $2.5 million it reallocated in authorized 2021 revenue to cover early costs of the H2IE. From a ratemaking perspective, SoCalGas has the well-established management discretion to reallocate funds that are generated by currently approved rates.[2286] Nor is there any requirement that the utility must show what activities or projects have been eliminated or postponed by such a reallocation. SoCalGas does not dispute that revenues authorized in the Test Year 2019 GRC were re-prioritized to cover a portion of the cost of the H2IE project. Put quite simply, those costs were paid from authorized revenues or the project would have come to a halt. But there will not be an increase in rates because of H2IE until such costs are approved in this and subsequent rate cases.

Second, CEJA is wrong when it claims that SoCalGas "stated it would recover the remainder by reallocating funds approved in this GRC."[2287] The relevant CEJA data request asked "Does SoCalGas intend to reallocate funding approved in this GRC Application to cover the increased cost of the Hydrogen Home project?"[2288] The data request did not ask if SoCalGas intended to *recover* the remainder by reallocating funds approved in this GRC. In its initial response to CEJA, SoCalGas stated that it "intends to reallocate funding for the total project cost

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[2285] *See, e.g.*, Ex. CEJA-01, Attachment 2, at pdf pg. 103 (Response to Data Request CEJA-SEU-004, Question 32(c)); *Id.* at pdf pg. 168 (Response to Data Request CEJA-SEU-007, Question 6); Ex. CEJA-01, Attachment 47, at pdf pg. 6 (Response to Data Request CEJA-SEU-033, Question 3b); SCG/SDG&E Opening Brief at 597.

[2286] *See* SCG/SDG&E OB Section 5.2.2.

[2287] CEJA OB at93.

[2288] Ex. CEJA-01, Attachment 3, at pdf pg. 131 (CEJA-SEU-012, Question 1b).

for the Hydrogen Home Project."[2289] After realizing that counsel for CEJA misunderstood this response during the cross-examination of Brenton Guy, SoCalGas supplemented its response the very next day to state: "In the original data request, SoCalGas understood "reallocate" to mean using funding without increasing the revenue requirement."[2290] In other words, SoCalGas may use authorized revenue to cover 2022-23 costs of the Hydrogen Home (as it did in 2021), but it has never stated or implied that it would *recover* for shareholders the additional project costs by reallocating funds approved in this GRC.

In fact, SoCalGas tried to correct CEJA counsel's misunderstanding at the first opportunity it was made aware of such misunderstanding. During the June 27, 2023 evidentiary hearing, CEJA counsel walked through SoCalGas's data request responses with Mr. Guy and finished by summarizing his understanding: "So, just to confirm my understanding, it's SoCalGas's intention to recover the full cost of this project from ratepayers through funds approved in this GRC; is that right?"[2291] Mr. Guy responded, " No …when I responded to this question, there was a misunderstanding in … what you were asking. And so, the answer is … actually the opposite. We … do expect that the funding would be covered by shareholders, …the difference."[2292]

CEJA claims that SoCalGas then "walk[ed] this back and state the difference would come from the *next* GRC."[2293] Again, CEJA misunderstands how the recovery process works for *capital* projects. Unless and until project costs are determined by the Commission to be just and reasonable, and the project has been placed in service, SoCalGas must pay those costs out of authorized revenues. Only when a project's cost (or portion thereof) is approved, does that cost increase the utility's authorized rate base, with shareholders entitled to the return of and on that increased rate base. Thus far, H2IE's costs have been paid only from already authorized revenues. That will continue to be the case until the Commission approves (a) the $4.573 M requested in this GRC and (b) any additional costs as presented and approved in a subsequent GRC application. SoCalGas's approach to cost recovery for H2IE has followed and will continue to follow established procedures for capital projects.

2289 *Id.* (Response to CEJA-SEU-012, Question 1b).

2290 Ex. SCG-323 (Supplemental Response to CEJA-SEU-012, Question 1b).

2291 Tr. V20:3543:5-8.

2292 Tr. V20:3543:9-15.

2293 CEJA OB at93 (emphasis in original).

25.3 SDG&E REL&F Operations and Maintenance (O&M) – Shared And Non-Shared Expenses

25.3.1 SDG&E Has Met its Burden for the Commission to Approve its Full O&M Forecast.

Cal Advocates is the sole intervenor that disputed SDG&E's O&M revenue request in this GRC. Cal Advocates' only issue is with SDGE's forecast for $1.015 million to hire additional security guards at five (5) SDG&E facilities.[2294] SDG&E has identified increases in theft, vandalism, and other security threats that have been occurring at or near these facilities, necessitating the additional security personnel.[2295] Cal Advocates has not refuted these findings or the amount of the cost associated with the request. Cal Advocates simply believes the security guards are not needed because they had not yet been hired as of January 2023.[2296] It is irrational to assert that the timing of the hiring additional personnel somehow negates the critical need underlying the revenue request.

Moreover, Cal Advocates incorrectly asserts SDG&E is "mandated by law" to have acted on its security needs because it had the resources to add security to these facilities but failed to do so before this GRC cycle. Cal Advocates cites to Public Utilities Code section 451[2297] for this proposition. Nothing whatsoever in Section 451 states or infers that SDG&E must have or should have used existing resources to address its security needs in advance of this GRC cycle. In fact, the very nature of the GRC is to identify needs of the utility and seek Commission approval of the expenses that are justified and reasonable to address such identified needs. To interpret Section 451 otherwise would be nonsensical.

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. For these reasons, SDG&E's request for this expense is justified and its full O&M request should be adopted by the Commission as reasonable.

[2294] Cal Advocates OB at 232.

[2295] Ex. SDG&E-223 (Tattersall) at 4.

[2296] Ex. CA-11 (Waterworth) at 31.

[2297] Cal Advocates OB at 232; Cal. Pub. Util. Code § 451 ("All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.").

25.4 SDG&E REL&F Capital Forecast

Cal Advocates is the sole intervenor that disputed SDG&E's Capital revenue request in this GRC. Specifically, Cal Advocates has only taken issue with two capital projects: Kearny Master Plan Phase II and Mission Skills Training Center.

25.4.1 Costs Sought for Kearny Master Plan Phase II are Timely and Reasonable

SDG&E's total request for funding of the Kearny Master Plan Phase II project is $250,000 in 2022, $2.5 million in 2023, and $19.026 million in 2024. The Kearny Master Plan Phase II project provides a streamlined solution to address the ever-increasing need for materials and equipment storage space. It should be noted that Cal Advocates does not oppose funding for Phase I of the Master Plan, nor does it appear to be challenging the necessity of the project. Instead, Cal Advocates believes there is inadequate justification for the project simply because a formal cost/benefit analysis was not provided. Cal Advocates erroneously asserts that Public Utilities Code section 451 necessarily requires the utility perform a cost/benefit analysis to demonstrate that the charges sought by the utility are "just and reasonable."[2298] It bears repeating that nothing in Section 451 requires a cost/benefit analysis to support the Commission's determination of the reasonableness of a given project. While SDG&E does not contest its burden to justify the need and proposed costs of such a request, SDG&E has done so through its testimony and workpapers, specifically detailing the current conditions necessitating the project, as well as the project benefits of improved safety, reduced handling, and labor and space efficiencies.[2299]

In addition, Cal Advocates argues that SDG&E should request funding for Phase II in the next GRC. Cal Advocates somehow believes SDG&E is "rushing" into Phase II simply because SDG&E has committed to completing this much-needed project by December 2024.[2300] Yet, Cal Advocates acknowledges that SDG&E has had to "reasonably adjust[] for any deficiencies in its storage requirements over the years."[2301] Moreover, Cal Advocates states, incorrectly, that SDG&E has only spent $300,000 to date (meaning August 14, 2023, the date of their Opening

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2298 Cal Advocates OB at 233-235.

2299 SCG/SDG&E OB at 602; Ex. SDG&E-223 (Tattersall) at 6-7.

2300 Cal Advocates OB at 233-234.

2301 *Id.* at 234.

Brief) on Phase II, "creating uncertainty whether Phase II will be completed on schedule."[2302] In fact, in Rebuttal Testimony dated May 2023, SDG&E confirmed it had already incurred $811,000 in programming, design and permitting costs and, of course, costs continue to be expended as construction drawings are being prepared.[2303] SDG&E further confirmed the project is on track to be completed by the end of TY2024, with the majority of the costs to be incurred during construction in 2024.[2304] Accordingly, SDG&E's forecast for Kearny Master Plan Phase II should be adopted as justified and reasonable.

25.4.2 Mission Skills Training Center – Tier 2 Advice Letter Proceeding is Unnecessary and Burdensome

SDG&E's total request for funding of the Mission Skills Training Center project is $805,000 in 2022, $10.432 million in 2023, and $10.223 million in 2024. SDG&E has fully justified the need for the additional classroom space to accommodate the increase in apprentice lineman classes and compliance-driven training implemented by Gas Operations.[2305] Cal Advocates opposes this project because it (a) questions whether SDG&E will actually hire the additional training personnel this project will house, (b) believes the existing facility can be "repurposed" to meet current and future training needs, and (c) does not think the project will not be completed by the end of TY2024. All of this is pure conjecture. Cal Advocates provides no meaningful substantiation for any of these arguments. In fact, even Cal Advocates acknowledges that the current training facilities are not efficient.[2306] SDG&E has clearly demonstrated the need for the additional training personnel and that facilities rental and other short-term alternatives (such as placing trailers on valuable, existing site space) to accommodate these critical training needs is not only inefficient, but insufficient and costly to ratepayers.[2307] Again, Cal Advocates speculates that SDG&E may not complete the project within TY2024, simply citing the *possibility* of construction delays, reprioritization of projects, and alternative solutions staffing not yet considered by SDG&E. Based solely on these hypotheticals, Cal Advocates suggests deferral of

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2302 *Id.* at 233.

2303 Ex. SDG&E-223 (Tattersall) at 7.

2304 *Id*.

2305 *Id.* at 8-10.

2306 Cal Advocates OB at 235-236.

2307 SCG/SDG&E OB at 602-603; Ex. SDG&E-223 (Tattersall) at 8-9.

cost recovery for this project to a separate process overseen by the Commission -- namely a Tier 2 advice letter, with a provision for reasonableness review if costs exceed 10% of the forecast. SDG&E has confirmed that programming and design of the project has been completed and construction permitting is imminent.[2308] Construction documents are in process, and SDG&E is confident that it can complete this project by the end of 2024.[2309] Not one of these conjectural concerns warrants Commission review outside of this GRC proceeding. Such deferral would simply create an unnecessary, additional process for a project that has been demonstrated to be justified and reasonable. Moreover, it bears noting that Cal Advocates did not, in the alternative, dispute the revenue request submitted by SDG&E, underscoring the insufficient rationale for a separate review and cost restriction. The Commission should approve SDG&E's forecasted costs for the Missions Skills Training Center.

26. Environmental Services

No intervenor, including Cal Advocates,[2310] opposed SoCalGas's original TY 2024 O&M funding request of $25,809,000 for Environmental Services, or SDG&E's original TY 2024 O&M funding request of $9,976,000 for Environmental Services and SONGS non-shared O&M costs. Additionally, Cal Advocates, in its Opening Brief,[2311] did not take 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.[2312] Thus, for the reasons stated in Applicants' Opening Brief, SoCalGas and SDG&E request that the Commission adopt SoCalGas's TY 2024 O&M forecast of $25,809,000 for its Environmental Services and SDG&E's TY 2024 forecast of $9,985,000 for its Environmental Services and SONGS non-shared O&M costs as reasonable.[2313] Regarding TURN's arguments related to SoCalGas's and SDG&E's New Environmental Regulation Balancing Account (NERBA) proposal,[2314] *see infra* Section 43 (Regulatory Accounts), which addresses the benefits of balancing account treatment.

2308 Ex. SDG&E-223 (Tattersall) at 9.

2309 *Id.* at 9-10.

2310 Cal Advocates OB at 237-238.

2311 *Id.* at 238.

2312 Ex. SCG-401/SDG&E-401, Attachment C at 31.

2313 SCG/SDG&E OB at 605-607.

2314 TURN OB at 445-448.

27. Information Technology

27.1 SoCalGas Information Technology

As described in direct testimony and Opening Brief,[2315] the SoCalGas-sponsored 2024 GRC Information Technology (IT) O&M and Capital requests fund applications, infrastructure, and IT support for business clients throughout SoCalGas that enable the Company to serve its customers safely and reliably through "technology investments that 'improv[e] operational service, efficiency, and safety, through real-time information and cutting-edge analytics, benefiting operations and customers.'"[2316] SoCalGas's IT Capital request was developed with focus on projects identified to mitigate RAMP Foundational Technology Systems risks and other business and customer needs in accordance with the three tenants: technology resiliency, IT disaster recovery and lifecycle management.[2317]

Cal Advocates was the only party to address SoCalGas's GRC IT requests in testimony or in opening briefs. Cal Advocates largely refers back to its position in testimony. Because SoCalGas addressed the bulk of Cal Advocates' comments in its rebuttal testimony and opening brief,[2318] we summarize only the key issues below.

27.1.1 Response to Cal Advocates' IT O&M Recommendation

SoCalGas requests approval of a total TY 2024 forecast of $56.784 million for costs associated with IT O&M activities.[2319] The O&M forecast in Table 27.1 below, 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.[2320] In its testimony[2321] and opening brief,[2322] Cal Advocates does not propose any

2315 Ex. SCG-21-R-E, (Gordon/Ballard/Exon) Chapter 2 at 1-2 and 11-66; SCG/SDG&E OB 607-628.

2316 SCG/SDG&E OB at 607-608, citing Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 1.

2317 *Id.* at 608.

2318 Ex. SCG-221 (Gordan/Exon); SCG/SDG&E OB at 607-628.

2319 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 1, Table TB/WE-1. Any difference in amounts shown in Rebuttal was due to a computing glitch, which has been corrected in Ex. SDG&E-21-R-E and workpapers.

2320 *Id.*

2321 Ex. CA-11 (Waterworth) at 56.

2322 Cal Advocates OB at 239.

adjustments to SoCalGas's 2024 IT O&M request, as set forth in Table 27.1 below from SoCalGas's direct testimony.

Table 27.1[2323]
Test Year 2024 Summary of Total Costs

INFORMATION TECHNOLOGY (In 2021 $)			
	2021 Adjusted-Recorded (000s)	**TY2024 Estimated (000s)**	**Change (000s)**
Total Non-Shared Services	24,010	29,521	5,511
Total Shared Services (Incurred)	25,699	27,263	1,564
Total O&M	**49,709**	**56,784**	**7,075**

The Commission should approve SoCalGas's IT O&M request as reasonable.

27.1.2 Response to Cal Advocates Proposed IT Capital Recommendation[2324]

SoCalGas requests approval of $657.032 million total IT Capital expenditures for its 2024 GRC, comprised of $253.159 million for 2022, $229.046 million for 2023 and $174.827 million for 2024.[2325] Cal Advocates seeks two adjustments to SoCalGas's IT Capital forecasts, as depicted in Table 27.2 below. In its testimony, Cal Advocates recommended that all costs related to the SAP Transformation project be removed.[2326] Cal Advocates now appears to depart from that recommendation, and -- even though it had the data at the time it filed its testimony in March –now recommends that SoCalGas's Capital forecast for 2022 be replaced with SoCalGas's 2022 adjusted recorded costs and further recommends that costs related to the SAP Transformation project for 2023 and 2024 be removed.[2327]

[2323] Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 1, Table TB/WE-1.

[2324] 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.

[2325] Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 1, Table TB/WE-1.

[2326] Ex. CA-11 (Waterworth) at 62.

[2327] Cal Advocates OB at 239. Cal Advocates' OB recommendations are inconsistent. Although it asserts in its OB that a 2022 recorded number should be substituted for SoCalGas's 2022 forecasts, its ultimate recommendation is the same as it made in its March 2023 testimony. Compare Cal Advocates OB at 239 and n.1123 (recommending $215.271 million for 2022) with Cal Advocates OB at 27 (recommending $248 million for 2022 in Summary of Recommendations) and at 241 (recommending $247.991 million for 2022).

Table 27.2[2328]
Summary of Differences 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[2329]	186,164	152,265	586,420	(70,612)
TURN[2330]	244,883	204,626	146,907	596,416	(60,616)

For the reasons set forth in SoCalGas's testimony and opening brief and summarized below, Cal Advocates' recommendations are unjustified and not supported by Commission precedent or facts. Indeed, Cal Advocates' OB recommendations are inconsistent with each other. Although it asserts in its OB that a 2022 recorded number should be substituted for SoCalGas's 2022 forecasts, its ultimate OB recommendation is the same as it made in its March 2023 testimony.[2331] The Commission should disregard Cal Advocates' recommendations to adjust the funding for SoCalGas's IT Capital expenditures and to remove the SAP Transformation project.

27.1.2.1 Cal Advocates Use of an Alternative Forecast Methodology is Unreasonable and Unsupported

In the development of its IT Capital forecasts, SoCalGas utilized a zero-based methodology, which is based upon the accumulation of individual projects that start as concepts and will eventually move through a rigorous approval process,[2332] in order to reflect the accelerating pace of change in the technology industry. As SoCalGas explained: "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

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2328 *See* Ex. SCG-21-R-E (Gordon/Exon) at TLB/WJE-i (Summary of Differences Tables); Cal Advocates OB at 239

2329 Ex. CA-11 (Waterworth) at 61, Table 11-29 (reflecting Total IT Forecast March 27, 2023 Position).

2330 TURN challenged three Customer Services IT Capital Projects on the grounds that SoCalGas had not justified the need for such projects. A response to TURN's objections is contained in the business areas sponsoring the projects. *See* SCG/SDG&E OB at 481-482, 516-519 and Sections 21.2.1 (Customer Services-Field) and 21.4.1 (Customer Services-Office Operations), *supra*. *See also* SCG/SDG&E OB at 622-628.

2331 Compare Cal Advocates OB at 239 and n.1123 (recommending $$215.271 million for 2022) with Cal Advocates OB at 27 and 241 (recommending $247.991 million for 2022).

2332 *See* SCG/SDG&E OB at 611-612, detailing evaluation and approval process for IT Capital projects.

quotes, existing contracts, internal subject matter judgment and expertise, prior implementations)."[2333] The Commission has recognized that zero-based forecasts are a generally accepted methodology and is appropriate for specifying costs for a project or program that is non-recurring in nature and often has a specific scope of work defined where a historical average would otherwise provide less accuracy in estimating cost.

In its testimony, Cal Advocates claimed that SoCalGas had provided only minimal data to justify its Capital forecasts, but notwithstanding the alleged lack of support, "Cal Advocates' recommendation and focus relates to the removal of the SAP Transformation Project."[2334] Accordingly, in its forecast comparison Table 11-29 (Cal Advocates Recommended vs. SoCalGas Proposed) shown below, Cal Advocates' recommendation reflects only the removal of the total SAP Transformation Project costs of approximately $71 million.[2335]

Table 11-29
SCG Information Technology
2022-2024 Capital Expenditure Forecast
(in Thousands of 2021 Dollars)

Capital Category	Cal Advocates Recommended			SCG Proposed[101]		
	2022	2023	2024	2022	2023	2024
A&G	2,785	8,876	9,854	7,953	51,758	32,416
Cust Service - Field	14,007	12,331	18,180	14,007	12,331	18,180
Cust Service - Office	14,522	20,657	15,763	14,522	20,657	15,763
Cust Service - Information	3,586	2,565	0	3,586	2,565	0
Gas Distrib./Engin/Trans	2,215	1,930	1,835	2,215	1,930	1,835
Gas System Staff	26,295	41,959	34,399	26,295	41,959	34,399
People and Culture	6,705	7,503	7,582	6,705	7,503	7,582
Information Tech.	148,011	71,067	54,510	148,011	71,067	54,510
Safety and Risk Mgt.	12,168	8,911	8,439	12,168	8,911	8,439
Supply Mgt and Diversity	17,697	10,365	1,703	17,697	10,365	1,703
Total IT Forecast	247,991	186,164	152,265	253,159	229,046	174,827

Now, in its Opening Brief, however, Cal Advocates takes issue with more than the SAP Transformation Project and argues that use of SoCalGas's 2022 recorded data is the appropriate measure for one year of SoCalGas's forecast (2022), with removal of the SAP Transformation

2333 SCG/SDG&E OB at 611.

2334 Ex. CA-11 (Waterworth) at 62.

2335 *See id.* at 61, Table 11-29.

forecasted costs alone in years 2023 and 2024.[2336] Although Cal Advocates admits that the 2022 data was provided to it on the scheduled date set by the revised Scoping Memo and Ruling,[2337] Cal Advocates complains that "[d]ue to timing, Cal Advocates could not incorporate this data into its forecast and RO model but recommends that this [$215.271 million] figure be adopted for 2022" and cites to a footnote in its testimony where it casually notes that it saw the lower number and asks that it be applied as the forecast.[2338]

For several reasons, Cal Advocates' position is devoid of merit and its recommendation should be disregarded. First, SoCalGas fully justified its project cost forecasts, through its testimony, workpapers, data request responses and the meetings it held with Cal Advocates' witness to discuss its Capital projects.[2339] To assert otherwise is specious. SoCalGas's 2022-2024 IT Capital request is well-supported by project-by-project information.[2340] SoCalGas has provided approximately 900 pages of detailed Capital workpapers, representing 123 projects. SoCalGas' Capital workpapers specifically identify the types of investments needed for the forecast period.[2341] SoCalGas also forecasted in-service dates for each project listed in the SoCalGas IT 2022-2024 Capital forecasts. In addition, SoCalGas's direct testimony includes narratives in support of the SoCalGas IT-sponsored Capital projects, as did the business area providing the business justification for business-sponsored IT projects.[2342]

Second, as required by the Commission's Rate Case Plan,[2343] SoCalGas developed its forecast using data at a necessary point in time before its GRC application was filed. The Rate

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2336 *See* Cal Advocates OB at 239.

2337 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).

2338 Cal Advocates OB at 239, citing Ex. CA-11 at 60 n.100. Tellingly, Cal Advocates' recommended forecast, which appeared in its Table 11-29, did not use the 2022 figure referenced in its footnote.

2339 *See, e.g.*, relating to the SAP Transformation Project but equally applicable to each of the projects queried by Cal Advocates, Ex. SCG-229-E (Mijares) at 23-26, Ex. SCG-221 (Gordon/Exon) at 6:29-7:13, 7:14 -8:1, and Appendix B, including pages B-13-B-14 (SAP Transformation project).

2340 Ex. SCG-21-CWP-R-E (Exon); *See also* Ex. SCG-21-R-E (Gordon/Ballard/Exon) at 23-66.

2341 Ex. SCG-21-CWP-R-E (Exon).

2342 Ex. SCG-21-R-E (Gordon/Ballard/Exon) at 25-65. *See also* Ex. SCG-29-E (Mijares) at 60.

2343 The Rate Case Plan prohibits SoCalGas from updating its data and evidence in the manner Cal Advocates suggests, stating: "No bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed, except as provided [in update testimony]. D.07-07-004 (Rate Case Plan) Appendix A at A-12, Day 0. The Rate Case Plan was

Case Plan does not contemplate the use of base year +1 data, and SoCalGas's forecasts were not developed using that information because it was not available at the time of its Application. While recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others, and the utility is generally not permitted to revise its forecasts using that data, either up or down, once the application is filed.[2344] As the Commission found in SoCalGas's last GRC, "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."[2345]

Third, Cal Advocates provides no justification for recommending use of the 2022 recorded data other than its observation that the number was lower. Although "the use of more recent data by the parties is not prohibited by the Rate Case Plan. . . before this recent data can be used, the Commission needs to ensure that the recorded data is in a format 'compatible with the other years of recorded data in order to derive trends and forecasts.'"[2346] Where the parties disagree on the appropriate methodology to be used, the Commission will use the following approach:

> As discussed in prior Commission decisions, there are a number of acceptable methodologies for forecasting test year costs.…Depending on circumstances, one method may be more appropriate than others. Under other circumstances, two or more methods may be equally appropriate. In general, the parties' testimony should explain: (1) why its proposed methodology is appropriate, (2) why it is better than methodologies proposed by other parties and (3) why the results are reasonable. The Commission must weigh this information in deciding which methodology should be used and how it should be used.[2347]

As explained by SoCalGas, for every Capital project, a zero-based methodology was used to forecast estimated 2022-2024 expenses. The zero-based forecasting methodology provides a means of specifying costs for a project or program that is non-recurring in nature and often has a specific scope of work defined where a historical average would otherwise provide less accuracy in estimating cost. Zero-based forecasts do not inflate costs, but instead aim to refine the cost of a

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established by D.89-01-040 and modified by D.93-07-030, D.07-07-004, D.14-06-018, and D.20-01-002.

[2344] D.19-09-051 at 278.

[2345] *Id.* at 612.

[2346] D.13-05-010 at 19 (*citing* D.08-07-046 at 9).

[2347] D.13-05-010 at 19-20 (*citing* D.06-05-016 at 10-11).

project or program based on cost estimates developed from the scope of work for the project to ensure accuracy. This approach has been used in prior GRCs and is most appropriate for IT Capital projects due to changing technological advancements with a forecast developed on an individual basis utilizing detailed cost estimates provided by internal and external subject matter experts experienced in estimating projects with similar scope, schedule, and resources.[2348] Cherry picking a number, as Cal Advocates has done here, without even an attempt to support its use,[2349] fails to meet the Commission's standard, and Cal Advocates' proposal should be rejected here.

27.1.2.2 Cal Advocates Fails to Refute the Demonstrated Need for the SAP Transformation Project

SoCalGas has justified approval of its reasonable TY 2024 IT Capital forecasts, as demonstrated in testimony and in SoCalGas' Opening Brief.[2350] The sole area of SoCalGas's IT Capital request that Cal Advocates disputed is the approximately $71.0 million for the SAP Transformation Project request.[2351] Cal Advocates' Opening Brief contained no new basis for the generalized and unsupported reason previously stated in Cal Advocates' witness's testimony. Cal Advocates notably offered no support for its assertion that this project constituted "discretionary spending"[2352] or a response to SoCalGas witnesses Sara Mijares' and Jaime Exon's rebuttal testimony. Cumulatively, this testimony, which Cal Advocates did not even acknowledge in its OB, provided compelling and unrefuted reasons why the SAP Transformation Project's costs were justified, and supported SoCalGas's view that this initial phase of the SAP Transformation Project

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2348 Ex. SCG-21-R-E (Gordon/Ballard/Exon), Chapter 2 at 25.

2349 Equally unclear is how use of 2022 recorded data would be applied if Cal Advocates' approach was adopted. Its Table 11-29 shows Cal Advocates' agreement with SoCalGas's forecast for all areas with the exception of the SAP Transformation Project in the A&G division. Cal Advocates' Table has already removed all costs for that project as part of its original $247.991 million recommended forecast.

2350 *See generally*, Ex. SCG-29-R-E (Mijares) at 60; Ex. SCG-229-E (Mijares) at 23-26; Ex. SCG-221 (Gordon/Exon) at 5-12; Ex. SCG-21-CWP-R (Exon) at 13-21; SCG/SDG&E OB at 620-622 and 761-762.

2351 Cal Advocates OB at 239-241.

2352 *See id.* at 240. SoCalGas specifically explained in detail why the advance work streams in this Phase 1 of the replacement project were necessary now to ensure that SAP, which is critical to SoCalGas's (and SDG&E's) business, could "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 ratepayers." SCG/SDG&E OB at 620-621.

could be completed within the TY.[2353] SoCalGas fully addressed Cal Advocates' positions in its Opening Brief and will not reargue them here.

SoCalGas' 2024 IT Capital expenditures forecast for the SAP Transformation Project, as well as the rest of its 2024 IT Capital program forecast, is reasonable and should be adopted by the Commission.

27.2 SDG&E Information Technology

As described in direct testimony and the Opening Brief,[2354] SDG&E's 2024 GRC Information Technology (IT) O&M and Capital requests fund applications, infrastructure, and IT support for business clients throughout SDG&E that enable the Company to serve its customers safely, securely, and reliably through technology investments that "improv[e] operational service, efficiency, and safety, by providing real-time information and cutting-edge analytics, benefiting operations and customers."[2355] SDG&E's IT Capital request was developed with focus on projects identified to mitigate RAMP Foundational Technology Systems risks and other business and customer needs in accordance with the three tenants: technology resiliency, IT disaster recovery and lifecycle management.[2356]

Cal Advocates and UCAN were the only parties to challenge SDG&E's GRC IT requests in opening briefs. Cal Advocates largely refers back to its position in testimony. In its Opening Brief, UCAN makes new arguments in an unsuccessful attempt to resuscitate its claims, and challenges additional IT O&M and Capital projects that were not opposed previously in testimony. Because SDG&E addressed the bulk of Cal Advocates' and UCAN's comments in its rebuttal testimony and opening brief,[2357] we summarize the key issues previously addressed below, and more fully address UCAN's new material.[2358]

[2353] SCG/SDG&E OB at 620-622, and associated cites, referencing Ex. SCG-229-E (Mijares) at 23-26; Ex. SCG-221 (Gordon/Exon) at 11 and Figure 1-WE. *See also* SCG/SDG&E OB at 761-762 and associated cites.

[2354] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2; SCG/SDG&E OB 607-617 and 629-639.

[2355] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1 at 1.

[2356] *See id.*, Chapter 1 generally and Chapter 2 at 6-7.

[2357] Ex. SDG&E-225-E (Gordon/Ballard/Exon); SCG/SDG&E OB at 607-617 and 629-639.

[2358] SDG&E noted a number of errors and mischaracterizations in both parties' OBs. SDG&E has responded to material items where noted, and the lack of response to all comments should not be read as SDG&E's agreement with items not addressed in this Reply Brief.

The tables below – primarily adopted from SDG&E's rebuttal testimony – summarize the differences between SDG&E's IT forecasts versus other parties' recommendations.

27.2.1 SDG&E Versus Other Parties - Summary of Differences Tables

Table 27.3
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 (ORIGINAL - TESTIMONY)[2359]	97,995	108,242	10,247	(2,176)
UCAN (NEW – OPENING BRIEF)	97,995	80,108	(17,886)	(30,309)

Table 27.4
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 (CA-10)[2360]	217,866	190,886	175,397	584,149	(58,842)
CAL ADVOCATES (CA-11)	199,326	172,346	161,998	533,670	(109,321)
TURN	183,087	131,115	102,874	417,076	(225,915)

2359 In its March 2023 testimony, UCAN challenged only the Shared Services O&M forecast for the SM 2.0 Telecom Data Plan expenses. As mentioned above, UCAN has now in its Opening Brief expanded its challenges and appears to propose a reduction to both the non-shard services and shared service O&M forecasts for RAMP-related "Projects." SDG&E believes this is in error; however, for purposes of this Reply Brief, SDG&E has reflected the original and the new UCAN recommendations on separate lines of Table 27.3.

2360 Cal Advocates recommends two inconsistent forecasts for this TY 2024 GRC cycle, which it includes in two different chapters of testimony (Ex. CA-10 (Campbell) and Ex. CA-11 (Waterworth)). SDG&E utilized the Cal Advocates forecast recommendation from Ex. CA-10 for comparative purposes in its rebuttal testimony (Ex. SDG&E-225-E (Gordon/Exon) at 1 n.1, 14.). For purposes of this Reply Brief, SDG&E has reflected the two Cal Advocates recommendations on separate lines in Table 27.4.

TOTAL CAPITAL – Constant 2021 ($000)					
	2022	2023	2024	Total	Variance to SDG&E Ask
UCAN[2361] (ORIGINAL – TESTIMONY)	Unclear	Unclear	Unclear	Unclear	
UCAN[2362] (NEW – OPENING BRIEF)	127,511	127,916	144,004	399,431	(243,560)

For the reasons set forth in the sections below, and in SDG&E's testimony and opening brief, the Commission should reject other parties' IT recommendations and adopt SDG&E's reasonable forecasts as proposed. In the following sections, SDG&E further summarizes its IT O&M and Capital proposals and responds to Cal Advocates' and UCAN's recommendations.

27.3 Response to Parties' IT O&M Recommendation

27.3.1 IT O&M Request

27.3.1.1 Introduction

SDG&E requests approval of $110.418 million for its total TY 2024 GRC IT O&M forecasts, comprised of $27.113 million for non-shared O&M and $83.305 million for shared services O&M.[2363] Cal Advocates seeks adjustments to SDG&E's IT O&M forecasts, requesting a $11.016 million reduction to the Non-Shared O&M forecast for the Customer Information System (CIS) Replacement ongoing operations and maintenance, and a downward adjustment of $2.176 million in Shared Service costs for the Smart Meter 2.0 Telecom Data Plan. In its March testimony, UCAN opposed only Smart Meter 2.0 Telecom Data Plan costs forecasted by IT in Shared Services O&M costs (requesting a reduction of $2.176 million). UCAN did not oppose the

[2361] In its March 2023 testimony, UCAN left unspecified its overall Capital forecast recommendation and made a variety of recommendations on specified projects. As mentioned above, UCAN has now in its Opening Brief expanded its challenges and proposes an overall reduction to SDG&E's IT Capital forecasts. For purposes of this Reply Brief, SDG&E has reflected the original and the new UCAN recommendations on separate lines of Table 27.4.

[2362] UCAN Opening Brief at 7, (Item 14, recommended Information Technology Capital reduction). The amount UCAN requests for reduction in its item 14, constitutes the total amount of IT Capital projects that are forecasted as RAMP-related mitigation projects. Throughout its OB, UCAN also recommends reductions for other IT Capital projects that are sponsored by business areas and are not RAMP-related projects. SDG&E has not included forecasts related to the other business projects that UCAN asks to reduce in its Table 27.4, Summary of Total IT Capital Costs, because the numbers provided by UCAN do not reconcile with the forecasts presented by SDG&E in evidence.

[2363] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 1, Table TB/WE-1.

remainder of SDG&E's 2024 IT O&M forecast.[2364] In its Opening Brief, however, UCAN now recommends for the first time "that the entire RAMP Capital cost requested for 2022, 2023, and the TY 2024, $92.5M, $80.87M, and $70.18M respectively, be rejected."[2365] Although its recommendation refers to "Capital costs" it includes O&M workpaper groups within the "projects" listed.

To this end, UCAN now requests the Commission to "reject all of SDG&E's proposed expenditures"[2366] related to a list of IT-sponsored projects proposed by SDG&E. Five of the workpapers cited on that list by UCAN for complete rejection reflect O&M costs related to RAMP activities rather than Capital projects.[2367] The five O&M operational workpapers support RAMP activities found in RAMP Chapter – SDG&E-CFF-4- Foundational Technology Systems, RAMP line items CFF-1 through CFF-9.[2368] Those activities include Non-Shared labor and non-labor support for the operations and maintenance of technology systems in functional areas such as smart grid and electric operations, meter data services, portfolio management office, applications and utility operations maintenance agreements, and IT operations' outsourced services and hardware and software maintenance agreements for non-shared SDG&E infrastructure (data center computing, cloud computing, storage, network, and telecom). For Shared Services, those activities include labor and non-labor supporting the operations and maintenance of systems such as utility operations, data center computing, cloud computing, storage, network, and telecom and the provision of support services such as enterprise monitoring. Of the total $30.309 million reduction of total RAMP O&M forecasted costs that UCAN now asks the Commission to reject, $1.191 million constitutes incremental spend over the 2021 Base Year adjusted-recorded costs for the proposed RAMP mitigation activities:

No other party sought adjustments to the IT O&M forecasts.

For the reasons set forth in SDG&E's testimony and Opening Brief and discussed below, Cal Advocates' and UCAN's recommendations are unjustified and not supported by Commission

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2364 *See* SCG/SDG&E OB at 628, 631 and Tables 27.7, 27.9 and 27.10.

2365 UCAN OB at 172 (citation omitted).

2366 UCAN OB at 174-176.

2367 *See id.* at 174, reflecting workpaper groups 11T002.00, 11T004.00, 2100-3073.000 and 2100-0207.000, and 2100-0460.000, which may be found in Ex. SDG&E-25-WP (Ballard).

2368 A.21-05-011/-014 (cons.), 2021 RAMP Report at SDG&E/SCG-CFF-4-13.

precedent or facts. The Commission should decline to adjust SDG&E's O&M forecasts and adopt them as proposed.

27.3.1.2 Non-Shared O&M Recommendations

27.3.1.2.1 SDG&E has Fully Justified its Ongoing CIS Replacement O&M Forecast

SDG&E justified approval of its TY 2024 Non-Shared O&M forecast of $27.113 million, including its TY 2024 CIS Replacement operational costs, as demonstrated in testimony and in SDG&E's Opening Brief.[2369] These costs support ongoing expenditures such as labor and contractor resources, and software annual renewals to provide maintenance and support for the new CIS, which supports essential functions such as answering customer calls, performing billing and payment posting, customer digital self-service, outages, customer information, and field service order requests is used for customer billing and revenue management, customer data storage.[2370] Cal Advocates contends that "SDG&E's current estimate, which is based on a partial year of costs and historical data, lacks justification and supporting data."[2371] SDG&E disagrees with Cal Advocates' assertion, which it demonstrated was not correct in SDG&E's testimony and Opening Brief.[2372]

In its OB, Cal Advocates merely restated its objections to SDG&E's use of a base year forecast that was normalized for a new system that had been operational less than a full year. However, 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.[2373] SDG&E's forecasted increase for the TY 2024 represents the

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2369 SCG/SDG&E OB at 628-630 referencing Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2, Section IV, Subsection B; Ex. SDG&E-25-WP (Ballard) at 3-13, WP 1IT002.000; and Ex. SDG&E-225-E (Gordon/Exon) at 8-9.

2370 *See* SCG/SDG&E OB at 630; Section 21.1.2 Customer Information System Replacement, *supra*.

2371 Cal Advocates OB at 242.

2372 *See* SCG/SDG&E OB at 629-630.

2373 *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 incremental amount needed to normalize the Base Year to reflect a full calendar year (twelve months) of expenditures and is appropriate under the circumstances.[2374]

SDG&E strongly disagrees that it failed to provide sufficient information in its testimony and workpapers in support of its CIS Replacement operational costs. Cal Advocates entirely disregards the data SDG&E provided (which included multiple data request responses and discussions with Cal Advocates to walk through SDG&E's calculations and support) as well as its rebuttal testimony, which contained compelling reasons and data supporting its use of a normalized Base Year forecast.[2375] Equally unavailing is Cal Advocates' assertion that SDG&E rebuffed its requests for 2022 recorded costs.[2376] Contrary to Cal Advocates' claim, SDG&E served its 2022 recorded data on the date set by the Revised Scoping Memo and Ruling in this proceeding.[2377] That date was selected by the ALJ after Applicants demonstrated that the 2022 recorded data was not earlier available "in a format 'compatible with the other years of recorded data in order to derive trends and forecasts,'"[2378] a necessary step for comparative use purposes. Like all other parties, Cal Advocates had two weeks to assess the 2022 recorded data provided before its testimony was served and over four months to analyze the data before briefing in this

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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 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.") (citation omitted); 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.").

2374 Ex. SDG&E-225-E (Gordon/Exon) at 8-9.

2375 *See, e.g.*, *id.* at 8:20- 9:5 and Appendix D 9/6/22 Response to Data Request PAO-SDGE-043-LMW, Q.1a at BG-WE-D.2 – D.3 (identifying individual spreadsheets provided for each of the 20 projects requested by Cal Advocates, inclusive of project status, costs, timeline, among other information requested for each individual project).

2376 *See* Cal Advocates OB at 242.

2377 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).

2378 *See* D.13-05-010 at 19 citing D.08-07-046 at 9 (requiring recent data to be in a like format with the other years of recorded data before it could be used for forecast purposes). *See e.g.,* Joint Motion of SoCalGas and SDG&E to Amend the Assigned Commissioner's Scoping Memorandum and Ruling (October 27, 2022) at 17-18.

proceeding if it believed a different forecast methodology should be considered. It chose not to do so here.

SDG&E fully addressed Cal Advocates' positions in its Opening Brief and will not reargue them here.[2379] Cal Advocates' recommendation to reduce the ongoing CIS O&M forecast and to require continued recording of costs in a balancing account that is not available for such purposes is flawed and should be disregarded.

27.3.1.2.2 UCAN's Recent Challenges to Non-Shared O&M Forecasts Should be Stricken and Otherwise Disregarded

In its testimony, UCAN challenged only one O&M forecast related to the Shared O&M Smart Meter 2.0 Telecom Data Plan request. UCAN now alters its position in its Opening Brief and -- for the first time -- challenges the O&M forecasts for Non-Shared Operational Applications (Ex. SDG&E 25-WP (Ballard) at 3-13, 11T002.00) and Non-Shared Operational Infrastructure (Ex. SDG&E 25-WP (Ballard) at 4-18, 11T004.00).[2380] These workpaper groups represent RAMP mitigation activities that support the IT Division's operations and maintenance of non-shared SDG&E technology systems in functional areas such as smart grid and electric operations, meter data services, IT operations outsourced services, and hardware and/or software maintenance agreements. For multiple reasons, UCAN's attempt at late insertion of new issues into this proceeding should be rejected.

2379 SCG/SDG&E OB at 629-630. *See also* Ex. SDG&E-225-E (Gordon/Exon) at 7-10.

2380 UCAN OB at 174. UCAN's inclusion of O&M workpapers may be a mistake on its part. UCAN includes the two Non-Shared Services O&M workpaper groups within a section of its Opening Brief that argues the Commission should reject "SDG&E's entire RAMP Capital cost request," and goes on to list "proposed expenditures related to these proposed IT projects listed in SDG&E-25-R at pp. 24-28." UCAN OB at 172 and 174. In the list of projects provided by UCAN, five line items relate to SDG&E's O&M forecasts (11T002.00, 11T004.00, 2100-3073.000 and 2100-0207.000, and 2100-0460.000). UCAN may have inadvertently included O&M requests within this list as its OB does not contain any explanation of the grounds to exclude these IT O&M activities and costs. UCAN also incorrectly identifies where these O&M requests are justified in SDG&E's testimony and workpapers. UCAN states that these workpaper groups may be found at the list of IT projects "listed in Exhibit SDG&E-25-R at pp. 24-28." However, there is no Exhibit SDG&E-25-R and the list of projects at pages 24-28 refers to a "Table TB/WE-21, Capital Expenditures Summary of Costs -- IT Projects Only." SDG&E's discussion of the O&M workpaper group forecasts cited in UCAN's OB is contained instead at Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 12-15. Out an abundance of caution, SDG&E addresses why UCAN's recommendations (to the extent it meant to include these five O&M requests) should be disregarded.

First, UCAN possessed all the information about these forecasts since the SDG&E Application was filed in May 2022, yet failed to make any recommendation to disallow them until it filed its Opening Brief.[2381] SDG&E requests the Commission strike UCAN's new argument and challenges to these O&M Workpaper Groups as improper litigation tactics and gamesmanship[2382] The Commission has granted motions to strike portions of briefing that essentially serve as testimony, where recommendations are not part of the testimony entered into the record and no party has had an opportunity to present evidence on the proposal, as is the case here.[2383]

Second, in the event the Commission is inclined to consider UCAN's Opening Brief assertions, its new argument is devoid of any facts or other probative evidence and should be disregarded for that reason as well. As the Commission has held, "[W]here other parties propose a result different from that asserted by the utility, they have the burden of going forward to produce evidence, distinct from the ultimate burden of proof. The burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility's position and presenting evidence

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2381 UCAN's OB is replete with new arguments and challenges to IT projects—both O&M and Capital—that were never presented in testimony, or otherwise. This is improper and SDG&E will address those new challenges in the areas where they occur.

2382 Specifically, the portions of UCAN's Opening Brief that should be stricken are contained at page 174. As discussed, infra, many of the forecasts UCAN now seeks to disallow at pages 172-176 are new. UCAN possessed all of the SDG&E testimony and workpapers related to the workpaper groups now discussed in UCAN's OB when SDG&E's Application and supporting testimony was filed on May 16, 2022 (and hence, contentions). This was 10 months prior to the time UCAN filed its prepared direct testimony on March 27, 2022. No rebuttal testimony was filed on these contentions as no party in this GRC proceeding took issue with the matters contained within SDG&E's testimony on these workpaper forecasts. SDG&E was not given proper notice of UCAN's contentions and was deprived of the ability to provide any further evidence in the record of this proceeding or otherwise respond to UCAN's late-made assertions outside of this Reply Brief. For these reasons, UCAN's arguments in Section 27.D Information Technology at pages 174-176 relating to workpaper groups 11T002.00, 11T004.00, 2100-3073.000, 2100-0207.000, and 2100-0460.000, should now be stricken as improper gamesmanship.

2383 *See, e.g.*, D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence"); D.92-06-065 at 61-62 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating, "If that is so, it is not proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact or argument.").

explaining the counterpoint position."[2384] There is no mention, and no evidence presented, within UCAN's testimony or OB of any infirmities relating to SDG&E's IT Non-Shared O&M activities. The discussion in UCAN's OB where these O&M-related workpaper groups are identified (UCAN OB at 174) relates entirely to UCAN's objections to IT Capital projects.[2385] Accordingly, its recommendation as it relates to any Non-Shared O&M requests should be disregarded entirely.

Third, SDG&E fully justified its Non-Shared O&M forecasts for the two workpaper groups identified by UCAN.[2386] No other party raised any objections to these Non-Shared O&M requests and the Commission should adopt SDG&E's request as proposed.

27.3.1.3 Shared O&M Recommendations

27.3.1.3.1 SDG&E has Fully Justified its Shared Service O&M Forecast

SDG&E justified approval of its TY 2024 Shared Services O&M forecast of $83.305 million, including its TY 2024 SM 2.0 Telecom Data Plan costs of $2.176 million, as demonstrated in testimony and in SDG&E's Opening Brief.[2387] These costs include vendor fees, network backhaul and telecommunications tools and services that are necessary for the Smart Meter 2.0 gas modules and electric meters to communicate with the head-end system, which is a central system that collects and manages data from multiple smart meters, enabling efficient monitoring and control of energy consumption.

Only two parties (Cal Advocates and UCAN) objected to SDG&E's Shared Services O&M forecasts. Neither Cal Advocates nor UCAN provide any substantive justification for their recommendations to disallow all SM 2.0 Telecom Data Plan costs. In fact, neither party disagrees that SDG&E must replace its current smart meter system, due to end of life and premature

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[2384] D.04-03-034 at 7, citing D.87-12-067.

[2385] *See generally* UCAN OB at 172-177.

[2386] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 4 (RAMP Table TB/WE-2), *id.* at 12-15, and Tables TB/WE-9, TB/WE-11. SDG&E-25-WP (Ballard) at 3-13 (1IT002.000), and 14-18 (1IT004.000). The two Non-Shared O&M workpaper groups are comprised of both RAMP and Non-RAMP-related activities. Only RAMP activities; however, appear to be challenged by UCAN in its OB.

[2387] SCG/SDG&E OB at 631-633 referencing Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 19 and Ex. SDG&E-25-WP (Ballard) at 49-50, 58 (Supplemental Workpaper 2100- 0207.00); and Ex. SDG&E-225-E (Gordon/Exon) at 11-13.

equipment failure.[2388] SDG&E demonstrated the reasonableness of its proposal for this O&M expenditure that will allow the new smart meter equipment to communicate efficiently back to SDG&E's head-end system. Without a data plan enabling such communication, the purpose and efficacy of having a smart meter system will be lost. UCAN also challenged three Shared Services O&M workpaper groups for the first time in its opening brief. This last-minute challenge is untimely and UCAN's contentions should be stricken.

27.3.1.3.2 SDG&E has Fully Justified its Smart Meter 2.0 Telecom Data Plan O&M Costs

a. Neither Cal Advocates Nor UCAN Provide Justification for a Recommended Disallowance of Telecom Data Plan Costs

Cal Advocates' Opening Brief consists of six lines, which asks the Commission to reduce SDG&E's Shared Service O&M forecast of $33.667 million by $2.176 million to eliminate costs related to SDG&E's Smart Meter 2.0 Telecom Data Plan.[2389] Referring back to its position in testimony, Cal Advocates explains that the downward adjustment is "based on the argument contained in CA-10 (Campbell), opposing the Smart Meter 2.0 project resulting in a reduction of $2.176 million.[2390] As SDG&E reflected in its Opening Brief, Cal Advocates' Witness Campbell takes no issue with the need for the Capital SM 2.0 projects, and requests only to "moderate" the costs.[2391] But, Witness Campbell makes no mention and takes no position on the SM 2.0 Telecom Data Plan O&M request, which effectively leaves Cal Advocates with no justification for its recommended disallowance of the SM 2.0 Telecom Data Plan forecast. Cal Advocates' OB does

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2388 *See* Ex. CA-10 (Campbell) at 34:21-28 ("Cal Advocates does not take issue with SDG&E's justification for the current meter replacement initiative but the program's costs must be reviewed and adequately justified."); Cf. UCAN OB at 152-154 (making supportive suggestions for SM 2.0 project implementation).

2389 Cal Advocates OB at 242, citing to Ex. SDG&E-25-R at 17. SDG&E notes that the amount indicated in Cal Advocates' OB for the Shared Services O&M request pertains only to the Infrastructure Operations costs, which is a subset of the overall Shared Services O&M costs of $83.305 million. *See* Ex. SDG&E-25 (Gordon/Ballard/Exon) at 16, Table TB/WE-13 and Ex. SDG&E-225-E (Gordon/Exon) at 11. *See also* Ex. CA-11 (Waterworth) at 57, Table 11-28.

2390 Cal Advocates OB at 242, citing Ex. CA-11 at 59-60 and CA-10 at 33.

2391 Ex. CA-10 (Campbell) at 34 (Although Cal Advocates does not oppose SDG&E moving forward with a program to replace meters as required, it proposes to moderate the level of funding requested by SDG&E."). The business justification and Cal Advocates' recommendation on the overall Capital costs for the SM 2.0 Project are addressed in SCG/SDG&E's OB at Section 21.2 (SDG&E Customer Services Field & Advanced Meter Operations) at Section 21.3.1.3.

not address SDG&E's rebuttal testimony, or any related testimony provided during hearings that demonstrated both the need and cost justification for the SM 2.0 Telecom Data Plan forecast. Without any substantive reason to support its challenge, Cal Advocates' recommendation must be rejected.

Similarly, although it makes varying arguments about smart meters and the SM 2.0 Capital projects,[2392] UCAN does not address SDG&E's TY 2024 Shared Services O&M forecast for the SM 2.0 Telecom Data Plan in its OB at all. SDG&E fully addressed Cal Advocates' and UCAN's positions on the SM 2.0 Telecom Data Plan request in its Opening Brief and will not reargue them here.[2393] SDG&E demonstrated in testimony and its Opening Brief that its forecast for these activities should be adopted as reasonable.

b. UCAN's New Challenges to IT Shared Services O&M Forecasts Should be Stricken

As discussed above, UCAN's testimony challenged only one O&M forecast related to the Shared O&M Smart Meter 2.0 Telecom Data Plan request. UCAN now alters its position, by challenging for the first time in its OB the O&M forecasts for Shared Operational Applications (Ex. SDG&E 25-WP 2100-3073.000), Shared Operational Infrastructure (Ex. SDG&E 25-WP 2100-0207.000), and Shared Operational Support (Ex. SDG&E 25-WP 2100-0460.000), which all provide RAMP-related mitigation activities, including labor and non-labor supporting the operations and maintenance of technology systems for utility operations, data center computing, cloud computing, storage, network, and telecom and the provision of support services such as enterprise monitoring. The same errors and omissions discussed in Section 27.3.1.2.2, *supra*, equally apply to UCAN's new recommendation to disallow all of the RAMP-related activities and costs associated with the three IT Shared Services O&M forecasts. SDG&E asks the Commission to strike UCAN's new challenges, which are contained at page 174 of its OB. Alternatively, as SDG&E also demonstrated, the Commission should disregard UCAN's arguments as lacking in justification or substance. As occurs with UCAN's challenge to SDG&E's Non-Shared O&M forecasts, there is no mention, and no evidence presented, within UCAN's testimony or OB of any infirmities relating to SDG&E's three RAMP-related IT Shared Services O&M activities. This is insufficient to meet UCAN's "burden of going forward to produce evidence" where it seeks a

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[2392] *See* UCAN OB at 152-169.

[2393] SCG/SDG&E OB at 631-633. *See also id*. at 483-498 (Section 21.3).

result different than that proposed by the utility.[2394] Accordingly, its recommendations as they relate to any Shared Services O&M requests should be disregarded entirely. SDG&E fully addressed UCAN's new positions in Section 27.3.1.2.2 and will not reargue them here. The Commission should approve SDG&E's TY 2024 IT O&M requests as proposed.

27.4 SDG&E IT Capital Request

27.4.1 Introduction

SDG&E requests approval of $642.991 million total IT Capital expenditures for its 2024 GRC, comprised of $220.012 million for 2022, $208.793 million for 2023 and $214.186 million for 2024.[2395] As discussed in SDG&E's Opening Brief, three parties asserted challenges to SDG&E's TY 2024 IT Capital requests: Cal Advocates, TURN and UCAN. In accordance with the guidance provided in D.19-09-051,[2396] where parties have addressed IT Capital projects sponsored by particular business areas, a response to those arguments is made by the business area that sponsored the Capital project. In their opening briefs, the parties largely reassert the positions they asserted in testimony. SDG&E addressed those positions in its written and evidentiary hearing testimony. However, to provide clarity, SDG&E addresses below, certain contradictory recommendations made by Cal Advocates and the new recommendations and arguments made in UCAN's opening brief.

27.4.2 SDG&E's Response to Intervenor's IT Capital Recommendations

27.4.2.1 Cal Advocates' Recommendations are Contradictory and Unjustified

Cal Advocates made separate and contradictory recommendations for adjustments to the IT Capital request: (1) using 2022 recorded actuals to adjust SDG&E's total IT Capital forecast of $220.012 million to $170.804 million;[2397] (2) providing partial funding for three IT Capital

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2394 D.04-03-034 at 7 (In Southwest Gas's rate case, the Commission held, "[W]here other parties propose a result different from that asserted by the utility, they have the burden of going forward to produce evidence, distinct from the ultimate burden of proof. The burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility's position and presenting evidence explaining the counterpoint position.") (citing D.87-12-067).

2395 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 1, Table TB/WE-1. This forecast includes all IT requests. *See* Section 27.2.1, Table 27.4 for a Summary Comparison of Positions on SDG&E's TY 2024 Capital forecasts.

2396 *See* D.19-09-051 at 471.

2397 Cal Advocates OB at 243.

projects: SM 2.0, Field Service Delivery Scheduling & Dispatch/Data (FSD), and SM Product/Upgrade under the analysis conducted by Witness Campbell (Ex. CA-10)[2398] and (3) using the analysis conducted by Witness Waterworth (Ex. CA-11) to partially fund the SM 2.0 project but providing zero funding for the FSD and SM Product/Upgrade IT Capital projects.[2399] In its rebuttal and Opening Brief, SDG&E addressed why Cal Advocates' recommendations were not justified and not supported by Commission precedent or facts.[2400] Indeed, Cal Advocates' recommendations are inconsistent with each other.

First, Cal Advocates asserts that use of SDG&E's 2022 adjusted recorded data is the appropriate measure for one year of SDG&E's forecast (2022) ostensibly because the number was lower ($170.804 million) than SDG&E's forecast for 2022 expenditures ($220.012 million). Cal Advocates attempts to justify use of this number, stating "[d]ue to timing, Cal Advocates did not have time to incorporate into its forecast and RO Model but recommends that this recorded figure be adopted for 2022."[2401] For several reasons, Cal Advocates' position is devoid of merit and its recommendation should be disregarded. SDG&E fully justified its project cost forecasts, through its testimony, workpapers, data request responses and meetings with the Cal Advocates' witness to discuss SDG&E's development of its Capital projects.[2402] To assert otherwise is specious. SDG&E's 2022-2024 IT Capital request is well-supported by project-by-project information.[2403] SDG&E has provided over 800 pages of detailed Capital workpapers, representing 114 projects. SDG&E's Capital workpapers specifically identify the types of investments needed for the forecast period.[2404] SDG&E also forecasted in-service dates for each project listed in the SDG&E IT 2022-

2398 Ex. CA-10 (Campbell) at 33-39. As reflected in its rebuttal testimony and OB, SDG&E utilized the numbers recommended in Cal Advocates Ex. CA-10 for comparative purposes.

2399 Cal Advocates OB at 243.

2400 SCG/SDG&E OB at Section 21.3.1.3 (SM 2.0), 21.3.1.4 (FSD), 21.3.1.5 (SM Product/Upgrade). *See also* Ex. SDG&E-225-E (Gordon/Exon) at 14 – 28; Ex. SDG&E-217 (Thai) 22-41, 44-52.

2401 Ex. CA-11 (Waterworth) at 66, n.108.

2402 *See, e.g.*, Ex. SDG&E-225-E (Gordon/Exon) at 8:20- 9:5 and Appendix D 9/6/22 Response to Data Request PAO-SDGE-043-LMW, Q.1a at BG-WE-D.2 – D.7 (identifying individual spreadsheets provided for each of the 20 projects requested by Cal Advocates, inclusive of project status, costs, timeline, among other information requested for each individual project).

2403 Ex. SDG&E-25-CWP-R (Exon).

2404 *See generally id.*.

2024 Capital forecasts. In addition, SDG&E's direct testimony includes narratives in support of the SDG&E IT-sponsored Capital projects.[2405]

As required by the Commission's Rate Case Plan,[2406] SDG&E developed its forecast using data at a necessary point in time before its GRC application was filed. The Rate Case Plan does not contemplate the use of base year +1 data, and SDG&E's forecasts were not developed using that information because it was not available at the time of its application. While recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others, and the utility is generally not permitted to revise its forecasts using that data, either up or down, once the application is filed.[2407] As the Commission found in SDG&E's last GRC, "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."[2408]

Further, Cal Advocates provides no justification for recommending use of the 2022 recorded data other than its observation that the number was lower. Although "the use of more recent data by the parties is not prohibited by the Rate Case Plan, . . . before this recent data can be used, the Commission needs to ensure that the recorded data is in a format 'compatible with the other years of recorded data in order to derive trends and forecasts.'"[2409] Where the parties disagree on the appropriate methodology to be used, the Commission will use the following approach:

> As discussed in prior Commission decisions, there are a number of acceptable methodologies for forecasting test year costs.…Depending on circumstances, one method may be more appropriate than others. Under other circumstances, two or

2405 Ex. SDG&E-25 (Gordon/Ballard/Exon) at 21-75. The business justification for IT Capital projects that are sponsored by business areas are provided for each sponsored project in their respective business area testimony.

2406 The Rate Case Plan prohibits SDG&E from updating its data and evidence in the manner Cal Advocates suggests, stating: "No bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed, except as provided [in update testimony]. D.07-07-004 (Rate Case Plan) Appendix A at A-12, Day 0. The Rate Case Plan was established by D.89-01-040 and modified by D.93-07-030, D.07-07-004, D.14-06-018, and D.20-01-002.

2407 D.19-09-051 at 278.

2408 *Id.* at 612.

2409 D.13-05-010 at 19 citing D.08-07-046 at 9.

> more methods may be equally appropriate. In general, the parties' testimony should explain: (1) why its proposed methodology is appropriate, (2) why it is better than methodologies proposed by other parties and (3) why the results are reasonable. The Commission must weigh this information in deciding which methodology should be used and how it should be used.[2410]

As explained by SDG&E, for every Capital project, a zero-based methodology was used to forecast estimated 2022-2024 expenses. The zero-based forecasting methodology provides a means of specifying costs for a project or program that is non-recurring in nature and often has a specific scope of work defined where a historical average would otherwise provide less accuracy in estimating cost. Zero-based forecasts do not inflate costs, but instead aim to refine the cost of a project or program based on cost estimates developed from the scope of work for the project to ensure accuracy. This approach has been used in prior GRCs and is most appropriate for IT Capital projects due to changing technological advancements with a forecast developed on an individual basis utilizing detailed cost estimates provided by internal and external subject matter experts experienced in estimating projects with similar scope, schedule, and resources.[2411] Cherry picking a number, without even an attempt to support its use, fails to meet the Commission's standard, and Cal Advocates' proposal should be rejected here.

Second, Cal Advocates' two witnesses who analyzed the IT Capital Projects contradict one another in their ultimate recommendations. Although a downward adjustment was recommended, Witness Campbell (Ex. CA-10), who analyzed the Customer Services—Field Services business area, including its Capital IT project requests, determined that each of SM 2.0, FSD and SM 2.0 Product/Upgrade were needed projects. Those recommendations are depicted in Table 27.5 below.[2412]

[2410] D.13-05-010 at 20 citing D.06-05-016 at 10-11.

[2411] Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 24.

[2412] In its comparison of positions in this GRC, SDG&E used the forecast recommendations by Witness Campbell in its Summary Comparison Tables. SDG&E does not concur with the Ex. CA-10 position, but believed it better represented Cal Advocates' position on the actual projects than the recommendation advanced in Ex. CA-11. Ex. CA-11 relies upon Ex. CA-10 for support of its positions, but then asserts an additional downward adjustment without having a separate basis.

Table 27.5 -Cal Advocates Conflicting Positions
(Ex. CA-10 vs. Ex. CA-11 Forecast Recommendations)

Projects	**CA-10 Forecast Recommendation**			**CA-11 Forecast Recommendation**			**Variance between CA-10 and CA-11**		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**	**2022**	**2023**	**2024**
Smart Meter 2.0	2,146	16,401	29,229	2,146	16,401	29,229	-	-	-
FSD Scheduling & Dispatch/Data	13,400	13,400	13,400	-	-	-	13,400	13,400	13,400
Smart Meter Product/Upgrade	5,141	5,141	-	-	-	-	5,141	5,141	-
Total	**20,687**	**34,942**	**42,629**	**2,146**	**16,401**	**29,229**	**18,541**	**18,541**	**13,400**

The second "Cal Advocates CA-11 (Waterworth) testimony is supported by CA-10's [Witness Campbell's] recommendations," however, Witness Waterworth (Ex. CA-11) recommends lower "partial funding of the SM 2.0 project, with no funding for the i) Field Delivery and Scheduling and Dispatch/Data Analytics and, ii) Smart Meter 2022-2024 Upgrades projects."[2413] Cal Advocates does not directly acknowledge the inconsistency in its positions, and merely offers that SDG&E "did not support its forecast despite data requests from Cal Advocates asking for detailed cost support."[2414] SDG&E strongly disagrees that it failed to provide sufficient and verifiable information in its testimony and workpapers in support of its requests of TY 2024 forecasts. Cal Advocates conveniently ignores this evidence as well as SDG&E's responses to Cal Advocates' multiple data requests and the discussions with Cal Advocates about development of these projects.[2415] SDG&E fully justified its TY 2024 IT forecasts. Even if it were accurate (and it is not), the recommendation by Cal Advocates Witness Waterworth (Ex. CA-11) would inappropriately result in a double discount: Witness Campbell (Ex. CA-10) bases her recommended downward adjustment on a claim that costs were not supported, and Ex. CA-11 adopts the

2413 Cal Advocates OB at 243.

2414 *Id.*

2415 *See, e.g.*, Ex. SDG&E-225-E (Gordon/Exon) at 8:20- 9:5 and Appendix D 9/6/22 Response to Data Request PAO-SDGE-043-LMW, Q.1a at BG-WE-D.2 – D.7 (identifying individual spreadsheets provided for each of the 20 projects requested by Cal Advocates, inclusive of project status, costs, timeline, among other information requested for each individual project). *See also* Ex. SDG&E-217 (Thai) at 22-52; Ex. SDG&E-225-E (Gordon/Exon) at 14-28. In response to TURN data requests, SDG&E provided further documentation for these projects including a cost-benefit analysis, Board Authorization and Work Order Authorization, which also detail the cost estimates and funding approvals, as applicable, for these proposed projects.

recommendations of Ex. CA-10, then claims a further downward adjustment based on the same reasoning. Cal Advocates' recommendations are flawed and should be disregarded.

For the reasons demonstrated in its testimony and evidence submitted on the issue, no adjustment to SDG&E's IT Capital forecasts are warranted and the Commission should adopt its TY 2024 forecasts as proposed.

27.4.2.2 UCAN's Original—and New—Recommendations are Wholly Unsupported and Unreasonable

Although portions of UCAN's Opening Brief suggest that it reviewed SDG&E's rebuttal testimony, it provides a narrative that largely ignores the evidence SDG&E provided in oral and written testimony and other materials that demonstrate SDG&E justified its TY 2024 IT Capital request. SDG&E fully addressed the positions contained in UCAN's testimony and will not reargue them here. In its Opening Brief, however, UCAN raises new arguments and challenges numerous IT Capital projects that were previously not placed at issue in testimony. SDG&E addresses the propriety of those new matters and the continued lack of substance in UCAN's positions below.

Capital Projects Not Currently At Issue

Importantly, SDG&E first identifies the forecasted IT Capital projects that have not been objected to by any party. Table 27.6 below lists those 22 Capital projects that no party has placed at issue in this proceeding.

Table 27.6 - Uncontested Capital IT Project Requests

Capital Work Paper	Project Description	Sponsoring Area	Total Estimated 2022-2024 ($000)
00900C	Demand Response Management Systems (DRMS) Replacement	Customer Services - Information	9,336
00903D	Customer Energy Network (Product) 2023-2024	Customer Services - Office Operations	316
00903I	Clean Transportation Product Team 2022-2023	Clean Transportation	1,398
00908A	Electric Material Traceability	Electric Distribution - Capital	1,184
00908Q	Electric Grid Ops Small Capital 2022	Electric Distribution - O&M	500
00908S	Electric Grid Ops Small Capital 2023	Electric Distribution - O&M	400

Capital Work Paper	Project Description	Sponsoring Area	Total Estimated 2022-2024 ($000)
00920AG	Telecommunications Attachment Management System (TAMS) Modernization	Electric Distribution - O&M	1,087
00920AH	Work Management Enhancements	Safety Management System: Safety, Risk, & Asset Management	1,743
00920AN	Geospatial Field Improvement	Electric Distribution - Wildfire Mitigation and Vegetation Management	2,676
00920AQ	CAISO Mandates 2021	Energy Procurement	236
00920BD	Foundational Analytics for Safety, Compliance and Efficiency	Information Technology	18,276
00920BJ	Load Curtailment Modernization	Electric Distribution - O&M	702
00920G	Gas Ops Tool Tracker SAP Enhancement	Gas Distribution	1,003
00920V	CAISO Mandates 2022	Energy Procurement	2,808
00920W	CAISO Mandates 2023	Energy Procurement	2,286
00921A	GRC & Regulatory Management System - Phase 3	Administrative and General	3,840
00921J	Claims Management	Administrative and General	238
00921K	Electric Damages Optimization	Administrative and General	252
00921N	Engineering & Construction Document Centralization and Compliance	Safety Management System: Safety, Risk, & Asset Management	1,813
00921Q	Cross-Functional Work Management Enhancements	Electric Distribution - O&M	2,659
00921Y	Construction Management Software Integration with SAP	Electric Distribution - Capital	972
00921Z	Automated Utility Design (AUD)	Electric Distribution - Capital	2,597

As reflected in its detailed testimony and workpapers,[2416] SDG&E has justified the 22 Capital IT projects contained in Table 27.6 and the Commission should adopt the requested projects as proposed by SDG&E.

In addition, there are several IT Capital projects that were referenced in UCAN's testimony, but no longer appear to be challenged in UCAN's Opening Brief. These projects are contained in Table 27.7 below.

Table 27.7 - Projects No Longer At Issue

Capital Work Paper	Project Description
00920AF	CAISO Mandates 2024
00920AU	LADC (Local Area Distribution Controller)
00920E	Investment Prioritization
00920F	Construction, Planning and Design (CPD) Enhancements
00920H	Field Mobile Hardware Replacement
00920M	GIS Modernization
00920P	Digital Asset and Damages Detection Platform
00920R	Vegetation Management - Work Management

SDG&E provided strong grounds in its rebuttal testimony that dispelled any validity to UCAN's assertions about each of these eight projects and demonstrated that those IT Capital requests were justified.[2417] The Commission should adopt SDG&E's reasonable IT Capital requests for these 8 projects as proposed.

UCAN's Various Challenges to Capital Projects Lack Merit: UCAN's assertions on the remaining TY 2024 IT Capital projects it challenges lack substance or evidentiary support and should be given no weight by the Commission. Throughout its Opening Brief, UCAN expresses its view that there are various infirmities with the IT Capital projects proposed by SDG&E. To the extent those assertions were raised in UCAN's testimony, SDG&E has demonstrated that its testimony, workpapers and other evidence justified the reasonableness of those Capital

[2416] *See* SCG/SDG&E OB at 633-639; Ex. SDG&E-25 (Gordon/Ballard/Exon); Ex. 225-E (Gordon/Exon) and Ex. SDG&E-25-CWP-R (Exon). Additional justification for the IT Capital projects sponsored by business areas is found in each of the sponsoring area's testimony.

[2417] *See* Exs. SDG&E-225-E (Gordon/Exon) at 44-46; SDG&E-210 (Summers), SDG&E-215 (Valero), SDG&E-231 (Deremer), and SDG&E-213 (Woldemariam). If UCAN did not abandon (as it appears it did) its requested reductions for these projects, SDG&E's Opening Brief also addresses the appropriateness of these forecasts and SDG&E reasserts those arguments here in Reply.

requests.[2418] UCAN's Opening Brief also contains new arguments and challenges other IT Capital projects that were not previously at issue in its testimony.

UCAN's Challenge is Untimely: As an initial matter, UCAN's inclusion of new arguments and recommendations at the opening brief stage is improper and should be stricken and otherwise disregarded. UCAN possessed all the information about SDG&E's Capital project forecasts since the SDG&E Application was filed in May 2022, yet failed to make any recommendation to disallow them until it filed its Opening Brief. SDG&E requests the Commission strike UCAN's new arguments and challenges to all of SDG&E's RAMP-related Capital projects and to all of the IT-sponsored Capital projects that it raises for the first time in its Opening Brief. As demonstrated by SDG&E in its O&M section (Section 27.3.2.2.2) UCAN's tactic here constitutes improper litigation tactics and gamesmanship.[2419] The Commission has granted motions to strike portions of briefing that essentially serve as testimony, where recommendations are not part of the testimony entered into the record and no party has had an opportunity to present evidence on the proposal, as is the case here.[2420]

2418 *See e.g.*, SCG/SDG&E OB at 633-639.

2419 Specifically, the portions of UCAN's brief that should be stricken are contained at pages 172, 174-176. The RAMP-related IT Capital forecasts and the IT-sponsored Capital projects forecasts that UCAN now seeks to disallow at pages 172, 174-176 are new. UCAN possessed all of the SDG&E testimony and workpapers related to these forecasts when SDG&E's Application and supporting testimony was filed on May 16, 2022 (and hence, contentions). This was 10 months prior to the time UCAN filed its prepared direct testimony on March 27, 2022. No rebuttal testimony was filed on these contentions as no party in this GRC proceeding took issue with the matters contained within SDG&E's testimony on these workpaper forecasts. SDG&E was not given proper notice of UCAN's contentions and was deprived of the ability provide any further evidence in the record of this proceeding or otherwise respond to UCAN's late-made assertions outside of this Reply Brief. For these reasons, UCAN's arguments in Section 27.D. Information Technology at pages 172 and 174-176 relating to RAMP-related IT Capital projects and IT-sponsored Capital projects, should now be stricken as improper gamesmanship.

2420 *See, e.g.*, D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence"); D.92-06-065 at 61-62 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating, "If that is so, it is not proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact or argument.").

In the event the Commission is inclined to consider UCAN's new recommended adjustments to SDG&E's GRC request, SDG&E demonstrates below that UCAN's presentation and recommendations are still infirm and should be dismissed. In its Rebuttal testimony, SDG&E observed that UCAN made no overall recommendations, and instead recommended adjustments on various projects in its testimony. And while it voiced an opinion on the particular project's viability, UCAN presented no evidence to support its opinions.[2421] Now for the first time, in its Opening Brief, "UCAN recommends that the entire RAMP Capital cost requested for 2022, 2023 and the TY 2024, $92.5 M, $80.87 M, and $70.18 M, respectively, be rejected."[2422] As its reasoning for this significant adjustment, UCAN asserts that "[t]hese requests lack adequate justification, ignore critical risks, including risk of obsolescence and the risk with massive gas throughput and losses from SDG&E's gas system, fail to be based on economic criteria, and as demonstrated above are based on an approval process where SDG&E management decides on priorities using an IT project lifecycle group, all of which are entirely at SDG&E's discretion."[2423] UCAN then specifically recommends "that the Commission reject all of SDG&E's proposed expenditures related to these proposed IT projects listed in Exhibit SDG&E-25-R at pp. 24-28,"[2424] and provides a list of project names and workpaper numbers ostensibly to represent the IT Capital projects it is challenging in the proceeding.[2425] UCAN further provides "[a] partial list of

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2421 *See generally*, Ex. SDG&E-225-E (Gordon/Exon) and at 6, 13 n.45 ("UCAN did not specify an overall Capital forecast expenditure recommendation. UCAN makes a variety of recommendations on certain projects that are addressed [in the Rebuttal]; *id.* at 40, 41 n.77, and 44 ("UCAN did not provide any support for its recommendation based on the individual merits or details of any particular IT capital project proposed by SDG&E"), *id.* at 45 ("assertions [about technology obsolescence and stranded assets] are contained in various places throughout UCAN's testimony without any specific evidence or science provided to support UCAN's statements").

2422 UCAN OB at 172 (citation omitted).

2423 *Id.* at 172-173, citing to Ex. SDG&E-215 at BD-WE-5. SDG&E notes that the reference UCAN cites to here is non-existent. SDG&E believes that UCAN may have intended to cite to Ex. SDG&E-225-E (Gordon/Exon) at 5. UCAN's entire Opening Brief is riddled with multiple and repeated spelling errors and incorrect references to authority, which required sleuthing attempts to identify what UCAN may be referring to. This citation is but one of numerous examples where no care appears to be taken with its showing and appearance in this proceeding. SDG&E has attempted to direct the Commission to the correct information for ease of reference by the Commission and to enable an accurate record.

2424 *Id.* at 174.

2425 *Id.* at 174-176. As SDG&E identified above in its discussion of its TY 2024 O&M forecasts (27.3.2.2.2), UCAN inexplicably included in its list of challenged "IT projects," five O&M workpaper groups for labor and nonlabor expenses on work conducted in support of the Company's additional specific IT assets that are certain to be outmoded, obsolete, and stranded within this GRC period, so should be rejected."[2426] For this separate list, UCAN contends "SDG&E's proposed IT related Projects 1 through 40 in Appendix E of Exhibit SDG&E-25 (Gordon, Ballard, Exon) likewise will be either obsolete or at best 'interim' (useful for two-years or less) in terms of technology life before replacement, not unlike the proposed transition from SM 1.0 to SM 2.0."[2427]

UCAN Disputed IT Capital Projects: As the abundant evidentiary record presented by SDG&E in testimony, workpapers and data request responses demonstrates, and as shown below, none of UCAN's arguments have merit. The IT Capital projects forecast by SDG&E, which UCAN's testimony and OB listed and challenged,[2428] are reasonable and the Commission should adopt SDG&E's TY 2024 IT Capital requests as proposed.

<u>SDG&E Has Demonstrated Its Project Evaluation Process is Thorough and Considers Necessary Risks</u>: As it did with its testimony, UCAN expresses its opinion but provides no evidence that supports its claims. In an attempt to broadly discredit the IT Capital projects proposed by SDG&E, UCAN first suggests that the process SDG&E undertakes in the selection of projects and technology lacks rigor and legitimacy. It misleadingly equates the absence of particular language in testimony (*i.e.* "economic justification" or "economically justified") to "demonstrate that [the IT witnesses] do not apply economic criteria and merely carry out the orders of others in the Company who ask that Capital project justification be developed."[2429] UCAN is incorrect.

RAMP mitigation activities. The list UCAN provided also contains several duplicate project listings [*e.g.*, WP #s 00908F, 00908W, and 00908X], and, in one instance, a workpaper number that does not match the name of the associated project, making it difficult to ascertain which project is placed at issue [WP# 00925Q incorrectly listed as Energy Transition Digital Twin].

2426 *Id.* at 176-177.

2427 *Id.* at 176.

2428 UCAN OB at 172 (challenging RAMP-related IT Capital costs), 174-176 (challenging IT-sponsored projects contained in list UCAN provides) and 176-177 (challenging "partial list of additional specific IT assets").

2429 UCAN OB at 170. UCAN has the audacity to assert elsewhere that employees of the Company "use estimates that they in essence 'dream up' as project and cost justification." *Id.* at 122-123. UCAN provides no evidence (or even a citation) for this outrageous claim because there is nothing to support it.

UCAN's argument ignores the well-documented record of the robust process both SoCalGas and SDG&E undertake as part of their "IT Project Lifecycle."[2430] In written and oral testimony, SDG&E explained in detail the rigorous process undertaken by the IT division, working with the business areas, to first identify the business or customer need, consideration of the market and the available, viable solutions, technical obsolescence factors involving the technology and whether the market or vendors are moving into different technologies, "economic user factors. . .for example. . .around where the industry is going around distributed energy resources" and cost development and considerations before a determination is made to proceed with an individual Capital project.[2431] At its essence, this process reviews the economics and pathways for decision making to result in the optimal proposal for the business need and customers.[2432]

Using this process, which both utilities utilize,[2433] SDG&E made similar funding requests for its IT Capital projects in its 2019 GRC, and intervenors made "recommendations to reduce the overall funding requested but did not argue or challenge the necessity of any of the individual projects."[2434] The Commission ruled, however: "we find that it is more appropriate in this case to review each project individually as we find it more reasonable that necessary projects provide the basis of the funding amount rather than for the funding amount to determine which projects are implemented."[2435] The Commission, in approving SoCalGas's and SDG&E's funding requests for

2430 *See* SCG/SDG&E OB at 611-612; Ex. SDG&E-25 (Gordon/Ballard/Exon) Chapter 1, at [Section I, Subsection B]; Ex. SDG&E-225-E (Gordon/Exon) at 4 and Appendix D, Response to PAO-SDGE-043-LMW, Q. 1c (describing the activities that occur within various phases of the 10-phase IT Project Lifecycle for project identification, development, approval and implementation).

2431 *See id.* and Tr. V18:3336:6-3338:18 (Lakhanpal/Gordon).

2432 UCAN also apparently missed SDG&E's Information Technology Policy testimony that describes the Company's strategy and focus to modernize its technology in support of customers and operations, which describes decision making and how the business and IT work effectively together. *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1 at 1-4. UCAN inexplicably asks the Commission to "reject outright the three tenets relied on by SDG&E[:] Technology resilience, IT disaster recovery, and lifestyle management." UCAN OB at 173. These tenets are yet another demonstration of SDG&E's responsible management of its business to safely, securely, and reliably serve its customers. *See* SCG/SDG&E OB at 607-609.

2433 *See* Ex. SCG-21-R-E (Gordon/Ballard/Exon) Chapter 2 at 24-25, Ex. SCG-221 (Gordon/Exon) at 3-4 and Appendix B, Response to PAO-SCG-026-LMW, Q. 1e, and Ex. SDG&E-225-E (Gordon/Exon) at 4-5 and Appendix D, Response to PAO-SDGE-043-LMW, Q. 1e (describing the activities that occur within various phases of the 10-phase IT Project Lifecycle for project identification, development, approval and implementation).

2434 *See* D.19-09-051 at 460, 463.

2435 *Id.*

their IT Capital projects, also ruled: "[b]ased on our analysis and review of each proposed project, we find all of the projects to be necessary and the requested funding levels for each project reasonable."[2436] Finally, the Commission made the following ruling, in finding the projects to be necessary:

> [For SoCalGas, finding [m]any of the projects are upgrades or refresh projects to replace obsolete, incompatible, no longer supported by the vendor, or at the end-of-life. The upgrades and refresh projects provide increased performance and functionality to meet business needs that are growing in complexity. SoCalGas is also moving away from certain legacy systems and so equipment and applications relating to those old systems are in need of replacement. Other projects include increasing storage and network capacity to handle increased computing loads. Several projects also impact safety as more data will be used and the new systems will provide better analytics and improved response times in identifying and responding to issues and anomalies. Improvements to the GIS system will support improved analysis of how the physical environment affects SoCalGas' equipment and systems. The projects listed also include improvements to communication centers and improvement to communication equipment in several areas.[2437]
>
> [And, for SDG&E, finding [m]any of the projects are for improvements and upgrades to SDG&E's communications systems and infrastructure. The projects replace outdated technology that is near or at the end of its life and have limited support or are no longer being supported by the vendor. The projects are also aimed at increasing functionality to meet business needs that are growing in complexity. Other projects are also aimed at increasing compatibility with newer systems as SDG&E continues to move away from microwave technology. Several projects will increase capacity and memory in order to handle future business needs. The new systems will also provide faster communication speeds that are more reliable and able to handle bigger loads on the system. Based on our review, we find the proposed projects to be necessary for SDG&E to modernize its communication infrastructure to meet present and future demands.[2438]

In this case, SDG&E has similarly justified the processes it undertakes when evaluating the need, justification and costs associated with each proposed project.[2439] SDG&E's forecasted

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2436 *Id.* at 460-461 (discussing SoCalGas); 471-472 (discussing SDG&E).

2437 *Id.* at 460.

2438 *Id.* at 471.

2439 *See* Tr. V18:3339:13-3340:18 (Lakhanpal/Gordon) (discussing policy framework around development of IT Capital projects) and *id*. at 3335:14-3338:22. UCAN appears to be confused by the logical phases the Company undertakes to evaluate projects and the involvement of both the business area (that has identified a business or customer need to satisfy) and the IT division (that helps identify projects are supported by hundreds of workpapers, extensive testimony and analysis justifying them as reasonable and necessary, and with very few exceptions already discussed in SDG&E's rebuttal testimony and Opening Brief,[2440] the reasonableness of those projects are not contested by any other party to this proceeding. Although UCAN may assert that the need associated with a project may change due to the DER Action Plan and the direction to be developed by the Commission in its related proceeding, UCAN does not challenge any of the IT Capital projects based on need.[2441]

SDG&E Assesses Risks, including Obsolescence, in Selecting Technology Solutions: SDG&E also addressed at length UCAN's bald claim that SDG&E's requests "ignore critical risks, including risk of obsolescence. . ."[2442] In its testimony, SDG&E described precisely how risks associated with obsolescence are ever present with technology, and how the Company plans for and addresses that inevitability at the front end of its technology selection and throughout the technology's life cycle.[2443] Inexplicably, UCAN ignores this evidence, and with hubris claims:

> When asked if the 'an explanation of the risks with technical obsolescence is included in the 2021 RAMP Report,' which they cite, Mr. Exon said 'yes.' But as

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possible technology solutions and their costs) in the development of IT Capital projects to address the specified need or requirement. *See* UCAN OB at 170 n.516 (citing witness testimony (Tr. V.18 (Exon) at 3322:1-3323:1) discussing the project lifecycle and response given to UCAN's question: "So is it easy for you to differentiate capital request justification versus [the sponsoring business area's] business justification?). As SDG&E made clear: "We work in concert with the business. . ." *Id.* at Tr. V. 18 (Woychik/Exon) at 3336:6-13.

2440 *See* SCG/SDG&E OB at 633-639 and Ex. SDGE-225-E (Gordon/Exon) at 16-17, 19-23, and 24-27.

2441 UCAN's assertions in this GRC proceeding place the proverbial cart before the horse. SDG&E addresses UCAN's unfounded assertions about the impact that other active Commission proceedings (as well as the DER Action Plan) might have on SDG&E's GRC request in Section 20.2 (Electric Distribution O&M) and Section 8.4 (Climate Change / Sustainability Policy).

2442 UCAN OB at 172-173. Oddly, UCAN includes as a "critical risk" for the IT division "the risk with massive gas throughput and losses from SDG&E's gas system." UCAN provides no insight on how this purported risk relates to the IT Capital projects contained within its GRC requests. As demonstrated elsewhere in SDG&E's Application and 2021 RAMP Report, the Company does identify the critical risks to its business and discusses how it manages and mitigates those its business risks. To the extent UCAN is suggesting that the RAMP activities should account for its purported risk, the argument is deficient. It is not required in the RAMP and to the extent UCAN wants it to be included in a RAMP report, UCAN needs to raise that in the S-MAP proceeding. Even if it were required, there is no meaningful connection between the IT projects and these purported gas system risks.

2443 *See* SCG/SDG&E OB at 607-612, 634-639.

> explained during this cross examination, UCAN's Dr. Woychik was unable find the term 'obsolescence' in a document search the 2021 SDG&E RAMP report.[2444]

Like so many of UCAN's contorted assertions, this statement is patently and demonstrably false. A simple word search of SDG&E's 2021 RAMP Report reveals that the topic of technology obsolescence was specifically discussed numerous times in its RAMP Report and in its direct testimony in this GRC. For example, the RAMP Report identified obsolescence as a control factor for one of its top risks -- Cybersecurity. In discussing planned controls for its Cybersecurity risk, the RAMP Report states:

> **One of the fundamental practices that supports a strong cybersecurity program is the refresh of technology, both hardware and software, at regular intervals**, to minimize risks posed by obsolete technologies that lead to security risks. This is frequently referred to as "Foundational Technology Systems Lifecycle Management."
>
> Technology lifecycles are short and require frequent upgrades to meet modern security standards and capabilities. In addition to technology **obsolescence**, this approach also addresses security **obsolescence**. Security **obsolescence** refers to cybersecurity tools and processes that are no longer effective, or potentially could create new vulnerabilities.
>
> Vulnerabilities inherent in legacy technology can provide a foothold for entry or movement within the Companies' environment. **Failure to invest in modern technologies could degrade the value of modern investments due to compatibility restrictions. Replacing legacy technology is a necessary method of managing cybersecurity risk**.[2445]

SDG&E further explains in the 2021 RAMP Report's Cross Functional Factor (CFF) Chapter on Foundational Technology Systems that "Foundational Technology Systems are necessary to provide safe and reliable service to the public, [and] [t]hese systems are used in every aspect of operations, customer engagement, and emergency response." The 2021 RAMP Report then identifies "[t]hree factors [that] create a continuing need to invest in Foundational Technology Systems," namely, that technology is foundational to the Enterprise, that it can quickly become obsolete and requires lifecycle management, and those attributes and evolving cybersecurity

[2444] UCAN OB at 170 citing to TR Vol. 18 (Gordon/Exon/SDG&E) 3325 L 17-21 and TR Vol. 18 (Gordon/Exon/SDG&E), 3325 L 24 – 3326 L 7.

[2445] A.21-05-011/-014 (cons.), 2021 RAMP Report at SCG/SDG&E-6-20-6-21 (emphasis added).

threats, place the business at risk without proper consideration of the latest solutions on the market and constant adaptation.[2446]

These important factors are highlighted and repeated verbatim in SDG&E's IT direct testimony, stating:

> Foundational Technology Systems, [ ] are necessary to provide safe and reliable service to the public. These systems are used in every aspect of operations, customer engagement, and emergency response. These systems include a significant portion of each company's software application systems, communication networks, monitoring systems, end-user systems, and hardware and software platforms hosted in data centers and on internal and external cloud platforms. The safety and reliability of operations depend on Foundational Technology Systems; thus, it is critical for these systems to be resilient and recoverable.
>
> Three factors create a continuing need to invest in Foundational Technology Systems:
>
> (1) Technology systems have become the foundation for operational, business, and customer engagement needs across the enterprise, where even the most routine tasks rely on an interdependent network of systems and services.
>
> (2) Technology can quickly become **obsolete** and often requires lifecycle management activities such as maintenance, upgrades, and replacements to remain reliable and secure. Neglecting these activities may result in downstream impacts, performance issues, and/or security vulnerabilities.
>
> (3) The industry is faced with constantly evolving threats from both domestic and foreign adversaries, as well as supply chain risks, third-party and insider threats, and natural hazards. Collectively, the dependency on technology systems, the pace of technology obsolescence, and the dynamic nature of technology threats, hazards, and risks requires that the Companies evaluate and leverage the latest solutions on the market and constantly adapt to securely, safely, and reliably provide services to the workforce and customers.[2447]

That simple word search would have revealed to UCAN that obsolescence is indeed a factor the Company actively considers and plans for in the management of its business and

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2446 *Id.* at SCG/SDG&E-CFF 4-1–4-2.

2447 Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 6, citing 2021 RAMP Report at SDG&E/SCG-CFF-4-2 (emphasis added).

presents the underpinning justification for many of its proposed Capital projects in this GRC.[2448] As SDG&E's witnesses testified at hearing "Yes. We look at obsolescence as a component of when we're managing risk."[2449] "The risk we're talking about here is the risk to reliable, safe services that the company provides."[2450] And, when the witness asked how UCAN was defining "obsolescence" because "it can get confusing when we're talking technical obsolescence. . .You can kind of look at obsolescence in all kinds of different facets, so I'm trying to understand exactly what your point of view is on this,"[2451] UCAN refused to provide a definition for the term he was using, stating "My testimony is not up yet."[2452]

Although it asks the Commission to deny the entirety of SDG&E IT Capital projects that support its RAMP mitigation efforts, as well as two lists of additional projects it specifies, based on its view that the projects will be obsolete within this 2024 GRC cycle, UCAN never does define what it means by obsolescence, and provides no factual basis to support its contentions that any of the 2024 GRC IT Capital projects requested will be "outmoded, obsolete and stranded within this GRC period."[2453] UCAN's further refrain, that the IT Capital projects SDG&E proposes in this GRC "will be either obsolete or at best 'interim' (useful for two years or less),"[2454] have been addressed previously and similarly lack any support in this proceeding's record.[2455] And UCAN is again misleading when it implies that SDG&E does not take risk to its customers into account, stating: "With regard to SM 2.0, the question was asked, but not answered, whether Messrs Exon

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2448 For example, the RAMP Digital Workspace project (CWP #00908B) that UCAN challenged in its testimony, specifically explains that: "This project improves client experience, operational efficiency and **reduces the risk of technology obsolescence**." Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 2 at 34 (emphasis added).

2449 Tr. V18:3324:19-22 (Exon).

2450 Tr. V18:3324:23-3325:4 (Woychik/Gordon).

2451 Tr. V18:3325:5-18 (Gordon/Woychik) (Witness noting "It would be helpful if we had a better understanding of what your definition of 'obsolescence' is in this regards.").

2452 *Id.*

2453 UCAN OB at 176. Although it mentions throughout its OB this notion that SDG&E's forecasted IT Capital projects will be stranded or outmoded or obsolete within this GRC cycle, UCAN points to nothing to support its theory. *See, e.g., id*. at 32, 140-141. SDG&E's IT and Cybersecurity testimony and RAMP Report demonstrate that the Company actively mitigates this risk and has requested to continue this important mitigation in this TY 2024 GRC.

2454 UCAN OB at 176.

2455 *See, e.g.*, Ex. SDG&E-225-E (Gordon/Exon) at 4-7, 44-45; SCG/SDG&E OB at 609-610, 634-638.

and Gordon considered the risk to customers with the numerous meter failures that SDG&E experienced and will experience?"[2456] The exchange between UCAN and the witness, Mr. Exon, is clear. When asked the question posed by UCAN, the witness responded: "This is, again, something that [Mr. Thai, the business witness sponsoring the IT Capital project] covers in his testimony.· But just to -- you know, meter failures can impact customers.· That was one of the main drivers of the replacement project."[2457] This demonstrable lack of credibility casts doubt on each of UCAN's statements, conclusions and opinions.[2458]

The Commission requires more than mere opinions and viewpoints expressed by a party. "[W]here other parties propose a result different from that asserted by the utility, they have the burden of going forward to produce evidence, distinct from the ultimate burden of proof. The burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility's position and <u>presenting evidence explaining the counterpoint position</u>."[2459] UCAN's testimony is devoid of any facts or evidence that support the viewpoints or conclusions it expresses. Its unsupported statements are not credible and should be given no weight by the Commission. Accordingly, UCAN has failed to meet its burden in this proceeding and its recommendations must be disregarded.

2456 UCAN OB at 171, citing "TR Vol. 18 (Gordon/Exon/SDG&E) 3327 L 15- L 20."

2457 Tr. V18:3327:7-22 (Woychik/Exon).

2458 UCAN's claim that "[t]he IT infrastructure proposed will simply be obsolete during the pendency of this GRC, as it relies on legacy methods and a legacy regulatory structure that fail to recognize the incredible change we face with Artificial Intelligence. . ." is another of UCAN's many irresponsible and inaccurate assertions. UCAN OB at 173; *see also id.* at 3 n.8 ("UCAN notes that nothing is said by SDG&E or SEMPRA Utilities about AI though it is 'much a buzz' in the energy utility world.") As its testimony relates, SDG&E is truly keen on the potential impact of AI to its systems and customers. *See* Ex. SDG&E-25 (Gordon/Ballard/Exon), Chapter 1 at 4 (discussing how SDG&E's technology strategy and implementation captures and prepares for technology advances. Its Accelerate Digital Pillar for IT "focuses on modernizing our technologies to prepare for the future, which requires innovation that is delivered rapidly driving business insights and decisions. Innovation is enabled through modern technologies such as Cloud, Artificial Intelligence (AI) and Machine Learning (ML)".) And also identifies and understands the risk associated with modern technologies. *See* SCG/SDG&E OB at 655-656 (providing examples of how the Companies' cybersecurity program "must continuously evolve to protect its assets, infrastructure and customers" due to the cybersecurity threat landscape "evolving at a rapid pace through emergent advanced technologies such as ChatGPT that mimics human conversation to lure and trick victims into installing malicious software on their devices .") (citation omitted).

2459 D.04-03-034 at 7, citing D.87-12-067 (emphasis added).

SDG&E has demonstrated the reasonableness of is TY 2024 IT Capital forecasts, and the Commission should adopt its request as proposed.

28. Cybersecurity

Cal Advocates was the only party to address SoCalGas' and SDG&E's GRC Cybersecurity requests in testimony or in opening briefs. Cal Advocates largely refers back to its position in testimony. Because SoCalGas and SDG&E addressed the bulk of Cal Advocates' comments in their rebuttal testimony and opening brief,[2460] we summarize only the key issues below.

As described in SoCalGas's and SDG&E's direct testimony (Ex. SCG-22-R (Mueller) at 5-10 and 13-26 and Ex. SDG&E-26-R (Mueller) at 2-3 and 18-27), the costs sponsored by SoCalGas and SDG&E in their cybersecurity testimony are for managing cybersecurity risk, which is a top safety risk that was identified in the 2021 RAMP Report[2461] and is further described in the table below:

Table 28.1[2462]
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)[2463] systems, and related processes.

In developing SoCalGas' 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. The Cybersecurity Program continually reassesses current mitigating control activities versus best practices to address continually evolving threat actor capabilities, ultimately increasing the use of innovative technologies within the business.

SoCalGas and SDG&E summarize their response to Cal Advocates' cybersecurity O&M and Capital recommendations in the sections below.

2460 Ex. SCG-222 (Zevallos); Ex. SDG&E-226 (Zevallos); and SCG/SDG&E OB at 642-658.

2461 A.21-05-011/014 (cons.), 2021 RAMP Report, RAMP-A, Overview and Approach at 1.

2462 SCG/SDG&E OB at 643, Table 28.5 referencing Ex. SCG-22-R (Mueller) at 7, Table LM-4; SDG&E-26-R (Mueller) at 6, Table LM-4.

2463 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.

28.1 Response to Cal Advocates' Proposed Cybersecurity O&M Recommendations

28.1.1 SoCalGas's Response to Cal Advocates' O&M Recommendation

In its testimony[2464] and opening brief,[2465] Cal Advocates does not propose any adjustments to SoCalGas's 2024 cybersecurity O&M request, as set forth in the table below from SoCalGas's rebuttal testimony.

Table 28.2 – SoCalGas Total O&M[2466]

TOTAL O&M – Constant 2021 ($000)			
	Base Year 2021	**Test Year2024**	**Change**
SOCALGAS	3,850	3,970	86
CAL ADVOCATES	3,850	3,970	86

The Commission should approve SoCalGas's Cybersecurity O&M request as reasonable.

28.1.2 SDG&E's Response to Cal Advocates' O&M Recommendation

SDG&E requested a total O&M forecast of $16.377 million, comprised of $0.019 million Non-Shared O&M and $16.358 million Shared O&M.[2467] In its testimony and opening brief, Cal Advocates did not dispute SDG&E's Non-shared O&M forecast of $0.019 million.[2468] Although Cal Advocate's opening brief discusses the initial recommendation made in its testimony to adjust SDG&E's Shared O&M forecast, Cal Advocates ultimately concludes in its opening brief that "Cal Advocates does not oppose SDG&E's request of $16.377 million (O&M). . . ."[2469]

Cal Advocates' new recommendation appears to be based upon its consideration of SDG&E's rebuttal testimony. That rebuttal testimony detailed the circumstances for the delayed hiring of FTEs due to the challenges to hiring created by heightened demand and salary requirements for skilled cybersecurity professionals given the increase in cybersecurity activities across all industries, and the inappropriateness of using a single year (2022) as the proxy for a TY

2464 Ex. CA-11 (Waterworth) at 71.

2465 Cal Advocates OB at 244.

2466 SCG/SDG&E OB at 641, Table 28.1, referencing Ex. SCG-222 (Zevallos) at Table p. 6.

2467 Ex. SDG&E-226 (Zevallos) at Table p. 4; SCG/SDG&E OB at 646 and Table 28.8.

2468 *See* Ex. CA-11 (Waterworth) at 71, Table 11-41 (relating to non-shared 2024 O&M forecast); Cal Advocates OB at 247.

2469 Cal Advocates OB at 247.

2024 forecast under both Commission precedent and the nature of the cybersecurity forecasted activities. SDG&E's testimony and OB demonstrated that its Cybersecurity Program involves necessary proactive measures to continuously address a rapidly evolving threat environment and requires use of non-labor services to maintain and keep current the tools used to deflect and protect against cybersecurity threats and attacks.[2470] The Commission should approve SDG&E's Cybersecurity O&M request as reasonable.

28.2 Response to Cal Advocates' Proposed Cybersecurity Capital Recommendations

28.2.1 SoCalGas's Response to Cal Advocates' Capital Recommendations

SoCalGas requests approval of $108.545 million total Cybersecurity Capital expenditures for its 2024 GRC, comprised of $28.842 million for 2022, $36.788 million for 2023 and $42.915 million for 2024.[2471] In its opening brief, Cal Advocates departs from the initial recommendations contained in its testimony, which it now concedes were based upon an erroneous methodology.[2472] Nonetheless Cal Advocates continues to recommend drastic reductions be taken from SoCalGas's proposed cybersecurity Capital forecasts.[2473]

In its Summary of Recommendations, Cal Advocates "forecasts Capital expenditures of $20.6 million in 2022, $23.6 million in 2023, and $23.6 million in 2024."[2474] Now, alternatively, Cal Advocates argues that, because SoCalGas's 2022 estimates were higher than the 2022 adjusted recorded amount, the 2022 forecast should be reduced to the amount of 2022 recorded costs and recommends a 2-way balancing account be established for years 2023 and 2024. Cal Advocates also alleges that SoCalGas has historically over forecasted and its forecast spending in this rate case is significantly higher than in previous rate cases, and asks the Commission to disregard SoCalGas's 2022-2024 forecasts.[2475] For the reasons set forth in SoCalGas's testimony and

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[2470] *See* SCG/SDG&E OB at 648-650.

[2471] Ex. SCG-22-R (Mueller) at 1, Table LM-1.

[2472] Cal Advocates OB at 244 (remarking on its initial recommended forecast and noting "However, in rebuttal SCG accurately noted Cal Advocates benchmarking its recommendation was in error. Alternatively, Cal Advocates recommends adopting the actual recorded costs for 2022 with a 2-year balancing account for 2023 and 2024.").

[2473] *Id.*

[2474] *Id.* at 28, para. 1.14 Cybersecurity.

[2475] *Id.* at 244-245 ("Alternatively, Cal Advocates recommends a two-way balancing account for the remaining GRC period and a reevaluation if the account is needed in the next GRC.").

opening brief and summarized below, the Commission should reject Cal Advocates' recommendation to drastically cut the funding for SoCalGas's proposed Cybersecurity Capital projects, which are needed to address key safety risks.[2476]

First, as a threshold matter, SoCalGas disagrees with the methodology employed by Cal Advocates in determining forecast years based upon actuals from a single year (2022).[2477] SoCalGas utilized a zero-based forecast methodology for Cybersecurity Capital costs.[2478] 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 required by the Commission's Rate Case Plan,[2479] SoCalGas developed its forecast using data at a necessary point in time before its GRC application was filed. The Rate Case Plan does not contemplate the use of base year +1 data, and SoCalGas's forecasts were not developed using that information because it was not available at the time of its Application. While recorded data may indicate lower spending than forecasted in some areas, it may also indicate higher spending than forecasted in others, and the utility is generally not permitted to revise its forecasts using that data, either up or down, once the application is filed.[2480] Cal Advocates provides nothing to justify its proposal for use of a Base Year +1 (2022 recorded cost) forecast methodology. Under Commission precedent, Cal Advocates was required to

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2476 *See, e.g.*, SCG/SDG&E OB at 654-657 and citations contained therein. SoCalGas has not included those portions of its rebuttal and opening brief that relate to the error that Cal Advocates has now conceded occurred with its earlier recommended methodology for adjustments to the SoCalGas Cybersecurity capital forecasts.

2477 SCG/SDG&E OB at 650-651 (demonstrating why zero-based forecast is most appropriate for the Cybersecurity capital program), *see also id.* at 654-657. Although Cal Advocates' initial position, that it has now backed away from, was to use a 5-year average, the same reasons apply to reject a single year forecast approach for the Cybersecurity capital Program.

2478 SCG/SDG&E OB at 650-651.

2479 The Rate Case Plan prohibits SoCalGas from updating its data and evidence in the manner Cal Advocates suggests, stating: "No bulk or major updating amendments or recorded data to amend the final exhibits, prepared testimony, or other evidence shall be allowed, except as provided [in update testimony]. D.07-07-004 (Rate Case Plan), Appendix. A at A-12, Day 0. The Rate Case Plan was established by D.89-01-040 and modified by D.93-07-030, D.07-07-004, D.14-06-018, and D.20-01-002.

2480 D.19-09-051 at 278. *See also id*. at 612 (finding the Commission must "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.").

demonstrate "(1) why its proposed methodology is appropriate, (2) why it is better than methodologies proposed by other parties and (3) why the results are reasonable."[2481]

Second, Cal Advocates' recommendations are not consistent with the Commission's directive to incorporate a risk-based framework into the current GRC request. As identified within the 2021 RAMP Report,[2482] cybersecurity risk is a top safety risk for the Companies. The 2021 RAMP Report was the starting point for consideration of the cybersecurity risk mitigation efforts identified in this GRC. The 2021 RAMP Report presented an assessment of the key safety risks of SoCalGas, including the potential drivers that could lead to a risk event and the potential consequences of a risk event. In the 2021 RAMP Report, SoCalGas proposed plans for mitigating these cybersecurity risks, then did their best to reasonably forecast the costs of these mitigation efforts.

Moreover, the approach taken in the TY 2019 GRC SoCalGas Cybersecurity revised prepared direct testimony of Gavin Worden[2483] (Ex. SCG-27-R (Worden) outlined a series of costs by project and by year and mapped those costs to what is known as "Five Core Functions." While highly effective, in its TY 2024 GRC testimony, SoCalGas altered its approach and has not disclosed the same level of detail and information out of concern it might expose sensitive information including internal tactics and information about products being utilized to protect Company systems and data. Rather than using project level mapping, the 2024 GRC utilized Risk Areas, an equally effective delineation of areas of cybersecurity risk management that outline our intended investments within each area. This approach also aligns with SoCalGas's incorporation of its risk-based mitigation assessments from its 2021 RAMP Report into the Cybersecurity Capital forecasts in this 2024 GRC proceeding.

In today's rapidly evolving technological landscape, where automation and advancements have become integral to daily operations, the necessity of robust cybersecurity measures has grown exponentially. As we witness the fusion of digital systems with critical infrastructure, several

2481 D.13-05-010 at 19-20 (citing D.06-05-016 at 10-11.).

2482 A.21-05-011/014 (cons.), 2021 RAMP Report, RAMP-A, Overview and Approach at 1.

2483 *See* A.17-10-007/-008 (cons.), the Revised Prepared Direct Testimony of Gavin Worden (October 6, 2017) (Ex. SCG-27-R (Worden). The Commission may take official notice of SoCalGas's and SDG&E's testimony exhibits in the evidentiary record of the above-mentioned proceedings under Rule 13.10 of the Commission's Rules of Practice and Procedure.

events since 2018 underline the escalating urgency to invest in cybersecurity.[2484] From sophisticated supply chain attacks to disruptive malware targeting essential utilities, the incidents of recent years spotlight the critical need for layered and proactive cybersecurity strategies to safeguard against the ever-evolving threats that modern technology brings.

For example, the 2024 GRC Cybersecurity forecasts (as compared to the 2019 GRC forecasts), reflects an increased investment in the areas of Operational Technology Cybersecurity and Obsolete IT Application and Infrastructure Replacement due to the evolving nature of threats, whereby attackers are looking to exploit Industrial Control Systems (ICS) used by the energy and utilities industries, and more broadly, to exploit vulnerabilities that exist within a company's technology landscape.[2485] In addition to the Colonial Pipeline hack cited in testimony (Ex. SCG-22-R (Mueller) at 2-3), there continues to be elevated risks within ICS, as indicated through the widely reported April 2022 event of an Advanced Persistent Threat (APT) actively using malware, "that an adversary could leverage to cause disruption, degradation, and possibly even destruction

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[2484] Since SoCalGas's last GRC (TY 2019), cyberattacks and threats have greatly increased in both number and sophistication across many industries, including the energy sector. A few recent examples include: New OT Malware Possibly Related to Russian Emergency Response Exercises | Mandiant, available at (https://www.mandiant.com/resources/blog/cosmicenergy-ot-malware-russian-response) (May 2023 analysis of COSMICENERGY malware capable of disrupting electric power systems, affecting regions including Europe, the Middle East, and Asia); Active Exploitation of ICS Vulnerability, (https://www.darkreading.com/ics-ot/3-critical-rce-bugs-threaten-industrial-solar-panels (June 2023 report of the active exploitation and vulnerability technology posing a significant threat to solar power generation sites); Vulnerabilities in uninterruptible power supply (UPS) Devices, (https://www.techrepublic.com/article/tlstorm-exploits-expose-more-than-20-million-ups-units-to-takeover-was-yours-one-of-them/), (March 2022 Security researchers at Armis Labs discovered "TLStorm" vulnerabilities in APC Smart-UPS devices, putting critical infrastructure at risk); Warning About ICS-Targeting Malware, https://www.bleepingcomputer.com/news/security/us-warns-of-govt-hackers-targeting-industrial-control-systems/, (April 2022 warning by multiple US government agencies about the threat posed by Pipedream/INCONTROLLER malware targeting industrial control systems (ICS), highlighting the urgent need to protect vital infrastructure); and Third-Party Provider Breach Affects Pipeline Operators, https://energynow.com/2018/04/u-s-cyberattack-bleeds-into-utility-space-with-billing-delays/#:~:text=Energy%20Transfer%20Partners%20LP%2C%20Boardwalk%20Pipeline%20Partners%20LP%2C,said%20it%20disabled%20its%20system%20as%20a%20precaution., (April 2018 major pipeline operators, including Energy Transfer Partners LP, Boardwalk Pipeline Partners LP, Chesapeake Utilities Corporation's Eastern Shore and Natural Gas, and Oneok Inc., reported network shutdowns due to unauthorized access through a third-party provider, emphasizing the need for a secure digital ecosystem).

[2485] SCG/SDG&E OB at 642-643, 651, Table 28.10; Ex. SCG-22-R (Mueller) at 8-10, 20-26.

depending on targets and the environment."[2486] Additionally, in November 2021, Delta-Montrose Electric Association reported a sophisticated attack that corrupted 90% of internal network functions.[2487] The connection between these types of growing attacks on the energy and utilities industry, and our request for investments in the areas of Operational Technology and Obsolete IT Application and Infrastructure Replacement, are clear. There is a need to effectively protect our systems and technologies from a rapidly evolving threat landscape, of which SoCalGas is not immune.

SoCalGas also described in testimony (Ex. SCG-22-R (Mueller) at 20-21), the risk area of Perimeter Defenses, which equally represents an area of increasing sensitivity and need for investment in critical system enhancements and protective measures. Perimeter Defenses, activities that SoCalGas takes to protect external access points to our systems, also apply to Operational Technology assets. This program reflects critical enhancements to infrastructure (*e.g.*, enhancement of firewall hardware and software), and implementation of protective measures against Denial of Service Attacks (DDos) and web application firewall protections. Collectively, these investments demonstrate how SoCalGas is actively responding in the face of evolving threats to our technology assets.[2488]

In a landscape where technological integration is advancing rapidly, investing in robust cybersecurity is not just a necessity but a vital imperative. The incidents recounted serve as potent reminders of the importance of proactive measures to safeguard critical infrastructure against the escalating threats posed by our increasingly interconnected digital world.

Cal Advocates' use of 2022 recorded data as a proxy for SoCalGas's cybersecurity Capital forecasts fails to properly account for these cybersecurity risks. Moreover, while the Commission may wish to consider Cal Advocates' alternative proposal of a two-way balancing account for years 2023 and 2024,[2489] the level of investment (even with a balancing account) must be

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2486 Dragos, CHERNOVITE's PIPEDREAM Malware Targeting Industrial Control Systems (April 13, 2022) available at https://www.dragos.com/blog/industry-news/chernovite-pipedream-malware-targeting-industrial-control-systems.

2487 Montrose Press, DMEA confirms cyber attack on internal network (Updated January 5, 2023) available at https://www.montrosepress.com/news/dmea-confirms-cyber-attack-on-internal-network/article_7000f04e-5238-11ec-8e21-8f816d847a80.html.

2488 *See* SCG/SDG&E OB at 651, Table 28.10; Ex. SCG-22-R (Mueller) at 20-21.

2489 Cal Advocates OB at 244-245.

appropriately established. SoCalGas has demonstrated the sufficient need for Capital expenditures for Cybersecurity to prepare and protect the Companies and their systems and services from the extant and increasing cybersecurity threats and risk. As such, for all of the reasons set forth above, and in SoCalGas's testimony and opening brief, the Commission should adopt SoCalGas's reasonable Cybersecurity Capital forecasts.

28.2.2 SDG&E's Response to Cal Advocates' Capital Recommendation

In its testimony[2490] and opening brief, Cal Advocates does not propose any adjustments to SDG&E's 2024 Cybersecurity Capital forecasts,[2491] as set forth in the table below from SDG&E's rebuttal testimony.

Table 28.3[2492]
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	0
CAL ADVOCATES	8,424	9,660	9,660	27,744	0

The Commission should approve SDG&E's reasonable cybersecurity Capital forecasts.

29. Corporate Center – General Administration

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 SoCalGas and SDG&E if not performed and allocated by the Corporate Center.[2493]

[2490] Ex. CA-11 (Waterworth) at 82.

[2491] Cal Advocates OB at 247 ("Cal Advocates does not oppose SDG&E's request of $16.377 million (O&M) and Capital costs as follows: 2022 – 8.424 million; 2023 – 9.660 million and 2024 – 9.660 million.") (citation omitted). Cal Advocates appears to have dropped its unsupported balancing account recommendation for SDG&E that was made as an offhand comment in Cal Advocates' testimony discussion of SoCalGas's capital requests. No such request appears in its Opening Brief

[2492] SCG/SDG&E OB at 642, Table 28.4, referencing Ex. SDG&E-226 (Zevallos) at Table p. 7.

[2493] Further information regarding Corporate Center – General Administration is provided in SCG/SDG&E OB at Section 29 and the prepared testimony of Derick Cooper, 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).

Cal Advocates' OB covering Corporate Center states that it does not oppose the Companies' total requested General Administration costs of $130.063 million for TY 2024.[2494] Another section of Cal Advocates' OB, however, requests a reduction in Finance Division costs (a subset of Corporate Center – General Administration) associated with the preparation of certain internal audits.[2495] TURN's OB requests disallowance of Corporate Center ICP costs.[2496] CEJA's OB requests disallowance of outside legal forecasts for both SoCalGas and SDG&E. These recommendations should be rejected, and the Companies' proposals should be adopted as reasonable, as explained below.

29.1 SoCalGas and SDG&E's Allocated Audit Services Costs Should Be Approved as Reasonable

As explained in testimony and in its OB, Cal Advocates recommends the removal of certain historical audit costs allocated to SDG&E and SoCalGas associated with the preparation of 36 audit reports that were conducted under the attorney-client or attorney work product privileges. 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.[2497] Cal Advocates explained that it "does not challenge" SoCalGas's and SDG&E's assertion of attorney-client privilege, but nevertheless recommends "removal" of certain audit costs, as follows:

> Cal Advocates does not challenge SCG's and SDG&E's assertion of attorney-client privilege. Cal Advocates could not determine whether the costs to perform these audits were justifiably assigned to ratepayers. Cal Advocates made the recommended adjustments in Audit Services by adjusting the historical recorded costs for purposes of forecasting as discussed below for SCG and SDG&E. This recommendation is consistent with Commission precedent.[2498]

Cal Advocates' recommendation should be rejected for several reasons. *First,* Cal Advocates' argument does not acknowledge that the Commission rejected similar Office of

2494 Cal Advocates OB at 247.

2495 *Id.* at 359-361.

2496 TURN OB at 298-300.

2497 *See* SCG/SDG&E OB at 664-666, *discussing* Ex. SCG-223/SDG&E-227 (Cooper) at 4-6, Ex. CA-12 (Chumack), and Ex. CA-19 (Chia/Lee) at 1-2.

2498 Cal Advocates OB at 359-362.

Ratepayer Advocates (ORA) arguments in the Companies' TY 2019 GRC and in SCE's TY 2021 GRC.[2499] In D.19-09-051, the Commission found that the challenged costs for privileged audits were "legitimate expenses for necessary audits and should not be excluded" and that SoCalGas's and SDG&E's explanation for not providing the audits was reasonable:

> 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 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.[2500]

Second, just as in the TY 2019 GRC, SoCalGas and SDG&E presented ample evidence supporting the reasonableness of the audit function and costs, for example, by explaining the purpose and benefits of the audit services function:

> The group is charged with performing independent evaluations of risk and business controls as well as identifying solutions to business control issues and recommending process improvements. It issues reports on the effectiveness and efficiency of operations, economical and efficient use of resources, security of assets, reliability and integrity of financial information, and compliance with applicable policies, plans, procedures, laws, and regulations.[2501]

2499 *See* D.21-08-036 at 439-442.

2500 OB at 665-666, *citing* Ex. SCG-223/SDG&E-227 (Cooper) at 5-6, *quoting* D.19-09-051 at 503 (emphasis added); *see also* D.19-09-051 at 718.

2501 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 24-25.

The above testimony supports the conclusion that auditing evaluation expenses are legitimate and reasonable business costs. Cal Advocates makes no claim that the expenses incurred were incorrect or imprudent.

SoCalGas and SDG&E also provided Cal Advocates with privilege logs that identified the 36 privileged audits by dates, titles, and scope of subject matter, and Cal Advocates identified no specific deficiency in the logs. Cal Advocates did not include the privilege logs as part of their workpapers or otherwise include them in the evidentiary record to support its claims.[2502]

Third, although Cal Advocates states that it "does not challenge SCG's and SDG&E's assertion of attorney-client privilege," its recommendation ignores the fact that SoCalGas and SDG&E may not share privileged audit reports with Cal Advocates and the Commission without waiving the attorney-client privilege or attorney work product privilege.[2503] California law and the CPUC have long recognized the validity of these privileges, and there should be no automatic penalty to a regulated entity for exercising its legal rights. The fact that these reports are protected from disclosure does not negate the evidence supporting the costs as reasonable.

Finally, as SoCalGas and SDG&E explained in their OB, the historical costs identified 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.[2504] Therefore, Cal Advocates' recommendation has no impact on SoCalGas and SDG&E's cost forecast in this area.

Accordingly, similar to the Commission's decision in D.19-09-051, Cal Advocates' proposed disallowance should be rejected here.

29.2 SoCalGas and SDG&E's Allocated Corporate Center ICP Costs Have Been Demonstrated as Reasonable and Should Be Approved

TURN's OB continues to take issue with the design of the Corporate Center ICP and recommends no funding for performance measures related to Sempra's financial performance.[2505] TURN's position is unreasonable and should be rejected, as discussed in Section 31.2.5, *infra.*

2502 SoCalGas's and SDG&E's privilege logs were identified in response to Cal Advocates' discovery audit requests as PAO-SCG-AUDIT-SWC-003 and PAO-SDGE-AUDIT-SWC-003, respectively.

2503 *See, e.g., Southern Cal. Gas Co. v. Public Utilities Com*., (1990) 50 Cal.3d 31, *40 (recognizing that "a person or entity seeking to discover privileged information can show waiver [of the attorney/client privilege] by demonstrating that the client has put the otherwise privileged communication directly at issue and that disclosure is essential for a fair adjudication of the action.").

2504 Ex. SCG-223/SDG&E-227 (Cooper) at 6.

2505 TURN OB at 298-300; *see also* Ex. SCG-225/SDG&E-229 (Robinson) at 18-19.

29.3 SoCalGas and SDG&E's Allocated Outside Legal Costs Are Reasonable and Should Be Approved.

As explained in testimony and in the OB, SoCalGas and SDG&E presented ample evidence to demonstrate the reasonableness of their outside legal costs and the appropriate correction of errors found during the discovery process.[2506] In its OB, CEJA incorrectly argues that the Companies have not met their evidentiary burden to demonstrate the reasonableness of their outside legal forecasts on the grounds that they have allegedly not followed FERC accounting rules and because of a claimed "pattern and practice of misclassifying political activities to ratepayer accounts."[2507] Despite only focusing on and challenging the ratepayer benefits associated with a handful of SoCalGas legal matters, CEJA recommends that the entirety of both SoCalGas's and SDG&E's outside legal forecasts should be rejected.

CEJA's arguments are wholly unreasonable. With respect to SDG&E, CEJA alleges no specific facts supporting its proposed 100% disallowance.[2508] CEJA offered no arguments or proposals to reduce SDG&E's outside legal costs in its direct testimony – and its OB identifies no evidence to explain a recommendation reduction for SDG&E – only a claimed "pattern and practice" of the "Sempra Utilities."[2509] CEJA's recommended 100% reduction related to SDG&E should be rejected out-of-hand as improperly and unfairly raised at this late stage of the proceeding – as well as meritless and unsupported by the evidence, as discussed *infra* in Sections 29.3.1 – 29.3.3.

With respect to SoCalGas, CEJA's OB also requests a 100% reduction[2510] based on its "pattern and practice" argument, which is also unsupported and unreasonable. As explained *infra* in Section 29.3.1 – 29.3.3, and in the OB, SoCalGas presented ample evidence to demonstrate the reasonableness of its outside legal costs in accordance with established Commission precedent and evidentiary standards, as well as its appropriate correction of errors found during the discovery process. CEJA's request for 100% disallowance of SoCalGas's forecast should be rejected.

2506 SCG/SDG&E OB at 669-679, *citing* Ex. SCG-223/SDG&E-227 (Cooper).

2507 CEJA OB at 94-105.

2508 SDG&E's total TY 2024 forecasted outside legal costs amount to $9.144 million. (*See* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 54, Table (Section 5: Outside Legal (C-5)).

2509 *See, generally,* CEJA OB at 94-99 (vaguely referencing the "Sempra Utilities").

2510 CEJA OB at 99; SoCalGas's total TY 2024 forecasted outside legal costs amount to $10.277 million. (*See* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 54, Table 5. Outside Legal (C-5)).

CEJA's alternative recommendation regarding SoCalGas raises late-discovered and unfounded claims that should not distract from the reasonableness of SoCalGas's outside legal forecasts. CEJA requests, "at a minimum," that SoCalGas's outside legal forecast should be reduced by $790,394 based on the SoCalGas v. CEC complaint matter that CEJA described in its testimony,[2511] plus an additional "minimum" reduction of $1,587,000 regarding a number of other historical legal matters, the large majority of which were not in dispute prior to CEJA's OB.[2512] Several of the matters CEJA appears to take issue with are neither identified nor explained in CEJA's OB. CEJA's apparent rationale for the reductions is that it believes the matters do not align with CEJA's policy perspective (not because of any below-the line requirement), based on the privilege log it received in discovery.[2513]

CEJA's arguments are inconsistent with GRC ratemaking, which does not authorize "recovery" of historic spending; rather, the Commission sets rates on a forward, forecasted, basis. If the impact of historical data regarding the SoCalGas v. CEC matter were removed from SoCalGas's TY 2024 outside legal forecast, this would only result in a reduction of $246,000 (not $790,394), as discussed in testimony.[2514] Moreover, the entire amount of CEJA's "minimum" request ($246,000 + $1,587,000) is unreasonable for the reasons discussed below. CEJA's claims are speculative and meritless, and many issues raised are neither supported nor vetted in the evidentiary record.

Moreover, as explained *infra* in Sections 29.3.1 – 29.3.3 and in the OB, SoCalGas presented ample evidence to demonstrate the reasonableness of their outside legal costs in accordance with established Commission precedent and evidentiary standards, as well as its appropriate correction of errors found during the discovery process. CEJA's unfounded and untimely arguments should not distract from that point.

2511 CEJA OB at 100; *see also* Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 99.

2512 *Id.* at 98-100 (directly identifying only one legal matter with which it takes issue, with a vague reference to other matters).

2513 *See, e.g.,* CEJA OB at 100. CEJA's OB arguments appear to recognize that only forecasted TY 2024 costs should be removed in its request for the $1.587 million reduction (based on historical matters totaling 5,086,282 in costs) (*see* CEJA OB at 95 fn.473); however, CEJA still does not seem to understand that the appropriate reduction related to the three discrete matters it raised in testimony would be a $246,000 reduction to SoCalGas's TY 2024 forecast (not $790,394). (*See* Ex. SCG-223/SDG&E-227 (Cooper) at 8).

2514 Ex. SCG-223/SDG&E-227 (Cooper) at 8-11.

As shown below, SoCalGas and SDG&E's outside legal forecasts should be found reasonable and approved, in accordance with Commission precedent.

29.3.1 The Companies Have Met Their Evidentiary Burden with a Testimony Presentation Consistent with Past GRCs.

CEJA incorrectly argues that the Companies have not met their evidentiary burden to demonstrate the reasonableness of their outside legal forecasts, on grounds that they have not followed FERC accounting rules.[2515] CEJA's argument conflates meeting an evidentiary burden in this case with meeting FERC accounting standards and should be rejected, as discussed further in 29.3.3.[2516] As shown in testimony, the OB, and below, SoCalGas and SDG&E have met their burden of proof in demonstrating the reasonableness of their outside legal forecast.[2517]

SoCalGas and SDG&E's GRC presentation supporting their outside legal expenses is consistent with the evidence they have presented in past GRCs, on which the Commission has previously reached numerous determinations on an appropriate forecasted level of funding for future outside legal costs.[2518] SoCalGas and SDG&E's GRC testimony presentations for Corporate Center costs have consistently presented evidence demonstrating: (1) the reasonableness and purpose of the outside legal cost category; (2) the reasonableness of the Companies' forecasting methodology; and (3) the reasonableness of Corporate Center's methodology for allocating costs to SoCalGas and SDG&E.[2519]

In this GRC proceeding, SoCalGas and SDG&E's direct testimony explains why it is necessary 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.'"[2520] The direct testimony also explains that the need for

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2515 CEJA OB at 94, 98.

2516 CEJA's arguments regarding FERC accounting standards are addressed in SCG/SDG&E OB at Section 48.2.

2517 *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 … 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.").

2518 *See, e.g.,* SCG/SDG&E OB at 671, n.3467, *quoting* D-19-09-051 at 512, D.13-05-010 at 817, D.18-12-021 at 96.

2519 *See, e.g.,* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 54-55.

2520 *See* Ex. SCG-223/SDG&E-227 (Cooper) at 9, *quoting* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 54.

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."[2521] The testimony also provides evidence of the appropriate allocation methodology of costs.[2522] The methodology in Exhibit SCG-23-R-E/SDG&E-27-R-E is consistent with the forecasting methodologies used and approved in past Commission rate cases and results in a reasonable forecasted level of costs. The composition of the Companies' evidentiary presentation has remained largely consistent over at least the past four GRCs. [2523]

SoCalGas and SDG&E's evidentiary presentation regarding outside legal costs is also consistent with those presented by PG&E and SCE in their recent GRC submissions. For example, in PG&E's most recent GRC proceeding, A.18-12-009, PG&E similarly presented testimony discussing the need for legal services and the 4-year average forecasting methodology used.[2524] SCE also presented similar Administrative and General testimony supporting their outside legal costs in A.19-08-013, discussing the need for outside legal services and its forecasting methodology.[2525] By the Companies' review, neither direct testimony presentation included a discussion of specific legal matters forecasted or recorded, which is consistent with the Companies' approach in this TY 2024 and past GRCs.

D.13-05-010 presents an analogous example of how the Commission resolved similar challenges to outside legal forecasts raised in A.10-12-005/-006, the Companies' TY 2012 GRC proceeding. As previously noted, the direct testimony presented in that proceeding was consistent

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2521 Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 11, 54.

2522 *See* Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 8 (citing an example of directly assigned costs as "outside legal costs associated with a specific case.").

2523 *See, e.g.,* the evidentiary showings supporting outside legal costs presented in: The Companies' TY 2019 GRC, A.17-10-006/-007 (cons.), the Prepared Direct Testimony of Mia de Montigny (Revised) (Ex. SCG-28-R/SDG&E-26-R); the Companies' TY 2016 GRC, A.14-11-003/-004 (cons.), the Prepared Direct Testimony of Peter Wall (adopted by Hannah Devine) (Ex. SDG&E-20); The Companies' TY 2012 GRC, A.10-12-005/-006, the Prepared Direct Testimony of Bruce A. Folkmann (Ex. SDG&E-23). The Commission may take official notice of SoCalGas's and SDG&E's testimony exhibits in the evidentiary record of the above-mentioned proceedings under Rule 13.10 of the Commission's Rules of Practice and Procedure.

2524 *See,* A.18-12-009, Hearing Ex. PG&E-09 (Administrative and General) at 183. The Commission may take official notice of this exhibit as part of A.18-12-009's evidentiary record under Rule 13.10 of the Commission's Rules of Practice and Procedure.

2525 *See,* A.19-08-013, Ex. SCE-17, Vol.2 (Administrative and General) at 56-57. The Commission may take official notice of this exhibit as part of A.19-08-013's evidentiary record under Rule 13.10 of the Commission's Rules of Practice and Procedure.

with the evidence presented in this GRC, where the Companies' witness testified to the need for outside legal fees and the methodology used for forecasting and allocation. The CPUC's then-Division of Ratepayer Advocates (DRA), witness recommended "zero costs" for TY 2012, in part because the Companies did not "provide DRA with the types of services provided to SDG&E and SCG, nor for future services."[2526] In rebuttal, the Companies' witness testified that DRA had conducted extensive discovery on outside legal and explained why legal matters could not be forecasted:

> For DRA to claim a lack of informative data as the basis for its rejection is disingenuous, as the Corporate Center alone responded to nearly 70 specific questions from DRA regarding the legal area, including requests for comprehensive historical matter detail through 2010. As reflected in its numerous data request responses, Sempra Energy's forecast is based on a trend of costs that could be considered a typical level for any given year. This is arrived at by adjusting from the total Outside Legal costs any significant amounts that could be considered unusual and not typical of ongoing business.
>
> Also, it appears DRA prefers that Sempra Energy endeavor to identify the specific vendors and payment amounts to be made in *future* cases. Legal matters, however, vary from year to year and are by nature non-recurring, to be replaced by as-yet-unknown matters. For DRA to disallow *any* expense level because of this uncertainty is inconsistent with the general concept of forecasting.[2527]

In D.13-05-010, the Commission rejected DRA's request for zero outside counsel costs, stating that it was "not persuaded by" DRA's complaint that "Applicants were unable to provide DRA with the type of legal services that have been provided, and that will be provided in the future."[2528] Rather, the Commission stated, "[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,"[2529] and the Commission reached a determination on the appropriate authorized level based on the cost forecast evidence the Companies presented in that case. Similarly, CEJA's

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[2526] A.10-12-005/-006, Ex. DRA-26 (Bower) at 36.

[2527] A.10-12-005/-006, Ex. SDG&E-223/SCG-217 (Folkmann) at 37-38. Similar to the TY 2012 case, the Companies have responded to numerous, burdensome and invasive discovery requests from CEJA regarding the outside legal matter in the TY 2024 proceeding, responding to approximately 60 individual questions, many seeking inherently sensitive information regarding legal matters, which required the devotion of a significant amount of legal resources and careful review to protect privileged information before responding, as discussed in Section 29.3.2, *infra.*

[2528] D.13-05-010 at 815-817.

[2529] *Id*.

request for zero outside counsel costs for both Companies is wholly untethered to challenging the actual basis offered for why it is just and reasonable to hire outside legal help. CEJA also ignores the aggregate trend forecast methodology used that does not rely on any specific historical matter-by-matter detail, which CEJA appears to suggest as an alternative, but unreasonable, method for forecasting. As shown above, the Commission explicitly rejected a similar suggestion in D.13-05-010.

Finally, no other party except for CEJA has taken issue with the Companies' evidentiary presentation and their requested forecasts.[2530] CEJA's OB focuses on an extra-record argument that does not impact the Companies' evidentiary showing in this proceeding. For all of these reasons, the Commission should reject CEJA's arguments that SoCalGas and SDG&E "have not met their burden"[2531] and find that the Companies have met their evidentiary showing in this case.

29.3.2 SoCalGas and SDG&E Presented Ample Evidence Showing that the Errors Found in Discovery Were Scrutinized and Corrected and that Charges Have Been Appropriately Adjusted

SoCalGas and SDG&E also presented ample evidence demonstrating that they took seriously their responsibility to accurately find and correct errors in their outside legal forecast request, contrary to CEJA's OB arguments.[2532] The Companies' OB and testimony 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 from 2017 to 2022.[2533] At the evidentiary hearing, Corporate Center witness Mr. Cooper, as well as the witness panel of SoCalGas's General Counsel, Mr. David Barrett, and Ms. Sara Mijares confirmed the comprehensive process undertaken to review the historical costs for errors and correct the errors, by removing them from the aggregated historical data used to support Mr. Cooper's forecast. As Mr. Barrett explained:

[2530] *See, e.g.*, Cal Advocates' testimony and OB does "not oppose" the Companies' Corporate Center – General Administration request, including its outside legal forecasts. (Ex. CA-12 (Chumack) at 17-18; Cal Advocates OB at 247).

[2531] CEJA OB at 95.

[2532] *See* SCG/SDG&E OB at 669-670, 675-678, *discussing* CEJA OB at 95, *passim.*

[2533] *See* SCG/SDG&E OB at 669.

> [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.[2534]

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.[2535]

Upon completion of this extensive review, SoCalGas and SDG&E re-calculated 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).[2536] This error correction is reasonable, appropriate, and consistent with past Commission practice.

CEJA's OB offers numerous incorrect, speculative, and unsupported arguments regarding the Companies' error correction, which CEJA claims warrant additional reductions of outside legal costs for TY 2024.[2537] For example, CEJA appears to claim, without any evidence, that the errors found are evidence of some type of intentional misclassification. CEJA also suggests that it is somehow improper to assert an objection based on relevance, scope, or privilege in the discovery process, contrary to longstanding Commission practice and the law. CEJA further suggests that the Companies did not voluntarily correct errors as they were found.[2538] These claims are untrue and unsupported by the record. As the record demonstrates, the Companies undertook laborious and diligent efforts across each law department to determine the extent of any errors and correct

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2534 *Id.*, *citing* Tr. V16:2800:3-12 (Barrett).

2535 SCG/SDG&E OB at 669, *citing* 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….").

2536 SCG/SDG&E OB at 670, *citing* Ex. SCG-223/SDG&E-227 (Cooper) at 7-8; *id.* at 10 (describing the process of how the errors were corrected); *see also, e.g.,* Tr. V14:2467:21-2468:4 (Cooper).

2537 *See, e.g.,* CEJA OB at 95, *passim*.

2538 CEJA OB at 94-95, 97, *passim.*

them in a timely fashion. The Companies also presented documentation of the errors that had been corrected, contrary to CEJA's claims.[2539] SoCalGas and SDG&E understand that it is their responsibility to correct errors as they are found – and they have demonstrated that they take this responsibility seriously and have acted accordingly.[2540] The evidence presented shows the SoCalGas and SDG&E undertook an extensive and diligent review of outside counsel expenses included in its historical period to correct the errors it identified during discovery, just as in past GRCs.

In its OB, CEJA claims that the correction of errors SoCalGas undertook is insufficient and requests that the Commission "ensure outside legal costs [that were incorrectly categorized] are credited back to ratepayers and make clear that its approval of forecasted outside legal costs does not allow a utility to use these funds for below-the-line activities, regardless of whether the costs are removed from the subsequent outside legal forecast."[2541] As the Commission is well aware, California sets rates on a forecast basis.[2542] SoCalGas's (and SDG&E's) prior GRC (TY 2019) set the rates for 2019-2023 based on the 5-year historical data from 2012-2016.[2543] The current GRC (TY 2024) will determine rates for 2024-2027 based on the 5-year historical data from 2017-2021. As Ms. Mijares explained during cross-examination, the rates that the Companies are currently collecting "were driven off the previous rate case and the previous costs that were incurred. And so the rates that are being collected don't take into account the actual activity that's happening within that year."[2544] The legal costs that CEJA is currently disputing were all incurred during this GRC's 5-year historical data. As a result, these costs have not yet informed SoCalGas's rates and therefore there is nothing to "credit back" or "refund" to ratepayers.

Further, CEJA claims that "[b]y assigning these costs to ratepayers at the time they were incurred, SoCalGas used Commission approved funds that could have been reallocated to a legitimate purpose, such as needed safety or reliability projects, or to further equity and

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2539 *See, e.g.,* Ex. SCG-223/SDG&E-227 (Cooper) at B-3.

2540 *See, e.g.,* Tr. V16:2809:21-2810:11 (Barrett) (explaining that "mistakes were identified, and they've been corrected.").

2541 CEJA OB at 97.

2542 Ex. SCG-245-E (Mijares) at 11, Appendix H at 20; *see also* Ex. SCG-16-2E (Prusnek).

2543 Ex. SCG-245-E (Mijares) at 11, Figure SM-2.

2544 Tr. V17:3030:11-15 (Mijares).

affordability by using these funds to offset costs of defaulted utility bills."[2545] This statement is incorrect, and there is no evidence to support it. Simply because CEJA does not agree with the Companies' funding decisions does not mean such decisions were improper.[2546] The Companies must operate its business in a safe and reliable manner, and it has and will continue to do so – as explained throughout the evidentiary record in this case.

SoCalGas and SDG&E explained in testimony that manual adjustments were made to correct the errors found, and that the costs had not been and would not be included in rates.[2547] It is unclear what additional steps CEJA is contemplating in the above-quoted request. Consistent with past Commission practice and the use of a future test year,[2548] the corrective accounting and forecasting adjustments the Companies have already undertaken to resolve any errors that were found affecting the original forecast are sufficient.

29.3.3 CEJA Confuses FERC Account 923's Recordkeeping Requirement with a Disclosure Requirement.

CEJA argues that, "[i]f the Sempra Utilities wish to recover these costs in a future rate case, the Commission should require they record matter descriptions sufficient to justify cost recovery, including identification of specific matters before government agencies for which outside legal costs are incurred."[2549] Further, CEJA incorrectly believes that because SoCalGas and SDG&E did not disclose information that is protected by its attorney client privilege and work

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[2545] CEJA OB at 97.

[2546] The Companies note that they adhere to the Commission's reporting requirements, consistent with the oversight functions described in the Commission's recent Rate Case Plan Decision, D.20-01-002. (*See, e.g.,* the discussion in Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 3-4 ("The Commission's RDF provides that any changes occurring after the GRC decision would be reported through accountability reporting, both for the reprioritization to fund new activities as well as for risk mitigation programs that are deferred or canceled.").

[2547] Ex. SCG-223/SDG&E-227 (Cooper) at 10.

[2548] *See, e.g.,* D.19-05-020 at 257 ("[A]djustments are made consistent with forecast ratemaking …. As with other forecasts, we begin with recorded costs and make adjustments for costs that are not recoverable or no longer anticipated. Once adjustments are made we adopt the remaining fair and reasonable costs as the forecasts.").

[2549] CEJA OB at 99. Section 34.1.2.2.1 *infra* provides additional accounting-related and other reasons why CEJA's recommendations regarding government agency-related matters are inappropriate and should be rejected.

product that it has failed "to record sufficiently detailed matter descriptions of outside legal costs" as required by FERC Account 923.[2550]

FERC Section 923 states that for outside services employed including auditing, legal, engineering management consulting fees and any other fees for professional or outside services:

> (b) Records must be maintained so as to permit ready analysis showing the nature of service, identity of the person furnishing the service, affiliation to the service company, and, if allocated to more than one company, the specific method of allocation.[2551]

From the plain language of FERC Account 923(b), this is a recordkeeping requirement, not a forced disclosure requirement. FERC Account 923(b) does not require that SoCalGas disclose information that is otherwise protected by its attorney client privilege or work product. The California Supreme Court in *Southern Cal. Gas Co. v. Public Utilities Com*. already rejected the notion that Applicants seeking cost recovery in an administrative proceeding (such as this GRC) should be required to waive privilege over matters that should be protected under the attorney/client privilege or work product doctrine.[2552] Even where the information is arguably relevant, the Court held that "Privileged communications do not become discoverable simply because they are related to issues raised in the litigation."[2553] Unless there is an "unambiguous statutory directive to the contrary," a government agency's "power must be tempered by the attorney-client privilege."[2554]

Here, CEJA has not provided any authority (nor can it) stating that FERC 923(b) requires SoCalGas to waive its attorney client privilege and work product. The Companies should not be penalized for, nor should negative inferences be drawn from, the fact that they asserted privilege over information that falls classically under the protections of the attorney-client privilege – particularly where, as here, the information at issue is unnecessary to meet its evidentiary

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2550 *Id.* at 98.

2551 18 C.F.R. § 367.9230(b).

2552 *Southern Cal. Gas Co. v. Public Utilities Com*., 50 Cal.3d 31 (1990); *see also,* CPUC Rules of Practice and Procedure, Rule 10.1 ("[A]ny party may obtain discovery from any other party regarding any matter, not privileged, that is relevant to the subject matter involved in the pending proceeding …").

2553 *Southern Cal. Gas Co. v. Public Utilities Com*., 50 Cal.3d at *45.

2554 *Id.* at *38-39.

burden.[2555] CEJA makes a bald assertion that "the Sempra Utilities do not record matter descriptions or justifications for outside legal expenses when assigning those costs to above-the-line accounts."[2556] Not so, and this is speculation on CEJA's part. CEJA cites to SoCalGas's data request response to support this position. However, the data request asked SoCalGas for "All documents authorizing/or directing the costs to [be] booked to account 923."[2557] SoCalGas appropriately responded by pointing CEJA to the documents that authorized or directed those costs to be booked to account 923, which is FERC Code of Federal Regulations Part 101- Uniform Systems of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act and Account 923.[2558] That is all the data request asked for. SoCalGas's response also noted: "The FERC guidance goes on to state that 'fees, pay and expenses of...attorneys' are appropriate to record to FERC 923."[2559] CEJA does not dispute that the expenses it challenges from Account 923 are "fees and expenses of attorneys."

CEJA does not deny that the Companies provided it with summary information of their legal matters as ordered by the April 11, 2023 Ruling. CEJA did not raise any additional claim or file any subsequent motion claiming that the information the Companies provided was insufficient. Instead, CEJA simply takes issue with the amount of time it took the Companies to provide the information.[2560] Consistent with both Companies' diligent process discussed above in Section 29.3.2, SoCalGas and SDG&E took laborious care to provide matter-by-matter information without waiving attorney-client privilege (*i.e.,* similar to a privilege log level of information). Any law department would take similar diligent steps to not waive its protections, especially when asked an overly broad request (*e.g.,* all SoCalGas, SDG&E, and Corporate Center legal matters allocated to either utility for the last five years, which numbered approximately 900 in total).[2561] As the California Supreme Court in *Southern Cal. Gas Co. v. Public Utilities Com.,* stated: "While it is true that the commission, in fundamental fairness to SoCalGas's ratepayers, must make a

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2555 *See discussion in* SCG/SDG&E OB Section 29.3.1, *supra.*

2556 CEJA OB at 98.

2557 *Id.*, n.482 (citing Ex. CEJA-24 at 17-56 (Response to DR CEJA-SEU-024, Q.2(b)(iii))).

2558 Ex. CEJA-24 at 17.

2559 *Id*.

2560 CEJA OB at 98.

2561 Ex. CEJA-25 Confidential.

careful effort to ascertain whether SoCalGas's expenses are reasonable, this effort does not have to come at the unnecessary expense of trampling on SoCalGas's attorney-client privilege.[2562]

CEJA also attempts to discredit Ms. Mijares' testimony on the witness stand by omitting pertinent facts.[2563] Ms. Mijares was not shown the language of the regulation when asked about a specific detailed recordkeeping requirement of Account 923. Despite Ms. Mijares' request to be pointed to the actual information being asked of her, that was not done until after she provided her response.[2564] Despite these omitted facts, Ms. Mijares did testify that "what I was going to say, is there's obviously a requirement to be able to produce evidence that supports the amount that's included in our rate case."[2565] Ms. Mijares also pointed out that the requirement to produce evidence has to be weighed against attorney-client privilege, confidentiality, and First Amendment rights stating "[w]e want to make sure you have the right level of evidence without waiving privilege."[2566] CEJA's argument conflates a witness' best efforts at providing an answer to a question about a large body of regulatory authority with wrongdoing.

Finally, CEJA would require the Companies to maintain records to a level of specificity that is burdensome to the point of being entirely unmanageable, not required by any statute, regulation, or rule, and inconsistent with the intent of FERC Account 923. CEJA argues that SoCalGas's failure to maintain records that would identify all "outside legal costs it 'has booked to above-the-line regarding regulatory efforts in decarbonization before other state agencies,'" precludes it from meeting the heightened scrutiny that it must meet according to its own training materials.[2567] CEJA is incorrect, as SoCalGas's training materials highlight for its employees that there will be heightened scrutiny for appearances before public officials other than its core regulators such as CPUC, FERC and CEC. SoCalGas is not required to segregate and track all cost related to "decarbonization" and other matters with which CEJA does not agree – nor should it, as doing so would be unduly burdensome and unhelpful. Decarbonization is a very broad term, and with the State's emphasis on decarbonization, it is very likely to come up in most, if not all,

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2562 *Southern Cal. Gas Co. v. Public Utilities Com.*, 50 Cal.3d at *44.

2563 CEJA OB at 98.

2564 Tr. V16:2850:13-20 (Mijares).

2565 Tr. V16:2850:17-20 (Mijares).

2566 Tr. V16:2850:20-2851:4 (Mijares).

2567 CEJA OB at 99.

utility proceedings. SoCalGas is unaware of, and CEJA does not cite to any, federal, state, or local requirement that requires any utility to track all costs related to their decarbonization efforts. Substantial party and Commission resources sorting out issues to CEJA's approval can more efficiently and usefully applied in the public interest elsewhere.

29.3.4 SoCalGas's Outside Legal Forecast Is Supported by the Evidence and Should Be Approved

As discussed *supra* in Section 29.3.1 and 29.3.2, SoCalGas has met its evidentiary burden regarding outside legal forecasts. CEJA's request for 100% disallowance of SoCalGas's forecast should be rejected. In CEJA's testimony, it only identified two SoCalGas historical costs in 2.5 pages, for which it argued for a $790,394 reduction in SoCalGas's outside legal forecast.[2568] In rebuttal testimony, Corporate Center witness Mr. Derick Cooper explained: (1) why CEJA's testimony arguments should be rejected as inconsistent with the facts, CPUC precedent, and GRC forecasting and (2) that CEJA's proposal, if adopted, would amount only to a decrease in SoCalGas's outside legal forecast by $246,000 for TY 2024 (by removing $790,394 from historical costs).[2569]

CEJA's OB, however, dramatically expands its requested reduction for SoCalGas's outside legal to zero (as addressed above), along with a raft of additional, unsupported recommendations, some of which are addressed below in Sections 29.3.4.1 and 29.3.4.2, but which overall are too numerous and weighty to summarize here. The Commission should not reward CEJA's tactic of dumping new and voluminous recommendations that were not previously raised, supported, and vetted on the record and could not possibly be fully and fairly addressed at the legal briefing stage, particularly in a GRC. As required by the CPUC's Rules of Practice and Procedure, Rule 13.12, factual statements raised in a party's legal brief "must be supported by identified evidence of record," and fundamental principles of fairness and due process must be adhered to and followed in a Commission proceeding.

Commission precedent makes clear that recommendations that are not part of testimony entered into the record and of which no party has had the opportunity to cross-examine sponsoring

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[2568] *See* Ex. CEJA-01(Vespa/Gersen/Saadat/Barker) at 98-100; *see also* Ex. SCG-223/SDG&E-227 (Cooper) at 6-11.

[2569] Ex. SCG-223/SDG&E-227 (Cooper) at 8-11.

witnesses or present evidence on the proposals, as is the case here, are inappropriate.[2570] In fact, the Commission determined these new arguments in briefing to be "additional testimony," which should have been served as such.[2571] Further, the Commission has determined that this type of "extra-record material" contained in briefing is inadmissible and "serves no useful purpose because it cannot be considered by the Commission, whether as fact or argument."[2572] Applicants accordingly urge the Commission to disregard CEJA's additional recommendations in briefing. Lastly, given the compressed timeframe for briefing and the impaired availability of evidence in the record to address the new arguments, of which the Applicants had no prior notice, the fact that the Applicants may not have addressed every assertion by CEJA in its Reply Brief does not suggest agreement with the assertion or claim.

It is in this light that CEJA's arguments on these issues (as addressed *infra* in Sections 29.3.4.2 and 29.3.4.3) should be considered. As demonstrated below, CEJA's recommendations are unhelpful, unwarranted, and should be rejected.

29.3.4.1 CEJA's arguments regarding the discrete issues it raised in testimony should be rejected.

The Companies' OB addressed CEJA's arguments regarding the two discrete legal matters that CEJA identified in testimony and have demonstrated their prudence and reasonableness for inclusion in rates. Those arguments are incorporated here by reference and will not be repeated again in detail. In addition to the points that have already been fully addressed *supra* and in the Companies' OB and testimony, SoCalGas addresses CEJA's arguments contesting the costs it associates with individual legal matters that were raised in CEJA's testimony – the CEC Litigation and the Attorney General Inquiry, plus the Cal Advocates discovery issue on which SoCalGas witnesses were cross-examined at hearings.

[2570] *See* D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); *see also* D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence.").

[2571] D.10-06-038 at 45.

[2572] D.92-06-065 at *91-92 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating "[i]f that is so, it is no proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact, or argument.").

CEC Litigation

CEJA recommends that SoCalGas reduce their historical outside legal expenses by $790,394 related to a SoCalGas complaint against the California Energy Commission (CEC).[2573] Contrary to CEJA's allegations, the CEC litigation did not "Challeng[e] State Climate Policy."[2574] As SoCalGas explained in its OB, the litigation was filed to enforce AB 1257 (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."[2575] It is meritless to argue that litigation seeking to enforce the law (and thus, state policy) would somehow be a challenge to state policy. Setting an impractical and subjective evidentiary standard for assessing outside legal costs based on CEJA's interpretation of state policy and decarbonization is inappropriate.[2576] *See supra* Section 21.4.1.4 (CEJA's Argument that Activities Performed by CS-I Constitute Promotional Advertising Communications Is Without Merit) for further discussion of the important need for and nondiscriminatory treatment of gas IOUs' clean fuels communications in meeting the State's decarbonization objectives.

Attorney General Inquiry

This matter that CEJA opposes is a Confidential Matter in Q1 of CEJA DR 27,[2577] and CEJA cross-examined SoCalGas's witnesses on this matter extensively during hearings. CEJA incorrectly states that "[d]espite the Attorney General determining SoCalGas violated this provision by marketing natural gas as a renewable resource, SoCalGas continues to insist its customers should cover the costs of its legal defense."[2578] The Attorney General and SoCalGas

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[2573] CEJA OB at 100; *see also* 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.

[2574] CEJA OB at 100.

[2575] SCG/SDG&E OB at 676.

[2576] *See, e.g., Southern Cal. Gas Co. v. Public Utilities Com.,* 50 Cal.3d at *45 ("In a society as complicated in structure as ours and governed by law as complex and detailed as those imposed upon us, expert legal advice is essential.").

[2577] Ex. CEJA-25 Confidential at 58-65.

[2578] CEJA OB at 102.

recently entered into a cooperative settlement agreement with no finding of wrongdoing and an acknowledgement by the Attorney General of cooperation by SoCalGas from the beginning of the inquiry.[2579] The full outside legal costs for this matter that were included in SoCalGas's GRC forecast are: $100,865 in 2020 and $66,145 in 2021.[2580] If the Commission adopted CEJA's proposed reduction, this would represent a $52,000 reduction in SoCalGas's outside legal forecast for TY 2024.

CEJA is well aware of this settlement agreement's provisions, since it has submitted a motion to officially notice it. CEJA makes a connection where none exists by arguing that because the underlying advertisement was a below-the-line activity, it necessarily follows that the subsequent work to respond to the Attorney General's inquiry should likewise be below-the-line. Each activity must be separately analyzed under FERC 426.4. Here, the activity in question is SoCalGas's expenses in responding to a government agency's inquiry and that the Attorney General acknowledged SoCalGas cooperated since the beginning. As 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."[2581] Moreover, contrary to CEJA's assertion of a "violation,"[2582] the settlement agreement reflects no admission or finding of wrongdoing.

2579 Ex. CEJA-50 (pending official notice). *See also California v. Southern Cal. Gas Co.,* Case No. 23CV040344, Sup.Ct.Cal., County of Alameda, [Proposed] Final Judgment on Consent for Permanent Injunction and Civil Penalties, at 3 (*stating*, "[t]he Parties' execution of the Stipulation is not intended to and shall not constitute an admission of wrongdoing or liability, nor an admission of any issue of law or fact alleged in the People's Complaint, by SoCalGas. This stipulation is made without adjudication of any alleged issue of law or fact and without a finding of liability of any kind."), *available at* https://oag.ca.gov/system/files/attachments/press-docs/PROPOSED%20Final%20Judgment.pdf.

2580 SoCalGas previously claimed as confidential only the 2021 amount and provided to CEJA under an NDA. Both the 2021 and 2020 amounts were disclosed in Ex. SCG-305/SDG&E-305, which SoCalGas entered into the record during hearings, and which are notably absent from CEJA's exhibits. Since the matter is now settled and publicly submitted in a court document, and the costs for this particular legal matter are the same cost information in SoCalGas's GO 77-M public reports, SoCalGas no longer considers this 2021 cost amount as confidential.

2581 Tr. V16:2833:13-16 (Barrett).

2582 *See* CEJA OB at 102.

Cal Advocates Discovery (Outside of Proceeding)

This matter that CEJA opposes is the matter named "CalPA Discovery (Outside of Proceeding)" in Q2 of CEJA DR 27.[2583] CEJA cross-examined SoCalGas's witnesses on this matter extensively during hearings. As noted in response to the DR, this is considered a public matter with "sufficient information … available to CEJA to determine the purpose of this expense.[2584]

CEJA misrepresents SoCalGas's legal expenses in connection with this issue by claiming that its intent was to protect shareholder funded contracts from Cal Advocates review under the First Amendment.[2585] As SoCalGas explained in its OB, SoCalGas was forced to incur costs to appropriately respond to Cal Advocates request for information which included both above-the-line and below-the-line activities and information, the scale and scope of which were unprecedented. Accordingly, it was necessary to seek outside legal support to respond to the discovery requests including addressing issues related to confidentiality and privilege—after all of which, the Commission agreed with SoCalGas's position.[2586] As for the appellate matter, the California Court of Appeal agreed with SoCalGas and issued a unanimous decision holding that Cal Advocates exceeded its statutory authority while conducting its discovery.[2587] As Mr. Barrett explained: [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."[2588]

29.3.4.2 CEJA's arguments regarding the additional issues it raises for the first time in legal briefing should be rejected.

As noted above, CEJA raises arguments in its OB for the first time that were not raised in testimony. As discussed above in Section 29.3.4., CEJA's newly raised arguments that are

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2583 Ex. CEJA-25 Confidential at 66-69.

2584 *See* CPUC non-proceeding dockets: (1) 'Discovery Dispute between Public Advocates Office and Southern California Gas Company, October 2019 (not in a proceeding)'; and (2) 'Not In A Proceeding-Sec.309.5(e).' *See also*, Application for Rehearing of Resolution ALJ-391, Application 20-12-011.

2585 CEJA OB at 103.

2586 SCG OB at 677-678.

2587 *Southern California Gas Co. v. Pub. Util. Comm'n*, 87 Cal.App.5th 324, 345 (2023).

2588 Tr. V16:2834:24-2835:2 (Barrett).

unsupported by the record evidence and have not been fully vetted should be rejected. Moreover, it is not SoCalGas's burden to explain CEJA's proposals, where they have not presented evidence to support them on the record. Nevertheless, SoCalGas additionally addresses CEJA's arguments contesting the costs it associates with individual legal matters that were not previously raised in CEJA's testimony and not addressed in the Companies' OB below.

<u>CARB Low NOx Truck Research</u>

This matter that CEJA opposes is the Confidential Matter in Q4 of CEJA DR 28: The cost for the matter was identified as $1,898, and the law firm name and legal matter description was provided confidentially to CEJA under the NDA and with the further public detailed matter description of: "This matter concerned legal research related to proposed California Air Resources Board (CARB) action in connection with low-NOx truck incentives."[2589] If the Commission adopted CEJA's proposal on this issue, it would have no impact on SoCalGas's outside legal forecast for TY 2024.

In support of CEJA's argument that less than $2,000 direct costs be removed from historical (which does not impact SoCalGas's TY 2024 forecast)[2590] it speculates that "SoCalGas may have hired outside counsel to investigate whether it could argue this [CARB proposed Mobile Source] strategy violates the Clean Air Act."[2591] As a general matter, it would not be prudent for SoCalGas to discuss in a public proceeding privileged matters such as confirming or denying whether certain legal research for any legal matter was used.[2592] Like the Cal Advocates'

2589 Ex. CEJA-25 Confidential at 79-81. *See also* Tr. V16:2900:6-2901:1 (Mijares) (stating, "[m]y understanding, when taking the letter in its entirety, and also in looking at this, is that we were providing information to CARB . . . [i]t's typical of us to provide information to various agencies, whether it's CARB or CEC, on proposed studies or strategies that they are taking, just given our expertise at the utility and the need for that information to be used by these various agencies to determine the most cost-effective, safe and reliable way to implement some of the aggressive strategies and decarbonization goals that have been set in the State of California").

2590 Further, and as noted during evidentiary hearings, the Applicants reiterate that these are "above-the-line costs. Because we use the trend, in some years it's more or less, so it's not a dollar for dollar that ends up in the rate request that we've put in." (Tr. V16:2838:1-4 (Mijares).) As such, the Applicants urge the Commission to disregard CEJA's proposed disallowance.

2591 CEJA OB at 104 (citation omitted).

2592 *See* Tr. V16:2824:10-17 (Barrett) (noting, "I would not characterize it the way you did, and I have to be very careful there. And I hope you at least understand and respect, Mr. Vespa, that I take my obligations as an attorney and to maintain attorney-client privilege very seriously. And so I'm trying to thread the needle here of being responsive to you, but I'm not willing to waiv[e] attorney-client privilege on the stand."); *see also id.* at 2829:15-20 (Barrett) (stating, "[a]nd, again, I'm having to be

Discovery Non-Proceeding above, CEJA can see SoCalGas's positions taken in public comments on low-NOx before CARB. But CEJA has pointed to no evidence that the $1,898 legal research costs incurred based on the description provided demonstrate imprudent outside counsel legal support. Like all other California IOUs active before CARB, SoCalGas regularly participates in making legal, technical, and policy arguments in an appropriate manner before an important regulatory body, just like before the CPUC, CEC, and others. If the basis for "improper" advocacy turns on policy positions disfavored by CEJA (or some other discriminatorily subjective basis), that is a poor standard to set for IOUs and is misaligned with FERC and Commission guidance.

<u>Indoor Air Quality Research</u>

This matter that CEJA opposes is the Confidential Matter in Q6 of DR 28, with the legal matter description provided confidentially to CEJA under NDA, and with the further public matter description of: "This matter concerned research regarding state and federal issues related to indoor air quality."[2593] SoCalGas also indicated: "This expense relates to privileged and confidential consultant costs, not law firm costs." CEJA takes issue with SoCalGas not stating whether the 'work or work product was undertaken in connection with any specific filing or proceeding.'"[2594] As stated above, it is not prudent to waive privilege protections for any legal matter by confirming whether privileged legal research, even that done by a consultant at the direction of counsel, was connected to a specific filing or proceeding. It is worth noting that the Commission itself considers indoor air quality issues in several proceedings where SoCalGas is a party or respondent.[2595] CEJA's faulty reasoning that "attempt[s] to pass costs to ratepayers … related to climate and public health issues before government officials"[2596] is overbroad and misaligned with FERC and Commission guidance. CEJA's reasoning would effectively eliminate the critical

a little – I'm having to choose my words carefully here because 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 under with respect to certain matters.").

2593 Ex. CEJA-25 Confidential at 88-90.

2594 CEJA OB at 105; *see also* Ex. CEJA-25 Confidential at 88-90.

2595 *See* R.19-01-011: *Order Instituting Rulemaking Regarding Building Decarbonization*; A.21-12-009: *Application of Southern California Edison Company for Approval for its Building Electrification Programs*; *see also* 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*.

2596 CEJA OB at 105.

exception in FERC 426.4(b) for normal regulatory expenses: "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."[2597] CEJA's position would render practically all California IOUs' participation costs in most CPUC, CEC, and CARB proceedings (and consequently, the costs of CEJA and other intervenors who request intervenor compensation) as improperly borne by ratepayers.

<u>Other Matters CEJA Does Not Substantively Address</u>

Included in CEJA's proposed reduction are five additional legal matters that CEJA does not discuss in its opening brief and did not address during cross-examination at hearings. There is no record evidence to support CEJA's recommended reduction, and the costs are appropriately included in the historical period. The following is included in confidential Exhibit CEJA-25, and is the extent of CEJA's evidence on these five matters:

1. The confidential Matter identified in Q1 of DR 28. The cost for the matter was identified as $4,491, and the law firm name and legal matter description was provided confidentially to CEJA under the NDA.[2598] There is an additional public matter description of: "Advice regarding political and lobbying compliance and state, local and federal reporting matters."[2599] No further follow-up data request or cross-examination was conducted on this matter.
2. The confidential matter identified in Q2 of DR 28. The cost for the matter was identified as $9,767, and the law firm name and legal matter description were provided confidentially to CEJA under NDA, with the further public matter description of: "This matter concerned how proposed biomethane legislation aligned with existing federal laws."[2600] No further follow-up data request or cross-examination was conducted on this matter.

[2597] 18 CFR § 367.4264(b).

[2598] As explained in Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker), Attachment 3, Response to DR CEJA-SEU-009, Response 4, the privilege log and related responses removed "the confidential designation for public litigation proceedings active in 2021 for which SoCalGas or SDG&E retained outside counsel to serve as counsel of record in such proceedings." This is why certain requested information is shown as public and other information as confidential.

[2599] Ex. CEJA-25 Confidential at 73-75.

[2600] *Id.* at 76-78.

3. The confidential matter identified in Q4 of DR 28. The cost for the matter was identified as $22,602 and the law firm name and legal matter description were provided confidentially to CEJA under an NDA, with the further public detailed matter description of: "This matter involved advice and counsel related to the storage of hydrogen at SoCalGas's existing facilities."[2601] No further follow-up data request or cross-examination was conducted on this matter.
4. The confidential matter identified in Q5 of DR 28. The cost for the matter was part of the aggregated total of $5 million as "[m]ore detailed information specific to individual legal matters would risk waiver of the attorney-client privilege as noted in the stated objection," and the law firm name and legal matter description was provided confidentially to CEJA under the NDA, with the further public detailed matter description of: "This matter concerns support of the company in implementing its ASPIRE 2045 strategic plan and goals."[2602] No further follow-up data request or cross-examination was conducted on this matter.
5. The confidential matter identified in Q7 of DR 28. The cost for the matter was part of the aggregated total of $5 million as "[m]ore detailed information specific to individual legal matters would risk waiver of the attorney-client privilege as noted in the stated objection," and the law firm name and legal matter description provided confidentially to CEJA under the NDA, with the further public detailed matter description of: "Regulatory advice such as for CPUC proceedings including I.17-02-002 SB 380 OII and General Rate Case (GRC)."[2603] No further follow-up data request or cross-examination was conducted on this matter.

29.4 Conclusion

For all of the above reasons, SoCalGas's and SDG&E's TY 2024 forecasted Corporate Center – General Administration allocations should be approved as reasonable.

[2601] *Id.* at 82-84.

[2602] *Id.* at 85-87.

[2603] *Id.* at 91-93.

30. Insurance

30.1 Introduction

SoCalGas and SDG&E's OB at Section 30 describes the Companies' TY 2024 forecast for insurance costs set forth in the prepared testimony exhibits of Dennis Gaughan,[2604] which is based on the Companies' loss history, expected insurance market conditions, and input from the Companies' primary insurance broker, Marsh.[2605]

Cal Advocates, TURN, FEA, UCAN and EDF submitted opening briefs addressing insurance issues. Because the opening briefs largely track the prepared testimony these parties previously submitted – which SoCalGas and SDG&E addressed in their rebuttal testimony and in their opening brief – SoCalGas's and SDG&E's discussion below only summarizes the key issues. The Companies' OB and rebuttal arguments are incorporated herein by reference. Table 30.1, below, from SoCalGas's and SDG&E's OB, summarizes the costs for which SoCalGas and SDG&E seek approval.

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			

2604 SCG/SDG&E OB at 683-709, Section 30, *citing* the Prepared Direct Testimony of Dennis J. Gaughan (Ex. SCG-24/SDG&E-28); the Prepared Direct Testimony of Dennis J. Gaughan (Confidential) (Ex. SCG-24/SDG&E-28-C); the Workpapers to Prepared Direct Testimony of Dennis J. Gaughan (Ex. SCG-24-WP/SDG&E-28-WP); the Rebuttal Testimony of Dennis J. Gaughan Chapter 1 (rebuttal to direct testimony of Cal Advocates, TURN (public), and UCAN, Ex. SCG-224-E/SDG&E-228-E Chapter 1); the 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); Rebuttal Testimony of Dennis J. Gaughan Chapter 2 (confidential rebuttal to TURN's confidential direct testimony, Ex. SCG-224-E-C/SDG&E-228-E-C Chapter 2 (confidential).

2605 SCG/SDG&E OB at 683-684.

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.

Revised Summary of Differences

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	399,409[2606]	0
TURN	325,269	298,351	(101,058)
UCAN	325,269	348,218	(51,191)
FEA	325,269	398,614	(795)

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)

Parties' continued focus in opening briefs support recommendations on wildfire liability and directors and officers (D&O) insurance. SoCalGas and SDG&E's OB and rebuttal testimony have previously addressed many of the Parties' OB arguments; OB and rebuttal responses are incorporated by reference and will not be repeated again here, for brevity's sake. As shown below,

2606 *See* Cal Advocates OB at 247, n.1163.

the Commission should approve the Companies' TY 2024 insurance forecasts, reauthorize the LIPBA, and reject the intervenors' recommendations as addressed herein, for the reasons discussed in more detail in the Companies' OB and rebuttal testimony.[2607]

30.2 Wildfire Liability Insurance

The Companies disagree with TURN's recommendation to revise their 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.[2608] TURN's recommendations are built on a series of assumptions that, when scrutinized, reinforce support for the Companies' successful wildfire liability program, their resulting reasonable forecasts, and for reauthorization of their LIPBAs, as explained in SoCalGas and SDG&E's OB.[2609]

Further, the Companies disagree with TURN's suggestions that the Commission should require SoCalGas and SDG&E to hire TURN (with its retention of a former Sempra employee) to provide insurance expertise to the Companies. TURN offers no estimates for how much its proposed retention would cost ratepayers and does not describe why it believes that such an arrangement would be cost-effective or beneficial to ratepayers.

The sole focus of TURN's OB proposal appears to be convincing the Commission to require self-insurance as the sole option for all California utilities, regardless of circumstances. Parsing TURN's arguments, there is no amount of evidence and no pricing level or threshold low enough to demonstrate that it is prudent to for a utility to purchase insurance rather than to self-insure. As set forth below, each of TURN's arguments should be rejected.

30.2.1 The Companies' wildfire liability insurance proposals have been shown to be reasonable and beneficial to ratepayers, as well as superior to TURN's self-insurance proposals.

TURN's OB argument suggesting an inadequacy in the Companies' wildfire liability insurance forecast support should be rejected, as its opinion is only reached by ignoring a large

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[2607] *See* SCG/SDG&E OB, Section 30 at 683-709; *see also* TURN-11-E (Finkelstein/Ellis) at 2.

[2608] *See* TURN OB at 301-304.

[2609] *See* SCG/SDG&E OB at 699-700; *see also* Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 6-7. The Companies remain committed to negotiating 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. Ex. SCG-24/SDG&E-28 (Gaughan) at 22.

portion of the Companies' testimony.[2610] The revised direct testimony of Dennis Gaughan and the Companies' OB provide a lengthy discussion of the specific cost drivers the Companies face in the wildfire liability insurance market, the Companies' efforts to mitigate costs of wildfire insurance, including its wildfire mitigation plan (WMP), the Companies' forecast methodology, their risk capital diversification efforts, their blind-bid pricing strategy, and their comprehensive approach to managing price volatility, including the use of the LIPBA.[2611] Mr. Gaughan's testimony also provides a lengthy discussion of the LIPBA and alternatives to the LIPBA, including the consideration of self-insurance and support in requesting reauthorization of the LIPBA.[2612]

Implicit in several of TURN's briefing arguments is, again, its support of self-insurance in all circumstances – and, as part of its approach, a disagreement with the Companies' highly successful blind-bid pricing strategy. Specifically, TURN's interest appears to be in having a seat at the table to consider the Companies' confidential pricing information in real time, thus putting the heart of the strategy's effectiveness and the resulting ratepayer benefits at risk, as well as raising good corporate governance concerns. TURN seeks to replace the Companies' judgment in making risk-management and insurance business decisions with TURN's – as well as replacing the Commission's judgment with its own regarding the type of evidence, review, and scrutiny that is necessary on nearly every material topic presented in its brief.[2613] TURN proposes to insert itself into the decision-making processes that are the Companies' duty and responsibility, rejecting along the way the information content of pricing obtained by the Companies from the insurance market itself.[2614] The implication is that TURN should be the real-time arbiter of virtually all material

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2610 *See* TURN OB at 301-304. SDG&E notes that Cal Advocates similarly proposes "Sempra should consider implementing a self-insurance program if its wildfire liability insurance costs increase above $250 million." Cal Advocates OB at 248. For the reasons stated herein, and in testimony and Opening Briefs, SDG&E submits that its forecasts are just and reasonable without any need, at this time, to incorporate self-insurance into its wildfire liability insurance program. *See* Ex. SCG-24/SDG&E-28 (Gaughan) at 23, Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 14-19 and SCG/SDG&E OB at 703-706.

2611 *See* Ex. SCG-24/SDG&E-28 at16-21; SCG/SDG&E OB at 692-696.

2612 *See* Ex. SCG-24/SDG&E-28 at 21-25; SCG/SDG&E OB at 696-698. *See also* Ex. SCG-24/SDG&E-28, Appendices B (five-year forecasts for the Companies' insurance programs), F (Chubb Bermuda's 2022 Liability Limit Report), and G (AM Best Report on California Wildfires).

2613 *See* TURN OB at 301-335, *passim*.

2614 *See, e.g.,* Ex. SCG-306/SDG&E-306 at 2-6, SoCalGas and SDG&E's Responses to: (1) TURN-SEU-007, Question 9 (demonstrating TURN's repeated requests for confidential and market-sensitive insurance-related decisions of the Companies, under shifting standards set from TURN's subjective perspective. TURN's apparent standard is: they will "know it when they see it."

It is in this light that TURN argues an inadequacy in the Companies' evidentiary showing – which conflicts with Cal Advocates', FEA's, and UCAN's positions that take no issue with the sufficiency of the Companies' evidentiary showing. The Commission should decisively reject TURN's thinking.

Another facet of TURN's position suggests a lack of detail supporting the market price of insurance that the Companies are able to secure. Again, the Companies have presented detailed descriptions of their wildfire insurance program, including their WMP and their blind-bid pricing strategy, as well as proof that their program works, *i.e.,* that the market prices the Companies are able to secure are dramatically lower than those of the other California utilities.[2615] Under this impossible standard, no market option would exist – only TURN's self-insurance proposal.

TURN quotes SCE's TY 2021 GRC Decision in support for its claim that "reliance on a utility's insurance broker's forecast fails to establish the reasonableness of the resulting forecast"[2616] but fails to acknowledge the context of the Commission language it quotes. Specifically, D.21-08-036 was issued on August 21, 2021, less than a year after D.20-09-024 was issued (on September 28, 2020), which authorized recovery of $505 million in incremental wildfire insurance premiums in SCE's WEMA account. In D.21-08-036, the Commission denied SCE's TY forecast of $624 million, escalated from $237 million base year costs,[2617] but authorized a $460 million forecast less than a year after D.20-09-024 was issued. The circumstances of the Commission's denial of escalated insurance costs in D.21-08-036 framed the Commission's determination that there was not enough basis to grant SCE's request based on Marsh's forecasted

pricing information), (2) TURN-SEU-034, Question 5 (demonstrating TURN's request and the Companies' forthright explanation of why TURN's request implicates meetings and conversations for which no transcript exists).

2615 *See,* SCG/SDG&E OB at 697, n.3550 (*citing* testimony demonstrating 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 also,* Ex. SCG-224-E/SDGE-228-E (Gaughan) Chapter 1 at 17-18, and Ex. SCG-306-E/SDGE-306-C CONFIDENTIAL at 3-4.

2616 TURN OB at 302, *citing* D.21-08-036 at 398-399.

2617 *See* D.21-08-036 at 398.

premium.[2618] The circumstances are obviously distinguishable from the instant case – where the Companies seek a 5.4% compound annual growth rate in wildfire liability insurance costs from the base year ($203 million)[2619] to the test year ($238 million),[2620] based on Marsh's forecasts and independently submitted evidence – versus a requested 38% compound annual interest growth rate between the base year ($237 million)[2621] and the test year ($624 million)[2622] in SCE's case. Even TURN has recognized that "the Companies' 'claims histories, risk profiles, and recent and forecasted insurance costs' materially differ from PG&E and SCE."[2623] Nonetheless, TURN asks for a "similar outcome" in this case,[2624] where the circumstances are dramatically different. The Commission should reject TURN's attempt to call for a reduction in the instant case, based on dramatically different circumstances in another proceeding.

30.2.2 In comparison, TURN's self-insurance proposals do not negate the reasonableness of the Companies' forecast.

TURN's OB proposes that SoCalGas and SDG&E be required "to rely on self-insurance to replace third-party wildfire liability insurance for the first $50 million of potential claims."[2625] As set forth in the Companies' OB, however, the record evidence demonstrates that TURN's analysis is based on unreliable assumptions and a failure to recognize the ratepayer benefits of third-party insurance.[2626] Moreover, TURN's arguments ignore that the Companies have demonstrated success in renegotiating contracts for the 2023-2024 policy year, 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 *that renders self-insurance unnecessary.*[2627] Again, TURN's arguments to the contrary

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2618 *See id.* at 399 ("The Commission has adopted insurance expense forecasts developed by SCE's broker in the past. In this instance, however, given the magnitude of the requested forecast, we find SCE's showing to be inadequate.").

2619 SCG/SDG&E OB at 689, Table 30.3 Liability Insurance (B-2 Fire 2021 Base Year).

2620 SCG/SDG&E OB at 689, Table 30.3 Liability Insurance (B-2 Fire 2021 Forecast 2024).

2621 *See* D.21-08-036 at 398.

2622 *Id.*

2623 SCG/SDG&E OB at 704, *citing* Ex. TURN-11-E (Finkelstein/Ellis) at 5.

2624 TURN OB at 303.

2625 *Id.* at 309-318.

2626 SCG/SDG&E OB at 704-705.

2627 *Id.* at 705.

appear to be based on meeting an undefined and unattainable standard of providing TURN with additional information for TURN to scrutinize, upon which TURN could render judgment.[2628]

TURN reveals the legerdemain of its positions in arguing that pricing indication discussed in the Companies' rebuttal and in hearing exhibits might be better but is not clearly better than TURN's self-insurance. TURN knows that the rate on-line of first $50 million has been reduced to a level where self-insurance has never been considered or proposed before the Commission. This low pricing, taking into account the no-loss return premium, reflects the insurance market's judgment as shaped by the Companies' negotiations and loss history. TURN's position that the results of the Companies' negotiations "is not enough" exemplifies its overall effort to substitute the Companies', the Commission's, and the insurance market's judgment with that of TURN's own. TURN's briefing argument reveals its true position that there is no pricing level, namely, no threshold, low enough to satisfy it that it is just and reasonable not to self-insure. And there appears to be no type or amount of evidence that could convince TURN otherwise.

30.2.3 TURN's change from its previous self-insurance position is an improvement, but is still unnecessary, in light of the Companies' strong wildfire liability insurance program.

TURN's OB identifies an alternative position from its unfunded self-insurance option, acceding to partial funding of its proposed self-insurance option for the first $50 million of wildfire liability insurance coverage:

> TURN recognizes that the Commission may deem it appropriate to include in current rates some amount in the 2024 test year revenue requirement that would serve to accrue a self-insurance fund available for claims up to $50 million. It could do so by adopting a forecast of $12.5 million rather than $0 as the cost of self-insurance, to be recorded in a designated sub-account of the LIPBA to ensure funds collected for self-insurance are used only for that purpose.[2629]

The Companies' agree that TURN's alternative proposal represents a significant improvement in recommendation, as it recognizes that unfunded self-insurance is simply retained risk borne by ratepayers, with no dedicated funds in reserve to be accessed in the event of a claim. 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

[2628] *See, e.g.,* TURN OB at 313-316.

[2629] TURN OB at 313, 318.

which ratepayer recovery is allowed.[2630] Nonetheless, the Companies maintain that their current wildfire liability insurance program for the first $50 million of coverage renders self-insurance unnecessary.

30.2.4 For the same reasons as shown above, TURN's arguments to require additional self-insurance evidence is undefined and therefore unreasonable.

TURN's OB requests that the Commission "direct [SoCalGas and SDG&E] to present a robust analysis of self-insurance options in their next GRC."[2631] Given the amount of space this argument occupies in TURN's OB, this request is plainly important to TURN – although it is not clear why, except, again, to promote self-insurance as the only insurance option available to utilities. TURN's strategy in this regard should not replace common sense and good Commission policy, which, again, recognizes that "[l]iability insurance is a standard cost of doing business that is primarily designed to benefit ratepayers."[2632]

TURN's recommends that SoCalGas and SDG&E be required to present self-insurance analysis that, "at a minimum[,] permit[s] the interested parties and the Commission to understand the assumptions the utilities made and the conclusions they reached in the process of deciding whether it made sense to rely on self-insurance…."[2633] As TURN well knows, adopting this proposal would put the success of its blind-bid pricing strategy and wildfire liability insurance program at risk, to ratepayers' detriment, as further explained in the Companies' OB:

> 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 would enhance their ability to managing price volatility. The Companies' proven success in attracting wildfire program pricing that is far beneath the levels of the

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2630 D.20-09-024 at 49 (approving SCE's application for authorization to recover costs related to wildfire insurance premiums recorded in its WEMA (stating, "[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 (addressing SCE's TY 2021 GRC) (noting, "Liability insurance is a standard cost of doing business that is primarily designed to benefit ratepayers.").

2631 TURN OB at 318-323.

2632 D.21-08-036 at FOF 484 at 615; *see also* D.20-09-024 at 49 ("[W]ildfire liability insurance is primarily designed to benefit ratepayers and not shareholders.").

2633 TURN OB at 320.

> 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.[2634]

As previously noted, the Companies disagree with TURN's suggestions that the Commission should require SoCalGas and SDG&E to hire TURN (with its retention of a former Sempra employee) to provide insurance expertise to the Companies.[2635] TURN offers no estimates for how much its proposed retention would cost ratepayers and does not describe why it believes that such an arrangement would be cost-effective or beneficial to ratepayers. TURN has identified no standards or threshold price at which, in TURN's view, self-insurance would become more attractive than commercial insurance.

For all of the above reasons, the Commission should reject TURN's recommendation to require the Companies to reveal sensitive insurance pricing information (thereby placing its successful wildfire liability insurance program at risk) in its TY 2028 GRC. The Companies' framework for managing costs of its wildfire liability insurance program – including consideration of self-insurance – is already demonstrated in the Companies' TY 2024 GRC presentation.[2636] TURN has not made its case that the Companies' should be required to partner with TURN to meet their insurance needs.

30.2.5 The Commission should reject parties' proposals to predetermine denial of wildfire liability insurance coverage over $1 billion.

TURN's contention that the Commission should predetermine denial of rate recovery of costs for wildfire liability insurance in excess of $1 billion based on the existence of the newly developed Wildfire Fund[2637] is inconsistent with the legal, regulatory, and real-world environment in which the Companies operate, as more fully described in rebuttal testimony.[2638] Cal Advocates similarly argues "[t]he total amount of wildfire liability insurance coverage purchased by Sempra should be no more than $1 billion. Any purchases above that amount should be refunded to

[2634] SCG/SDG&E OB at 705-706 (citation omitted).

[2635] TURN OB at 321-322.

[2636] *See, e.g.,* SCG/SDG&E OB at 696-698, 705-706.

[2637] TURN OB at 304-309.

[2638] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 11-14.

ratepayers, as coverage for wildfire liability insurance above $1 billion exists in the form of the AB 1054 wildfire fund."[2639]

Until such time as claims are paid out of the Wildfire Fund, uncertainty and risk for ratepayers exists regarding how the fund will be administered and whether sufficient funds will be available. And, until the Commission administers and renders a decision under a Catastrophic Wildfire Proceeding under Pub. Util. Code § 1701.8, there will be risks for ratepayers regarding how the Commission and the Wildfire Fund will coalesce. The risks inherent in a newly developed program – regarding delays, regulatory lag, and timely availability to funds – are foreseeable, and are mitigated by third-party insurance. It remains prudent, just and reasonable for the Companies to continue its past practices (dating back to 2012) to obtain insurance over $1 billion as a bridge to a new regulatory framework.

Further, during the TY 2024 GRC cycle, especially given the success of its wildfire mitigation program to date, SDG&E may be able to negotiate new, innovative, risk transfer agreements for wildfire liability insurance that are: (a) cost-effective, (b) beneficial to ratepayers, and (c) provide coverage in excess of $1 billion. The Commission should not impose constraints on SDG&E that are not imposed statutorily by AB 1054 and would limit SDG&E's flexibility in negotiating a wildfire liability insurance program that benefits ratepayers.

30.3 Director and Officer (D&O) Liability Insurance

30.3.1 TURN's D&O Liability Insurance Disallowance Request is Based on Incorrect Facts and Should Be Rejected.

TURN's OB continues its previous recommendation that the Commission disallow completely the Companies' request for D&O liability insurance.[2640] As shown in their OB, the Companies have established their prima facie case for recovery.[2641] Similar to its position regarding wildfire liability insurance procurement, TURN's OB argues again for the Companies' to meet a standard of TURN's choosing to meet its evidentiary burden – even where other parties in the proceeding have taken no issue with the Companies' evidentiary presentation.

[2639] Cal Advocates OB at 253 (citations omitted).

[2640] TURN OB at 323-330.

[2641] SCG/SDG&E OB at 706-707.

In revisiting the TY 2019 GRC Decision on D&O liability insurance (as the Companies request)[2642] it is helpful to recognize the consistency of the Companies' request with the Commission's TY 2012 GRC Decision. The heart of the confusion on this issue demonstrated in TURN's OB lies in their conflating two different "multi-factor" allocation methodologies employed at Corporate Center – the "multi-factor basic" and "multi-factor split" allocation methodologies, and using this confusion to claim inconsistency with past decisions and an incorrect basis for 100% disallowance.[2643] Specifically, TURN claims that "a multi-factor allocation method" was used in the TY 2012 GRC before a 50% reduction was applied.[2644] While technically true, TURN's ambiguous phrasing may also mislead – as it does not explain that the multi-factor *basic* allocation methodology (not the multi-factor *split*) was: (1) applied to allocate D&O liability insurance costs for the TY 2012 GRC, and (2) was approved by the Commission in D.13-05-010.

The record shows that Corporate Center uses a "multi-factor basic" methodology as a general rule in non-direct allocations applying a multi-factor.[2645] The evidence shows that Corporate Center uses a "multi-factor split" methodology in limited circumstances, for equitable reasons.[2646] The Companies' TY 2012 GRC testimony for Corporate Center – General Administration similarly explained the multi-factor split methodology as an exception to the multi-factor basic allocation methodology, which is applied when circumstances warrant:

> The Corporate Center provides accounting research, consolidation, SOX controls, and reporting services, and procures external audit services, that benefit SDG&E, SoCalGas, and all other business units; thus, all non-direct costs are allocated by "Multi- Factor Basic."
>
> …
>
> Two exceptions to the Multi-Factor Basic are the allocation for Corporate & Global Accounting and the SVP Controller. Because the parent companies include both Corporate and Global entities, it was deemed more equitable to use

[2642] *See,* SCG/SDG&E OB at 709.

[2643] *See generally,* TURN OB at 326-330.

[2644] *Id.*

[2645] *See, e.g.,* Ex. SCG-23-R-E/SDG&E-23-R-E (Cooper) at 18 (explaining that most non-direct general administration costs that are allocated using a "multi-factor" apply the "multi-factor basic," and that the multi-factor split allocation applies only to certain exceptions, for equitable reasons.)

[2646] *Id.*

the "Multi-Factor Split" method, a variation which evenly divides the overall allocation between utilities and unregulated businesses.[2647]

The Companies applied the multi-factor basic to allocate D&O insurance costs for the TY 2012 GRC, as shown in the workpapers of then-Insurance witness Maury de Bont.[2648] Thus, in D.13-05-010, when the Commission issued its decision to reduce the Companies' allocated D&O liability insurance costs by 50%, that decision reduced by 50% the forecasted costs that were allocated to the Companies using the *multi-factor basic* methodology.[2649] The Commission approved the Companies' use of the multi-factor basic allocation methodology (demonstrated in Mr. de Bont's workpapers) as a reasonable via Finding of Fact 372 of the decision:

> 372. [I]t is reasonable to adopt Risk Management's allocation of the insurance costs to SDG&E and SoCalGas as adjusted by our discussion concerning the costs of … directors and officers liability….[2650]

Corporate Center began to use the *multi-factor split* allocation method in the Companies' D&O insurance forecasts in the TY 2016 GRC, as shown in the prepared direct testimony of Katherine Carbon.[2651] But the multi-factor *basic* methodology was used to allocate D&O costs for the TY 2012 GRC presentation, and the Commission deemed it reasonable in D.13-05-010.[2652] This demonstrates why the multi-factor split allocation methodology is inequitably applied in a

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2647 A.10-12-005/-006, (the Companies' TY 2012 GRC proceeding), the Prepared Direct Testimony of Bruce A. Folkmann (December 2010), Ex. SCG-17 at 17; Ex. SDG&E-23 at 17. The Commission may take official notice of SoCalGas's and SDG&E's testimony exhibits in the evidentiary record of the above-mentioned proceeding under Rule 13.10 of the Commission's Rules of Practice and Procedure.

2648 *See, e.g.,* A.10-12-005/-006, the Insurance workpapers of Maury de Bont (December 2010) (Ex. SCG-18-WP) at MBD-WP-36 and (Ex. SDG&E-24-WP) at MBD-WP-36 (showing that SoCalGas's and SDG&E's forecasted D&O liability insurance costs were allocated using a multi-factor basic methodology.) The Commission may take official notice of SoCalGas's and SDG&E's testimony exhibits in the evidentiary record of the above-mentioned proceeding under Rule 13.10 of the Commission's Rules of Practice and Procedure.

2649 *See, id.; see also* D.13-05-010 at 851.

2650 *See* D.13-05-010 at 1077-1078, FOF 372.

2651 *See, e.g.,* A.14-11-003/-004, the Prepared Direct Testimony of Katherine Carbon for SDG&E (Insurance), (November 2014) (Ex. SDG&E-21) at KC-14 - KC-15.

2652 D.13-05-010 at 1077-1078, FOF 372; *see, also* A.10-12-005/-006, the Insurance workpapers of Maury de Bont, Ex. SCG-18-WP at MBD-WP-36 (showing that SoCalGas's forecasted D&O liability insurance costs were allocated using a multi-factor basic methodology.); *see also* A.14-11-003/-004, Ms. Carbon's Rebuttal Testimony (Insurance) (June 2015) (Ex. SDG&E-221/SCG-220) at KC-14 ("*[A]fter the last GRC decision*[, we] began allocating D&O premiums using the Multi-Factor Split methodology, rather than Multi-Factor Basic.") (emphasis added).

situation where the Commission would then reduce the forecast by 50%, because it leads to an unreasonably low authorized amount,[2653] and how both the Companies' primary proposal (multi-factor split alone) and alternative proposal (multi-factor basic plus 50% reduction) are consistent with the TY 2012 Decision, where the Commission initially adopted the 50% D&O reduction. Further, it also explains why description of the issue in TURN's OB at 326-330 is incomplete, and why TURN OB's claim (at 329-330) that D&O cost allocation by multi-factor basic is unsupported is incorrect.

30.3.2 Parties' Other Recommendations for Reductions Should Be Rejected.

The Companies continue to believe that 100% of its allocated (by multi-factor split) D&O liability insurance cost forecasts are reasonable and prudent expenditures that should be recoverable in rates, for all of the reasons set forth in the Companies' OB and testimony.[2654] FEA recommends "removing 50% of the TY 2024 D&O Insurance amount of $1.589 million allocated to SDG&E, which is a reduction of $795,000."[2655]

TURN's OB argues in the alternative that, if the Commission allows recovery of D&O Insurance, the Commission should authorize $387,000 total for both utilities, the amount allowed in its TY 2019 GRC Decision.[2656] This is a brand-new proposal from TURN, unsupported by logic or basis in the record, with no opportunity for discovery or vetting, and should accordingly be disregarded. The Companies' D&O liability cost forecasts are reasonable and necessary costs of doing business, as previously shown.

Finally, TURN reiterates its previously stated alternative, which suggests applying *both* a multi-factor split allocation methodology *and* an additional 50% reduction of authorized costs. TURN's alternative proposal would result in authorizing $785,000 for SDG&E and $937,000 for SoCalGas.[2657]

To be clear, the Companies do not take issue with the Commission's policy to effectuate a 50% split between shareholders and ratepayers. With regard to all of the

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[2653] *See,* SCG/SDG&E OB at 708-709.

[2654] *See* SCG/SDG&E OB at 706-709, *citing* Ex. SCG-224-E/SDG&E- 228-E (Gaughan) Chapter 1 at 19-22.

[2655] FEA OB at 12 (citation omitted).

[2656] TURN OB at 329.

[2657] *Id.*

parties' proposals that support adoption of a 50% split, there is only an issue regarding how the split should be fairly implemented.

As explained in the Companies' OB, applying TURN's two-step analysis using the multi-factor basic allocation methodology, instead of the multi-factor split, 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). Modifying TURN's proposal by using the multi-factor basic methodology (instead of the multi-factor split) would be consistent with 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. As explained *supra* in Section 30.3.1, multi-factor basic is the same allocation methodology found reasonable and previously approved by the Commission in the TY 2012 GRC.[2658] Thus, TURN's claim (at 329) that application of the multi-factor basic allocation methodology is unsupported is incorrect.

30.3.3 Summary – The Companies' D&O Parties' Recommendations to Remove 50% of the Companies' TY 2024 D&O Liability Insurance Forecast Should Be Rejected.

In sum, the Companies thus primarily request that the Commission revisit the Companies' currently authorized methodology set forth in the TY 2019 Decision, which approved the use of the multi-factor split allocation methodology *and* reduced the Companies' forecasts by 50%, resulting in an inequitable amount. The Companies continue to believe that multi-factor split methodology, standing alone, is a reasonable means of apportioning D&O liability insurance costs between ratepayers and shareholders, and the Commission should approve 100% of the Companies' costs allocated using the multi-factor split.

However, if the Commission intends to reduce the Companies' TY 2024 forecasts by 50%, the Companies submit that the more commonly applied multi-factor basic methodology is appropriate, just as the Commission approved in the TY 2012 GRC. There are no equitable circumstances that warrant using the multi-factor split methodology to allocate D&O liability costs in this case if the Commission would additionally reduce the Companies' allocated portion by 50%. In that instance, the appropriate allocation methodology for D&O insurance should be the

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[2658] D.13-05-010 at 1077-1078, FOF 372.

more generally applicable multi-factor *basic* allocation methodology that was approved in the TY 2012 GRC decision, not the multi-factor *split,* which Corporate Center uses in limited circumstances.

For all the reasons shown above and in the Companies' OB, the Commission should recognize the reasonableness of the Companies' proposed D&O cost allocations and authorize their total forecasted D&O costs.

30.4 Proposed Modifications to the LIPBAs

As noted, the Commission's TY 2019 GRC Decision authorized SoCalGas and SDG&E to establish separate LIPBAs, two-way balancing accounts for liability insurance premiums.[2659] 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.[2660]

Despite Cal Advocates and TURN's requested modifications, the Applicants requested that the LIPBAs "continue without modification, even if the Companies were to develop a different claims and loss history."[2661]

TURN's OB now offers four proposed modifications to the Companies' LIPBAs, which are each discussed further below.[2662]

- <u>TURN's Proposed LIPBA Modification #1</u>:

First, TURN suggests, "the Commission should end the practice of permitting the Sempra Utilities to recover above-forecasted amounts recorded in the 'under limits' sub-account through a Tier 1 advice letter (the regulatory account update advice letter filing), and instead require a demonstration of reasonableness for the above-forecasted costs in at least a Tier 2 advice letter."[2663]

[2659] Ex. SCG-24/SDG&E-28 (Gaughan) at 21; *see also* D.19-09-051 at 533-536.

[2660] D.19-09-051 at 534.

[2661] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 10.

[2662] TURN OB at 330-335.

[2663] *Id.* at 331.

As noted, TURN's prepared testimony recommended 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."[2664] The Companies reiterate that the under limits sub-account in the LIPBA is intended to address actual costs (above or below) that differ from the amount authorized in the GRC with the same amount of insurance coverage. This sub-account is a true-up from forecasted costs to actual costs, which is precisely the purpose of establishing a balancing account when forecasting is challenging and future costs are unknown. By focusing on loss history in connection with wildfire liability insurance costs, TURN's prepared testimony recommendations were thus substantially contingent on the existence of wildfire claims, or at least they appeared to be.

TURN's Opening Brief, however, appears to recommend recovery of above-forecasted amounts recorded in the under limits sub-account through a Tier 2 advice letter, for the first time in this proceeding's record, in briefing. Applicants thus have been deprived of the reasonable opportunity to adequately respond to, examine, or rebut TURN's recommendation either in testimony, evidentiary hearings, or Opening Briefs. Further, TURN submitted no testimony on this recommendation, aside from its OB argument. Moreover, changing the disposition of the LIPBA to a Tier 3 advice letter or an application would not allow for a timely true-up of costs and would require additional time and CPUC resources to process. Providing a timely true-up of costs is one of the LIPBA's stated purposes,[2665] which would be defeated by adoption of TURN's proposal. Therefore, TURN's argument and recommendation is unsupported by evidence in the record and uninformed, and the Applicants urge the Commission to disregard TURN's last-minute, and unsupported, recommendation.

- TURN's Proposed LIPBA modification #2:

Second, TURN states "[f]or wildfire liability insurance, given SDG&E's recent history of having paid no claims, the utilities' could be permitted to rely on a Tier 3 advice letter filing so long as there continue to be no wildfire claims."[2666]

[2664] Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 10; *see also* Ex. TURN-11-E (Finkelstein/Ellis) at 12.

[2665] *See, e.g.,* D.19-09-051 at 534 ("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.").

[2666] TURN OB at 333 (citation omitted).

TURN appears to repurpose, but modify, a previous recommendation with its second recommendation above. Specifically, TURN stated in its prepared testimony: "For wildfire liability insurance, 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."[2667] Notably, TURN's initial recommendation includes reliance on a Tier 2 advice letter. Subsequently, in Opening Briefs, and for the first time, TURN now recommends a Tier 3 advice letter. As emphasized above, TURN's recommendation is inconsistent with the timely true-up of balancing accounts, and the Applicants have been deprived of the reasonable opportunity to adequately respond to, examine, or rebut TURN's recommendation either in testimony, evidentiary hearings, or Opening Briefs. Further, TURN submitted no testimony on this recommendation, aside from the argument in Opening Briefs. Therefore, TURN's argument and recommendation is unsupported by evidence in the record and uninformed, and the Applicants urge the Commission to disregard TURN's last minute, and unsupported, recommendation.

Further, the above-authorized costs set forth in TURN's Opening Brief cover the TY 2019 GRC period (2019 – 2023), based on forecasts made when the TY 2019 GRC Application was filed and served in 2017.[2668] Since 2017, California has suffered from well-documented wildfire losses that have inserted enormous volatility into insurance markets and have driven prices up. As such, the above-authorized costs in the LIPBA are to be expected.

- <u>TURN's Proposed LIPBA modification #3</u>:

Third, TURN's urges the Commission to "direct the Sempra Utilities to modify the LIPBA:

> so the baseline measure is not the level of insurance costs or coverage that the utility had requested in this GRC, but instead reflects the levels the Commission authorizes here."[2669]

[2667] Ex. TURN-11-E (Finkelstein/Ellis) at 14.

[2668] Stating ("[SDG&E's annual regulatory account update advice letters included recorded undercollections of $59.8 million (effective January 1, 2021), $94.3 million (effective January 1, 2022), and $92.6 million (effective January 1, 2023). The total undercollection recovered in this manner was $247.7 million. Ex. TURN-11-E, p. 13. .[Without acknowledging that regulatory account updates through the TY 2019 GRC period, namely, through 2023, are made based on forecasts made in 2017,] TURN submits that it is reasonable to expect a similar increment to be included in SDG&E's upcoming annual regulatory account update advice letter for 2023 undercollections, to be effective on January 1, 2024."). TURN OB at 331, n.1102.

[2669] *Id.* at 334.

While this appears to be the first time that TURN has proposed this modification in this proceeding, the Applicants do not oppose TURN's third proposed modification to the LIPBAs. However, the Companies note that the proposed modification is unnecessary, as it is consistent with the accounting process for LIPBA currently in place.

- TURN's Proposed LIPBA modification #4:

Finally, TURN proposes modifying the LIPBA by adding an additional sub-account dedicated to administering accruals if "the Commission adopts TURN's proposal to have the Sempra Utilities rely on self-insurance rather than commercial insurance products for the first $50 million of wildfire liability coverage, but also requires the utilities' ratepayers to begin funding a self-insurance accrual…."[2670]

While this appears to be the first time that TURN has proposed this modification in this proceeding, the Companies' agree that, if the Commission were to require self-insurance of the first $50 million of coverage and pre-fund losses with a $12.5 million annual accrual, then administering the funds in a "self-insurance" subaccount within the LIPBA would seem reasonable. However, as noted, the Applicants submit that its forecasts are just and reasonable without any need to incorporate self-insurance into its wildfire liability insurance program. As explained, under the self-insurance scenarios evaluated '"the price of self-insurance would be substantially greater than what the Companies currently pay to insurance markets, at least initially. For a given insured, as the price that they pay for traditional insurance escalates, the price of self-insurance eventually becomes a reasonable alternative.'"[2671] The direct testimony adds that, '"[b]ecause the gap that exists between what the Companies pay for liability insurance and the cost of self-insurance is forecasted to continue, the Companies have chosen not to request a self-insurance option as part of this GRC.'"[2672]

2670 *Id.* at 335. SDG&E notes that Cal Advocates similarly proposes "Sempra should consider implementing a self-insurance program if its wildfire liability insurance costs increase above $250 million." Cal Advocates OB at 248. For the reasons stated herein, and in testimony and Opening Briefs, SDG&E submits that its forecasts are just and reasonable without the need, at this time, to incorporate self-insurance into its wildfire liability insurance program. *See* Ex. SCG-24/SDG&E-28 (Gaughan) at 23, Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 14-19 and SCG/SDG&E OB at 703-706. *See supra* at n.7 and accompanying text.

2671 Ex. SCG-224-E/SDG&E-228-E (Gaughan) Chapter 1 at 17 (citation omitted).

2672 *Id.*

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.[2673] Our ability to manage price volatility in a timely manner while ensuring adequate insurance coverage continues to depend on our access to every mechanism that we have used to date, which includes the six risk transfer agreements that we currently use, the LIPBAs, and our blind-bid pricing strategy. All of these tools complement one another and are necessary, collectively, to mitigate insurance market uncertainty and price volatility. The volatile and uncertain pricing environment that existed when the Commission authorized the Companies' LIPBAs in the TY 2019 GRC Decision shows few signs of abating. 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.

30.5 Conclusion

In summary, SoCalGas and SDG&E respectfully request that the Commission adopt their proposed 2024 TY insurance forecasts and reauthorize the Companies' LIPBAs.

31. Compensation and Benefits

Cal Advocates, TURN, and UCAN addressed Compensation and Benefits in their opening briefs.[2674] As set forth in SoCalGas's and SDG&E's opening brief, the direct testimony of Debbie Robinson provides an overview of the compensation and benefits program at SoCalGas and SDG&E[2675] and the results of the total compensation study (TCS) conducted by Willis Towers Watson (WTW),[2676] a nationally recognized compensation and benefits consulting firm. The Companies' OB and testimony presentation describes SoCalGas's and SDG&E's Compensation and Benefits programs and forecasts in more complete detail, which is incorporated by reference and will not be repeated here, for sake of brevity.

[2673] Ex. SCG-24/SDG&E-28 (Gaughan) at 24.

[2674] Cal Advocates OB at 253-64; TURN OB at 335-62; UCAN OB at 179-184.

[2675] SCG/SDG&E OB at Section 31, *citing* 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.

[2676] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at Appendix B (SoCalGas), Appendix C (SDG&E).

As shown in the Companies' OB, Ms. Robinson's testimony presentation, including the WTW TCS, 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. SoCalGas's 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.[2677]

31.1 Total Compensation Study

No party submitted testimony or took issue in briefing with the results of the WTW TCS. Cal Advocates states that it "takes no position" on the study.[2678] As the Companies' OB states, the TCS evaluated SoCalGas's and SDG&E's total compensation relative to the external labor market, including a detailed analysis of "total compensation," which is defined as the aggregate value of annualized base pay, incentive compensation (short-term and long-term), and benefits programs.[2679] For short-term incentive compensation, both actual and target data were analyzed.

As explained in the OB, SoCalGas's and SDG&E's inclusion of a total compensation study as part of their TY 2024 General Rate Case submission is required as part of their 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.[2680] 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.

Although parties do not take issue with SoCalGas's and SDG&E's TCS, Cal Advocates', TURN's, and UCAN's briefing arguments fail to take into account the TCS results showing that the Companies' total compensation meets the Commission's standard of compensation that is "at

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2677 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 4.

2678 Cal Advocates OB at 253, Section 31.1.

2679 *See* SCG/SDG&E OB at 713-15, *citing* Ex. SCG-225/SDG&E-229 (Robinson) at 5-8, Appendix B (SCG), and Appendix C (SDG&E), for a more complete discussion of the WTW TCS.

2680 SCG/SDG&E OB at 713.

market" and therefore reasonable and recoverable in rates. 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.[2681] SoCalGas's actual total compensation (defined as base salaries, short-term incentives, and benefits) 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 3.4% of market based on actual total compensation, and target total compensation is within 1.9% of market.[2682] 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.[2683] Thus, 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.

TURN's OB not only ignores Commission requirements and standards supporting recovery of at-market compensation costs, it appears to incorrectly suggest that the Commission no longer considers the results of a utility's total compensation study (as it is relevant to a utility's cost of service) in determining an appropriate level of compensation funding in a GRC.[2684] On the contrary, the Commission has noted its total compensation study requirements and the market competitiveness of the Companies' pay in considering the reasonableness of the Companies' total compensation requests, including recently in D.19-09-051, the TY 2019 GRC decision[2685] – in which the Commission rejected several of TURN's arguments and recommendations regarding compensation and ICP, as discussed further in Section 31.2 *infra*. TURN's suggestion that the Commission no longer considers a reasonable cost of service (as reflected in the WTW TCS) in determining authorized compensation funding levels is demonstrably incorrect and inappropriate under the facts of this case – for example, in light of the Commission's recent decision confirming

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[2681] D.95-12-055, 1995 Cal. PUC LEXIS 965 at *29-30.

[2682] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at iii, 6, and table DR-3 at 8.

[2683] SCG/SDG&E OB at 713-14, *citing* Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 6.

[2684] TURN OB at 338.

[2685] *See, e.g.,* D.19-09-051, FOF 230 at 752; *id.* at 537-38 ("In sum, the study concludes that both SDG&E's and SoCalGas' total compensation levels fall within the competitive range of plus or minus 10 percent of the average mean of the competitive market.").

its adherence to the regulatory compact and cost of service principles and other recent regulatory changes discussed in more detail below.[2686]

UCAN acknowledged in testimony that SDG&E's total compensation request "appears to be reasonable,"[2687] however, UCAN's OB repeats its previous argument taking issue with the compensation of '"128 individual SDG&E employees'" based on its review of SDG&E's Total Compensation Study. UCAN's arguments misunderstand the purpose of the WTW TCS and should be rejected for the reasons set forth in the Companies' OB.[2688]

As in past cases, and consistent with its commitment to the regulatory compact, the Commission should find the Companies' WTW TCS as evidence reflecting "at market" costs that are reasonable and that support the Companies' compensation and benefits forecasts – including support for reasonable ICP funding. Intervenor proposals that are inconsistent with this standard should be disregarded, as discussed further below.

31.2 Incentive Compensation (ICP)

31.2.1 Commission Precedent, Policy, and the Law Support Full Funding of the Companies' at-Market ICP Forecasts.

In the GRC context, Commission sets "just and reasonable"[2689] 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."[2690] This principle is founded in longstanding U.S. Supreme Court law, which requires state regulators to establish a rate that will

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2686 *See, e.g.,* D.20-01-002 at 10-11 (noting that the GRC proceeding is "the embodiment of what is often described as the 'regulatory compact.' This compact is viewed as a contract between the utility's investors and its customers; as such, it establishes rights, obligations, and benefits for both sides of the bargain."). D.20-01-002 at 37 also quotes TURN as acknowledging ratepayer benefits ascribed to GRC cost of service ratemaking: "'[b]y providing the utility a steady revenue requirement over a period of years, based on the Commission's adopted forecast of the utility's cost of service, the utility has a financial incentive to reduce costs during the rate case cycle through process improvements, cost-cutting measures, and increases in efficiencies or productivity.' As TURN observes, this incentive to cut costs works to the benefit of the utility's ratepayers.").

2687 Ex. SCG-225/SDG&E-229 (Robinson) at 20 (*citing* Ex. UCAN-02 (Zeller) at 23).

2688 SCG/SDG&E OB at 714-715. SDG&E also disagrees that its argument on this issue constitutes an "ad hominin [sic] attack," as UCAN's OB suggests. *See* UCAN OB at 183.

2689 *See* Pub. Util. Code § 451.

2690 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 ").

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.[2691] 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."[2692] 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.[2693]

It is in the context of the regulatory compact that the Commission examines all utility operating costs in a GRC. The appropriate consideration in a GRC is whether such costs are prudently and reasonably incurred and whether forecasted levels of such costs are reasonable.

SoCalGas and SDG&E have provided substantial evidence demonstrating the reasonableness of their compensation and benefits requests, in testimony, workpapers, and discovery – particularly with respect to their ICP expenditures. Opening briefs by TURN, UCAN, and Cal Advocates largely do not take issue with the Companies' use of incentive compensation as "an essential component of a competitive total compensation package."[2694]

Parties largely do not offer principled arguments demonstrating the fairness or reasonableness of their proposals. Rather, intervenor briefing arguments appear strategically focused on identifying ICP goals for which they believe they can make an argument to support the greatest related removal of costs, based on intervenors' subjective opinions on which goals benefit

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2691 *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.").

2692 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.").

2693 D.20-01-002 at 10.

2694 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 8. *See, e.g.,* Cal Advocates OB at 253-54 ("The compensation and benefits programs provided to SoCalGas and SDG&E employees, retirees, and their eligible dependents reflect the impacts of the marketplace, collective bargaining, and government regulation."); UCAN OB at 179 ("As a general matter UCAN is not opposed to incentive compensation ….").

ratepayers. In some instances, parties disregard the alignment of ICP performance measures and the priorities of the Commission and other regulatory bodies. In many cases, as discussed below, parties' arguments are based on incorrect statements of past Commission decisions. Intervenor proposals are not based in law, policy, or the facts of this case, for several reasons:

First, as noted above, SoCalGas and SDG&E have demonstrated the reasonableness of their at-market total compensation costs through the WTW TCS. No party in this case disputes that SoCalGas's and SDG&E's total compensation, including actual ICP, is at market, as the WTW TCS shows. Cal Advocates, TURN, and UCAN all choose to ignore the Commission's guidance considering compensation that falls between plus or minus five percent of the relevant market to be "at market" and reasonable. 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.[2695]

Second, as previously noted, the Commission allows for recovery of Compensation and Benefits expenses that are "at market," *i.e.*, within a five percent range of the relevant market.[2696] As stated in direct and rebuttal testimony and in the Companies' OB,[2697] 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. In past decisions (*e.g.*, D.92-12-057, D.04-07-022 and D.93-12-043), the Commission concluded that "incentive pay is part and parcel of the overall compensation scheme," and that "the allocation of total cash compensation between salaries and incentives should be left to each utility's discretion."[2698]

D.04-07-022 supported this result, quoting D.92-12-057 for the conclusion that it is "clear how the issue of incentive compensation programs should be handled."[2699] This point is further illustrated in D.04-07-022 for SCE:

2695 D.15-11-021 at 265.

2696 *See* D.95-12-055.

2697 SCG/SDG&E OB at 719 (*citing* Ex. SCG-225/SDG&E-229 (Robinson) at 8).

2698 D.92-12-057 at 81 (*quoting* consensus report of workshops conducted by Commission staff).

2699 D.04-07-022 at 206 (*quoting* D.92-12-057 at 81).

> 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 compensation as long as total compensation is reasonable. If total compensation does not exceed market levels, a disallowance of reasonable expenses for the Results Sharing program would in effect be a substitution of our judgment for that of SCE managers regarding the appropriate mix of base and incentive pay. That is the sort of micromanagement that the Commission rejected in D.92-12-057, and that we reject here.[2700]

TURN's OB[2701] takes issue with SoCalGas and SDG&E's reference to dicta from the compensation section of D.08-07-046 that was later deleted,[2702] on grounds that the final decision in that case was the result of a settlement.[2703] This argument appears similar to one recently addressed in D.17-05-013, where the Commission rejected TURN's request to remove "confusing and inappropriate dicta" from a decision approving a settlement agreement.[2704] In TURN's view, the decision had "overreache[d] in apparently reaching the merits" of the settled issue.[2705] In rejecting TURN's requested deletion, the Commission generally noted that review of a settlement agreement requires review of the record of the proceeding, analysis based on the record, and a decision on the record.[2706] To the extent TURN objected to the Commission's analysis in approving the settlement agreement, the Commission noted that its decisions do not operate as binding precedent:

> As TURN surely knows, the actions of previous Commissions are not binding on the present Commission, and if this Commission finds it necessary to examine budget-based forecasts in order to reach a finding on the reasonableness of a Settlement Agreement to which TURN is a signatory, it will do so, and TURN has no real basis for objecting to the means found necessary by the Commission to reach its decision.[2707]

2700 D.04-07-022at 217.

2701 TURN OB at 338-39.

2702 Ex. SCG-25-R-E/SDG&E-29-R-E(Robinson) at 19 (*citing* D.09-06-052 at OP 2.m.).

2703 Ex. SCG-25-R-E/SDG&E-29-R-E(Robinson) at 19 (*citing* D.09-06-052 at 13, n.22; *see also* D.09-06-052 at 14.).

2704 D.17-05-013 at 233.

2705 *Id.* at 233-234.

2706 *Id.* at 235 (stating "This analysis is required by law" and citing Cal. Pub. Util. Code § 1701.1(e)(8): "The commission shall render its decisions based on the law and on the evidence in the record.").

2707 *Id.* at 237.

Similarly, the Companies believe the language is not "misleading," as TURN claims, because it is not binding precedent under the best of circumstances; moreover, the Companies have identified exactly what it is.[2708] The Commission should decline TURN's request to "tell [SoCalGas and SDG&E] to stop" quoting language that does not support TURN's extreme positions on ICP.[2709] The premise in the quoted dicta remains the same, and the language is supported in other cited decisions and case law.

Conversely, it is misleading for TURN to argue that the Commission's discussion of SCE's "Results Sharing" performance-based ratemaking (PBR) mechanism in its TY 2006 GRC in any way fairly represents how the Commission has treated or should treat incentive compensation in this case. TURN's argument that it is "normal practice" for the Commission to "disallow[] 50% of short-term incentives from rates" is belied by its cited pages 125 and 126 of D.06-05-016,[2710] which describe Commission staff's recommendation not to fund SCE's TY 2006 Results Sharing Incentive Program, in part, because the data was compromised. The Commission disallowed 50% of short-term executive incentive compensation in that case, citing its Results Sharing discussion,[2711] refunded tens of millions in rewards, and ordered a fine of $30 million.[2712] TURN's reference to this case as representing "normal" Commission practice is misleading, for that reason.

TURN also misleads in claiming "twenty years of precedent" of Commission disallowance of short-term incentive compensation linked to financial performance.[2713] The 1986 decision TURN cites in support of this statement occurred prior to a Commission workshop on incentive pay and decisions such as D.92-12-057, D.04-07-022 and D.93-12-043, where the Commission concluded that "incentive pay is part and parcel of the overall compensation scheme," and that "the allocation of total cash compensation between salaries and incentives should be left to each utility's discretion;"[2714] and decisions such as D.95-12-055, where the Commission affirmatively

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[2708] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 19 ("[a]lthough the compensation section of D.08-07-046 was later deleted… the premise in the above quotes remains the same.").

[2709] TURN OB at 339-340.

[2710] TURN OB at 340.

[2711] D.06-05-016 at 142-143.

[2712] D.09-03-025 at 129-130; *see also* D.06-05-016 at 124-132.

[2713] TURN OB at 340 (*citing* D.86-12-095).

[2714] D.92-12-057 at 81 (*quoting* consensus report of workshops conducted by Commission staff).

stated that compensation levels that fall within five percent of the relevant market are considered to be "at market" and reasonable.[2715]

Viewed in this light, TURN's contention that D.92-12-057, D.04-07-022 and D.08-07-046 are "anomalies based on particulars of the cases" that "do not reflect the Commission's relatively consistent position over the past thirty years"[2716] strains credulity. And although it is true that the Commission did not allow full recovery of the Companies' short-term incentive costs in their TY 2012 case, it is important to note that the record in that case reflected a severe economic downturn that is not present at the current time.[2717] It is also important to note that in D.13-05-010, the Commission did not evaluate the merits of each individual performance metric as TURN, Cal Advocates, and UCAN have attempted to do in this GRC.

The record in this case also differs from the ones TURN discusses because, as Ms. Robinson testified, both SoCalGas and SDG&E have continued their increased emphasis in their past two GRC proceedings on presenting employee and operational safety measures in their ICP plans, to provide even stronger alignment between SoCalGas's and SDG&E's safety programs and their ICP.[2718] As the Commission stated in the Companies' TY 2016 GRC:

> 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.[2719]

SoCalGas and SDG&E responded to this Commission guidance accordingly, as discussed further below and reflected in the Commission's acceptance of the large majority of the Companies' ICP requests in the TY 2019 GRC decision.

In that regard, TURN additionally misleads in stating that "D.19-09-051 finds against the notions of market levels of overall compensation and micromanagement with respect to ICP design…."[2720] D.19-09-051 did nothing of the sort, rejecting several of TURN's proposals in the

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2715 D.95-12-055, 1995 Cal. PUC LEXIS 965 at *33.

2716 TURN OB at 338.

2717 *See, e.g.,* D.13-05-010 at 866 (discussing the total compensation study in light of the economic condition of ratepayers and local and state government cut-backs).

2718 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 11-13.

2719 D.16-06-054 at 153.

2720 TURN OB at 341.

TY 2019 GRC and finding that SoCalGas's and SDG&E's increasing focus 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.[2721]

The Commission did not apply any reductions to any non-executive ICP metrics other than financial metrics,[2722] finding that "10 percent of the ICP, or the amount representing the financial metrics, should be disallowed."[2723] Table 31.1 below demonstrates the impact of reducing the Companies' ICP requests if the Commission were to apply a similar methodology and remove the amount representing the financial metrics in the TY 2024 GRC decision:

Table 31.1[2724]

TY 2024 ($ in thousands)	**SoCalGas**	**SDG&E**
July Update Testimony	$112,372	$81,661
Less Financial Metric	$5,153	$8,502
Revised ICP	$107,219	$73,159

31.2.2 The Companies' ICP Performance Goals Benefit Customers and the Community

The SoCalGas and SDG&E 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.[2725] In addition, the non-executive 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.

2721 D.19-09-051 at 542.

2722 *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.

2723 *Id.* at 771, Conclusion of Law 83.

2724 The values in Table 31.1 are derived from applying the percentages shown in Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 10, Table DR-4 and 11, Table DR-5, to the values shown in Ex. SCG-401/SDG&E-401 (Robinson) at 12, Table DSR-01 and 13, Table DSR-02.

2725 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 9.

Cal Advocates, TURN and UCAN base their recommendations for ICP recovery on their subjective evaluations of the perceived benefits of each performance measure to ratepayers and shareholders. The differences in their recommendations (as well as differences in recommendations from one rate case to the next), demonstrate the unreasonableness of attempting to allocate incentive compensation funding between ratepayers and shareholders based on each party's retroactive, subjective assessment of the perceived benefits to ratepayers.

As discussed below, ratepayers benefit from all of these performance measures working together to promote safe, reliable, customer-focused operations while maintaining a financially strong utility.

31.2.3 Safety and Customer and Stakeholder Performance Measures Benefit the Public, Including Customers

In their testimony, Cal Advocates does not dispute that ICP measures related to safety and safety management systems and customers and stakeholders benefit ratepayers.[2726] 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.[2727]

In their opening briefs, Cal Advocates and TURN appear to take the position that, because the Commission has reduced other utilities' ICP plans by certain amounts, the Commission should do the same here – and simply pick the lowest available percentages. For example, Cal Advocates claims that because "there is no consistency" in performance metrics from year-to-year and between utilities, the Commission should shrug its shoulders and automatically reduce a utility's funding request for variable pay by 50%[2728] - regardless of the reasonableness of the program, the funding request, or the incentive-based benefits to ratepayers. TURN similarly claims that the Commission has a "normal practice of disallowing 50% of short-term incentives from rates" – completely disregarding the Commission's decision funding 90% of SoCalGas and SDG&E's ICP

[2726] Ex. SCG-225/SDG&E-229 (Robinson) at 12.

[2727] *Id.* at 12-13.

[2728] Cal Advocates OB at 257.

request in the TY 2019 GRC.[2729] Cal Advocates' and TURN's arguments are inconsistent with the law and Commission policy regarding cost-of-service ratemaking – and they are also inconsistent with Cal Advocates' and TURN's respective positions supporting individual scrutiny of each utility's ICP plan and performance metrics.

UCAN states that it is "not opposed to incentive compensation" and does not take issue with the "size of the award," but is "dismayed" by "the incentive compensation program's lack of a measure of customer rates" and corporate efficiency and, on that basis, proposes zero funding.[2730] The law and Commission policy, as discussed above, do not support UCAN's position. The facts of this case support 100% recovery of the Companies' ICP funding request, as a reasonable, at-market cost of doing business.

SoCalGas and SDG&E strongly disagree with all of the intervenors' positions, which are inconsistent with Commission precedent, policy, and the law. The recommendations of Cal Advocates, TURN and UCAN are also 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.[2731]

The Commission did not apply any reductions or cost sharing to any non-executive ICP metrics other than financial metrics,[2732] finding that only "10 percent of the ICP, or the amount representing the financial metrics, should be disallowed."[2733]

[2729] *See* D.19-09-051 at 543 ("Therefore, we find that 10 percent of the ICP, or the amount representing the financial metrics, should be disallowed.").

[2730] UCAN OB at 179-80.

[2731] D.19-09-051 at 542.

[2732] *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.

[2733] *Id.* at 771, COL 83.

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.[2734] For example, UCAN proposes to eliminate all ICP funding based on UCAN's subjective belief that certain of its policy preferences could have been incentivized in ICP but were not[2735] – even while admitting that the Companies' total compensation is reasonable.[2736] 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 suggested would result in the Commission's micromanaging of the Applicant's variable compensation.[2737]

TURN and UCAN singled out specific ICP measures for criticism. As previously noted, some of their disagreement relates to ICP performance measures that align with the priorities of the Commission and other regulatory bodies – including, for example, alignment with the CPUC's Environmental and Social Justice (ESJ) Action Plan, which is scoped as Issue #5 in the Scoping Ruling for this proceeding.[2738] SoCalGas and SDG&E provided additional information related to

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2734 Ex. SCG-225/SDG&E-229 (Robinson) at 13.

2735 UCAN OB at 179-80. Moreover, UCAN offers no practical suggestions on how its policy preferences could be measured, incentivized, and incorporated in the Companies' plans.

2736 *See* Ex. SCG-225/SDG&E-229 (Robinson) at 20, *citing* Ex. UCAN-02 (Zeller) at 23.

2737 D.13-05-010 at 882.

2738 *See,* the Assigned Commissioner's Scoping Memo and Ruling, (October 3, 2022), Issue #5 ("Whether Sempra Utilities' Applications align with the Commission's Environmental and Social Justice Action these measures in the rebuttal testimony and in the OB, which is incorporated by reference herein and will not be repeated verbatim here for sake of brevity.[2739] Below, SoCal Gas and SDG&E respond to TURN's OB response to the Companies' rebuttal testimony stated in their opening brief.

- Wildfire and PSPS System Hardening (SDG&E only): TURN's OB argument (at 348-49) continues to incorrectly suggest – without support – this metric is aimed at capital spend. Not so. As required by Public Utilities Code Section 8389(e), SDG&E is obligated to develop an executive compensation structure designed to promote safety as a priority with performance metrics that are "measurable and enforceable."[2740] Wildfire System Hardening is a recognized leading indicator of wildfire risk reduction and SDG&E selected this metric as a goal because hardening reflects the most wildfire risk reduction with sustained impacts for both wildfire risk reduction and PSPS impact reduction over the long-term (as compared with O&M programs that must recur to have an impact). This ICP measure is also aligned with ongoing implementation of SDG&E's approved WMP, as system hardening targets are a measurable indicator of WMP compliance.[2741] SDG&E's system hardening metrics have been repeatedly approved by the Office of Energy Infrastructure Safety (Energy Safety) as promoting public safety in compliance with the executive compensation requirements of Public Utilities Code Section 8389 and consistent with the advancement of statewide wildfire safety and PSPS mitigation goals.[2742]

- Execute Clean Energy Transition Plan (SoCalGas): This goal focuses on the advancement of hydrogen projects such as clean fuels infrastructure projects and hydrogen blending. TURN's OB argument (at 349-50) fails to recognize that 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

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Plan"), *citing* The Commission's ESJ Action Plan at 2, *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.

2739 Ex. SCG-225/SDG&E-229 (Robinson) at 14; OB at 724-26.

2740 Pub. Util. Code § 8389(e)(4).

2741 Pub. Util. Code § 8389(e)(7) (creating an obligation for SDG&E to implement its approved WMP); Pub. Util. Code § 8386.1 (obligating Energy Safety and the Commission to monitor and enforce substantial compliance with SDG&E's approved WMP).

2742 *See, e.g. Energy Safety Approval of SDG&E's 2022 Executive Compensation Structure* (July 28, 2022) at 4 ("Consistent with the 2022 Guidelines, SDG&E's executive compensation structure also promotes measurable outcomes for safety improvements required by Wildfire Mitigation Plans (WMPs) … [including] targets tied to the total number of miles hardened through WMP initiatives …") *available at*: https://www.sdge.com/sites/default/files/regulatory/Approval%20of%20SDGE%27s%202022%20Executive%20Compensation%20Structure.pdf .

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.[2743] In contrast, TURN's arguments reflect TURN's subjective opinions rather than California climate change policy and should be rejected.

- 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.[2744] TURN's OB (at 350) takes issue with the fact that "the company's short-term goal (5%) and the 2030 goal (20%) are far higher than the Commission's SB 1440-conforming targets of 2.9% (short-term target) and 10.7% (2030 target) for biomethane as a percentage of SoCalGas core-customer procurement."[2745] TURN's opposition once again reflects its own policy positions, rather than supporting California policy positions – which is the intent of the goal. 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.[2746] As RNG is one fuel that can support California's goal of decarbonization, the goal is based on sound policy principles and benefits the public, including ratepayers.

- 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.[2747] TURN's OB (at 352) 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.[2748] 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. TURN

2743 Ex. SCG-225/SDG&E-229 (Robinson) at 14 to 15.

2744 Ex. SCG-225/SDG&E-229 (Robinson) at 15.

2745 UCAN's testimony also criticizes SDG&E's renewable natural gas goal (Ex. UCAN-02 (Zeller) at 81); however, SDG&E's ICP does not include a renewable natural gas goal. UCAN appears to have abandoned this position in its OB.

2746 Ex. SCG-02-R (Peress and Sim) at 3-4. *Also see,* Ex. SCG-202-E (Niehaus/Arazi) at 16.

2747 Ex. SCG-225/SDG&E-229 (Robinson) at 15.

2748 Ex. TURN-10-R (Jones) at 29.

appears not to recognize the total ratepayer, customer experience and system benefits to timely customer connections. Customers expect to have access to energy in a timely manner as a part of their basic standard of living. Furthermore, new construction is critical to addressing the current housing shortage in California. Delays in new construction force customers to wait for their new homes or businesses to be fully ready.[2749] Through this ICP goal, SoCalGas quantifies and measures its commitment 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.[2750] Customers are asked to rate whether SDG&E made the interaction easy for the customer, providing SDG&E with valuable input. TURN's OB (at 353) takes issue with the goal, claiming that "Even a survey as simple as the "make easy" survey can build brand loyalty and increase public image." TURN's argument ignores the fact that survey feedback allows SDG&E to learn and make adjustments that will improve customer satisfaction, thereby also increasing ratepayer benefits. TURN's speculative arguments about this goal should be rejected.

- SoCalGas Customer Insight Study (CIS) (SoCalGas): This goal measures the CIS Residential overall favorability score, which is based on a survey of residential customers.[2751] TURN's OB argues (at 354) that the CIS study "may reflect the result of marketing and public relations efforts rather than improved utility service delivery." TURN's argument ignores the fact that survey 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, thereby benefiting customers. TURN's speculative arguments should be rejected.

- Community Relations (SDG&E): This goal focuses on SDG&E's charitable giving to diverse and underserved communities. It is aligned with SDG&E's aim to help support communities it serves and to help communities of concern be equitable and inclusive in the participation of the state's clean energy transition goals. Although TURN's OB (at 355) is correct that charitable giving itself is not ratepayer-funded, SDG&E believes that this ICP goal is just, reasonable, and consistent with the CPUC's ESJ Action Plan, which is focused on "incorporating ESJ considerations into [the CPUC's] work, as well as creating a culture that takes into serious account the lived experiences of ESJ communities."[2752] Alignment with the ESJ Action Plan is a scoped issue in this proceeding. SDG&E disagrees with any suggestion

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[2749] Ex. SCG-225/SDG&E-229 (Robinson) at 15-16.

[2750] Ex. SCG-225/SDG&E-229 (Robinson) at 16.

[2751] *Id.* at 16.

[2752] The Commission's ESJ Action Plan at 2, *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.

that the employee incentive created by the goal is consistent with "bad public policy."

- Execute 2022 DE&I Priorities (SoCalGas): This goal focuses on initiatives in SoCalGas's Equity Action Plan, including items tied to purchasing diversity, philanthropy and people. TURN's OB (at 356-57) takes issue with two aspects of the plan regarding "Purchasing Diversity" and "Philanthropy." SoCalGas disagrees with TURN.[2753] Although charitable giving is not funded by ratepayers, the employee incentive to support diversity, equity and inclusion and community service is just, reasonable, and consistent with the CPUC's ESJ Action Plan, which is focused on "incorporating ESJ considerations into [the CPUC's] work, as well as creating a culture that takes into serious account the lived experiences of ESJ communities."[2754] Alignment with the ESJ Action Plan is a scoped issue in this proceeding. 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): TURN's OB (at 357-58) takes issue with SoCalGas's and SDG&E's supplier diversity goals that meet and exceed the Commission's aspirational goal of 22%. TURN also takes issue with benefits that allow communities to "pay their bills." TURN's argument ignores the fact that SoCalGas's and SDG&E's supplier diversity programs supports the requirements and spirit of the CPUCs General Order 156 promoting opportunities for diverse suppliers to participate in utility contracts and spend. The goal also aligns with the CPUC's ESJ Action Plan, which promotes partnership with "utilities and sister agencies" to "further[] utility supplier diversity."[2755] Alignment with the ESJ Action Plan is a scoped issue in this proceeding. Furthering supplier diversity leads to growth and development of our diverse suppliers, support for the local economy, and increased competition for goods and services, which leads to better quality, better service and better pricing in competitive solicitations. Although ratepayers may not fund all activities related to supplier diversity, the employee incentive created by the goal is just, reasonable, consistent with Commission policy, and beneficial to the public and ratepayers.

31.2.4 The Companies' ICP Forecasts Linked to Financial Performance Warrant a Fresh Look and 100% Funding.

SoCalGas and SDG&E note that changes in the regulatory landscape warrant the Commission taking a fresh look at how ICP funding is authorized, particularly with respect to the Companies' TY 2024 ICP forecasts linked to financial performance. The Companies discuss

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2753 Ex. SCG-225/SDG&E-229 (Robinson) at 16, *citing* Ex. TURN-10 (Jones) at 32.

2754 The Commission's ESJ Action Plan at 2, *available a*t: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/news-and-outreach/documents/news-office/key-issues/esj/esj-action-plan-v2jw.pdf.

2755 *See, e.g.,* The Commission's ESJ Action Plan at 49, Goal 7.3.3, *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.

below two significant changes that have taken place since the evidentiary record closed in their last (TY 2019) GRC proceeding that should provide additional reasons for rejecting Cal Advocates', TURN's, and UCAN's arguments regarding rejection of ICP funding related to financial performance measures, particularly in light of the already strong legal, policy, and fact-based rationales for 100% funding of all reasonable compensation costs requested for TY 2024. As previously discussed, the intervenors' opening briefing arguments ignore the fact that in the TY 2019 Decision, D.19-09-051, the Commission authorized funding for 90% of the Companies' ICP requests.[2756] The Commission did not allow funding only for the portion of SoCalGas's and SDG&E's ICP tied to financial performance.[2757] If the Commission were to make the same decision today – *i.e.,* to remove costs from forecasts related to the weighting of financial performance measures in the 2022 ICP for SoCalGas and SDG&E – the result of that decision is shown below in Table 31.2.

Table 31.2

Financial Health Performance Measures	**2022 ICP Weighting[2758]**
SoCalGas Non-Executive Plan	4%
SoCalGas Executive Plan	27%
SDG&E Non-Executive Plan	10%
SDG&E Executive Plan	28%

The Companies' Opening Brief provides citations to Commission decisions and rationales for why a financially strong utility benefits ratepayers.[2759] In comparison, TURN's OB diminishes

2756 Except for portions of the request that were removed related to preliminary (*i.e.,* not based on legal briefing or the evidentiary record) conclusions regarding the impacts of the California legislature's amendment to Section 706 of the California Public Utilities Code, which became effective on January 1, 2019. *See, e.g.,* discussion at D.19-09-051 at 24-26 and 542.

2757 *See* D19-09-051 at 543 ("Therefore, we find that 10 percent of the ICP, or the amount representing the financial metrics, should be disallowed.").

2758 To Cal Advocates' OB suggestion that "there is no consistency from year to year or from one GRC to the next, the Companies reiterate that they have continued their increased emphasis in their past two GRC proceedings on presenting employee and operational safety measures in their ICP plans, to provide even stronger alignment between SoCalGas's and SDG&E's safety programs and their ICP. Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 11 to 13. Similarly, SDG&E has reduced the weightings for the financial metrics in the 2023 SDG&E ICP to 4% for non-executives and 27% for executives. Weighting of SoCalGas financial metrics remain at 4% for non-executives and 27% for executives for the 2023 ICP.

2759 SCG/SDG&E OB at 726-27.

such evidence and the Companies' positions, to the point of suggesting that the Commission essentially has abandoned cost of service principles with respect to GRC funding of ICP forecasts.[2760] TURN's belittling of cost of service ratemaking is unsupported in the law, as discussed above. Moreover, the intervenors' extreme positions should give the Commission pause in examining the relative positions of the parties in this case.

As discussed below, the reasonableness of the Companies' ICP forecasts should be freshly considered in light of recent events that have occurred since the evidentiary record closed in the Companies' TY 2019 GRC proceeding and D.19-09-051 was issued – rather than simply considering as fact intervenors' extreme and unsupported positions – for the following reasons:

First, the Commission issued D.20-01-002 in January 2020, modifying the GRC Rate Case Plan (adding an additional attrition year) while reconfirming its commitment to the regulatory compact.[2761] In D.20-01-002, the Commission noted that the GRC proceeding is "the embodiment of what is often described as the 'regulatory compact.' This compact is viewed as a contract between the utility's investors and its customers; as such, it establishes rights, obligations, and benefits for both sides of the bargain." At the heart of this concept is the understanding that both ratepayers and shareholders receive benefits from rates set in accordance with a utility's cost of service. In accordance with this commitment, the relevant consideration is whether the Companies' forecasts reflect a reasonable level of service costs. Therefore, with the Commission's continued commitment to the regulatory compact and the understanding that ratepayers inherently benefit from cost of service ratemaking, it is reasonable for the Commission to consider carefully whether costs associated with ICP financial goals are simply a subset of the Companies' reasonable costs of providing service to ratepayers.

Despite TURN's arguments regarding ICP in its opening brief, even TURN is quoted in D.20-01-002 as acknowledging ratepayer benefits that flow from utility financial incentives inherent in GRC cost of service ratemaking:

> "'[b]y providing the utility a steady revenue requirement over a period of years, based on the Commission's adopted forecast of the utility's cost of service, the utility has a financial incentive to reduce costs during the rate case cycle through process improvements, cost-cutting measures, and increases in efficiencies or

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2760 *See* TURN OB at 337.

2761 *See, e.g.,* D.20-01-002 at 10-11, *passim*.

productivity.' As TURN observes, this incentive to cut costs works to the benefit of the utility's ratepayers."[2762]

This true statement about the Commission's longtime commitment to cost-of-service GRC ratemaking and the benefits it provides to ratepayers directly conflicts with TURN's OB arguments and ICP positions in this case.[2763] As D.20-01-002's quote from TURN suggests, efficiencies that result in financial benefits benefit ratepayers in the next GRC cycle. Recognizing efficiencies is a known and accepted part of the regulatory compact.

Second, since the evidentiary record closed in the Companies' TY 2019 GRC proceeding, the California legislature enacted a revision to Public Utilities Code Section 706 (effective January 1, 2019), which precluded ratepayer funding of officer salaries, bonuses, benefits, and other consideration. The legislature's determination in this regard has already apportioned a certain amount of a utility's operating costs to be funded by shareholders. It is reasonable to assume that the remainder of such reasonable compensation costs should be considered consistently with any other utility operating costs of providing service – *i.e.,* in accordance with the same principles of cost-of-service ratemaking that are applied to all utility operating costs, in order to establish "just and reasonable" rates under Section 451 of the California Public Utilities Code. Contrary to the intervenors' opening brief arguments, there should be no difference in considering authorization of ICP funding in comparison to any other operating costs – particularly in light of a strong evidentiary record that demonstrates strong benefits to ratepayers.

In that regard, the GRC forecast already excludes a significant portion of SoCalGas and SDG&E's cost of service for compensation and benefits, including Long-Term Incentive Plan (LTIP) costs (both direct costs at the Utilities and allocations from Corporate), Supplemental Executive Retirement Plan (SERP) cost allocations from Corporate, service costs of executive officers and public affairs managers, whether excluded voluntarily, as required by statute, or as consistent with Commission policy.[2764] These are actual costs that are not challenged as being prudently incurred or as part of the reasonable costs of running a business. Costs that are excluded for statutory or policy reasons may still be prudent and necessary costs that are simply not

2762 *Id.* at 37.

2763 *See* TURN OB at 346-48.

2764 For forecasted amounts of the excluded LTIP and SERP costs, please refer to SCG-25-R-E/SDGE-29-R-E (Robinson) Test Year 2024 Errata Revised Testimony table DR-7 on page 20 and Opening Brief of SCG and SDGE in the Test Year 2024 GRC Table 29.9 on page 681.

evaluated in a GRC as such – because they have been predetermined as assignable to shareholders as part of a "balance" calculation. Nonetheless, in funding reasonable and necessary ICP forecasts, the Commission should still appropriately recognize those costs to compensate individuals whose compensation (or a portion thereof) has already been excluded from the Companies' GRC request as part of a ratepayer/shareholder "balance" that predates the filing of a GRC application.

As Ms. Robinson explained in direct testimony, the results of the WTW TCS demonstrate the reasonableness of SoCalGas's and SDG&E's compensation forecasts, including all ICP metrics, including financial metrics.[2765] To the extent that an examination of the details of SoCalGas's and SDG&E's performance metrics to determine ratepayer benefits associated with ICP metrics is used to determine funding, the evidence in this case strongly supports 100% recovery. Moreover, the Commission should also recognize the healthy apportionment of compensation costs that has already occurred prior to the filing of SoCalGas's and SDG&E's respective applications – whether voluntarily, as consistent with policy, or by legislative mandate, as in enacting modifications to Section 706.

For all of these reasons, and for the reasons set forth in the Companies' OB, SoCalGas's and SDG&E's ICP forecasts should be adopted as reasonable, in total. Alternatively, under the same standard the Commission applied in D.19-09-051, the Commission should only consider removal of costs from the forecasts that are solely tied to financial incentives, as shown *supra* in Table 31.2.

31.2.5 Corporate Center Allocations Should Be Evaluated Based on Whether the Amount Allocated to the Utilities Is Reasonable

TURN's OB continues to take issue with the design of the Corporate Center ICP and recommends no funding for performance measures related to Sempra's financial performance.[2766] SoCalGas and SDG&E strongly disagree with TURN's approach.[2767] Corporate Center employees are not employees of SoCalGas and SDG&E, and their ICP costs should not be treated as such.

2765 Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 17 to 19.

2766 TURN OB at 298-300, Section 29. 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, Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper).

2767 Ex. SCG-225/SDG&E-229 (Robinson) at 18.

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.[2768]

TURN's OB arguments regarding Corporate Center ICP allocations are incorrect for all the reasons discussed *supra* in Sections 31.2.1-31.2.4. TURN's OB also mischaracterizes the Companies' ICP requests and incorrectly claims that SoCalGas and SDG&E have raised a jurisdictional argument in support of their Corporate Center ICP costs.[2769]

The Companies have explained that 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. For all the reasons discussed in Sections 31.2.1-31.2.4, *supra,* the at-market forecasted costs of compensating Corporate Center employees should be adopted as reasonable and consistent with cost-of service GRC ratemaking.

TURN's OB arguments regarding ICP metrics do not make sense in the context of Corporate Center employees. It is difficult to fathom how Corporate Center ICP plans could be funded based on utility operational metrics, as TURN appears to claim. Adopting utility operational metrics to incentivize employee performance at Corporate Center makes no more sense than requiring any other utility vendor to base any incentive compensation program on utility operational metrics. The day-to-day activities of Corporate Center employees (as described in the testimony of Derick Cooper, Exhibit SCG-23-R-E/SDG&E-27-R-E), simply do not lend themselves to performance-based pay based on utility customer satisfaction or utility reliability metrics, for example. Indeed, TURN offers no solution for how Corporate Center ICP plans could be modified to incentivize performance based on utility operations. TURN's argument further demonstrates the unreasonableness of its positions regarding ICP in general.

The testimony of Derick Cooper describes the reasonableness of the Companies' Corporate Center request in general, including forecasting methodology, cost allocation methodology, and benefits of service. For example, Mr. Cooper explains:

> The expenses requested are required so that both SoCalGas and SDG&E can continue to comply and be in good standing with existing and potentially new governmental, legal, and regulatory requirements. Examples of governing federal, state, and local authorities are the Internal Revenue Service (IRS),

[2768] *Id.* at 18-19.

[2769] *See* TURN OB at 300.

> Securities and Exchange Commission (SEC), Financial Accounting Standards Board (FASB), the Federal Energy Regulatory Commission (FERC) and the CPUC. 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.[2770]

Although the Corporate Center activities described in Mr. Cooper's testimony clearly benefit utility ratepayers, again – it is difficult to conceive how Corporate Center employee performance could be measured consistently with TURN's unworkable standard. This is why the Companies have reasonably proposed that recovery of allocations for Corporate Center ICP should be treated no differently than any other cost shown in Mr. Cooper's testimony – *i.e.,* based on whether the allocation methodology and allocation amounts are reasonable.[2771]

31.3 Benefits

31.3.1 The Evidence Supports Approval of the Companies' Benefits Forecasts as Proposed

Cal Advocates' OB continues to recommend reductions to SoCalGas's and SDG&E's medical, dental and vision forecasts that are based on incorrect assumptions about the Companies' medical enrollment projections. 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,[2772] and that SDG&E's Health Benefits forecast do not assume 100% enrollment. For the reasons set forth in the Companies' OB and in testimony, the Companies' medical enrollment forecasts are reasonable and should not be adjusted.

Cal Advocates does not oppose SoCalGas and SDG&E's proposed medical escalation rate, and it should be approved as reasonable.[2773] Cal Advocates' OB also does not oppose SoCalGas's and SDG&E's Wellness, Employee Assistance Program, Welfare, and Survivor Benefits Program forecasts, which should all be approved as reasonable.[2774]

[2770] Ex. SCG-23-R-E/SDG&E-27-R-E (Cooper) at 2.

[2771] Ex. SCG-225/SDG&E-229 (Robinson) at 19.

[2772] *See* SCG/SDG&E OB Section 31.3 at 731 ("Correction of Forecasting Error"), Tables 31.6 and 31.7.

[2773] Cal Advocates OB at 259.

[2774] *Id.* at 261.

31.3.2 Cal Advocates' Position on Retirement Benefits Should be Rejected

Cal Advocates' OB continues to propose 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.[2775]

Cal Advocates' proposed forecast reductions should be rejected. As mentioned above, 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.[2776] Further, Cal Advocates' rationale for reducing nonqualified retirement savings plan funding should be rejected for the same reasons set forth *supra,* in Section 31.2.4. 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.[2777]

31.3.3 Arguments Regarding Productivity and Workforce Should Be Rejected

As discussed in the OB, 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.[2778]

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.[2779] UCAN's OB raises out-of-scope arguments about SoCalGas's and SDG&E's headcount projections that are based on general economic and historical theories, rather

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2775 Ex. SCG-225/SDG&E-229 (Robinson) at 22-23, Tables DSR-9 and DSR-10.

2776 *See* SCG/SDG&E OB Section 31.3 at 731 ("Correction of Forecasting Error"), Tables 31.6 and 31.7.

2777 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).

2778 *See,* Section 6 (Policy), *supra* and Section 33, *infra.* SoCalGas and SDG&E's OB, Section 31 (Compensation and Benefits) also discusses a headcount correction that is not disputed by the parties.

2779 Cal Advocates OB at 254-56.

than the facts of this case.[2780] Testimony rebutting Cal Advocates' arguments regarding SoCalGas's headcount was provided by People and Culture witness Abigail M. Nishimoto (Ex. SCG-228) and Policy Overview witness Maryam Brown (Ex. SCG-201), as supported in Sections 33.2.1 and 6.1 of this Reply Brief, respectively. Support for the reasonableness of SDG&E's headcount forecast to rebut Cal Advocates' and UCAN's arguments is provided in the rebuttal testimony chapters of People and Culture witness Alexandra G. Taylor (Ex. SDG&E 232) and Policy Overview witness Bruce Folkmann (Ex. SDG&E-201), as supported in Sections 33.3.1 and 6.2 of this Reply Brief, respectively.

UCAN's arguments regarding productivity are also out-of-scope and not supported by the facts of this case. SDG&E notes that, in GRCs filed from the late 1980's through their test year TY 2012 proceeding, SDG&E and SoCalGas included Total Factor Productivity (TFP) studies as part of their GRC proceedings, consistent with direction the Commission gave to the investor-owned utilities in California beginning in 1985-1986. However, the Commission has more recently recognized that the TFP studies are no longer useful or necessary and has removed the requirement to file them for each IOU. Commission decision D.14-03-008 eliminated SoCalGas's and SDG&E's requirement to file a productivity study by grant of an uncontested motion in A.10-12-005 (a proceeding in which UCAN participated), to promote administrative efficiency, as they did "not appear to promote any useful purpose:"

> In reviewing the TFP studies that were presented for SDG&E and SoCalGas in this proceeding, and our elimination of similar studies for PG&E and SCE, we agree with SDG&E and SoCalGas that their motion to eliminate the TFP studies from future GRC applications should be granted. *Including the TFP studies in future GRC applications does not appear to promote any useful purpose since they are not tied to any kind of productivity adjustment that the Commission could impose on SDG&E and SoCalGas.* Granting the motion to eliminate the TFP studies will also streamline the GRC application process for SDG&E and SoCalGas, and promote administrative efficiency by eliminating the inclusion of such studies as part of the utilities' GRC showings.[2781]

For this reason, no productivity study has been incorporated into Applicants' TY 2024 application and testimony related to employee compensation. Regardless, UCAN's claims

[2780] UCAN OB at Section 31, *passim.*

[2781] D.14-03-008 at 4 (emphasis added).

regarding SDG&E's productivity are speculative, incorrect, unsupported by the record, and should be rejected.[2782]

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.[2783]

As set forth in the Opening Brief and in the testimony of Peter H. Andersen,[2784] 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),[2785] to further improve and maintain a strong funded position, minimize long-term costs due to the PBO shortfall, and advance intergenerational equity among ratepayers.

Cal Advocates submitted direct testimony in April 2023 stating that it does not oppose the Companies' Pension and PBOP proposals.[2786] Only Cal Advocates discussed Pension and PBOP in their opening brief, confirming their non-opposition. No other party submitted testimony or briefing 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.

The Companies' proposals regarding Pension and PBOP are just and reasonable, as shown in direct testimony and in the Opening Brief. The Commission should approve SoCalGas's and SDG&E's Pension and PBOP requests as proposed.

32.1 Pensions

See Section 32, *supra*.

[2782] UCAN's OB regarding Compensation and Benefits also raises vague arguments regarding earnings (at 182) that are out of scope of a GRC and will not be addressed here.

[2783] *See* SCG/SDG&E OB discussion at Section 32.

[2784] Exs. SCG-26/SDG&E-30 (Andersen) and SCG-26-WP (Andersen).

[2785] *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 Jan. 1, 2019 (Oct. 6, 2017).

[2786] *See* Ex. CA-13-E (Emerson) at 21-24; Ex. CA-13-WP (Emerson).

32.2 Post-Retirement Benefits other than Pensions (PBOP)

See Section 32, *supra*.

33. The TY 2024 O&M Forecast for People and Culture is Just and Reasonable and Should be Adopted.

SoCalGas and SDG&E request the Commission adopt its TY 2024 forecasts of $48.923 million and $21.574 million, respectively, for O&M costs.[2787] For SoCalGas, this represents a $4.035 million increase over the 2021 Base Year adjusted-recorded costs in this area. For SDG&E, the TY 2024 forecast represents a $4.356 million increase over the 2021 Base Year adjusted-recorded costs.

As explained in the Opening Brief, the People and Culture Department (People and Culture) manages a variety of functions related to recruiting and maintaining a skilled, qualified, dedicated, and diverse workforce to enable SoCalGas and SDG&E to meet their goal of delivering safe and reliable gas and electric service to millions of customers.[2788] Four intervenors – Cal Advocates, TURN, CEJA, and PCF – submitted Opening Briefs arguing against SoCalGas and SDG&E's TY 2024 forecast for People and Culture.[2789] Three of those intervenors – TURN, CEJA, and PCF – address the sole issue of trade association dues connected with the TY 2024 forecast for the Executive Offices area. SoCalGas and SDG&E addressed the bulk of the arguments raised by these intervenors in its Rebuttal Testimony and Opening Brief and thus, do not repeat the same arguments in this Reply Brief.[2790] SoCalGas and SDG&E do, however, address in this Reply new arguments raised by these intervenors related to trade association dues, overall headcount, and, for SoCalGas, long-term disability. This Reply also highlights where intervenors used the same positions in their Testimony and Opening Briefs, without any updates to reflect information provided by SoCalGas and SDG&E in their Direct Testimony and/or Rebuttal Testimony.

For the reasons stated here and in its Opening Brief, SoCalGas and SDG&E's People and Culture forecasts should be adopted by the Commission as just and reasonable.

[2787] SCG/SDG&E OB at 739, 742.

[2788] *Id.* at 736.

[2789] Cal Advocates OB at 265-276; TURN OB at 361-366; CEJA OB at 106-114; PCF OB at 60-63.

[2790] Ex. SCG-228 (Nishimoto); Ex. SDGE-232 (Nishimoto); SCG/SDG&E OB at 735-750.

33.1 SoCalGas's and SDG&E's Inclusion of the Non-Lobbying Portion of AGA and EEI Dues in their TY 2024 Forecast is Just and Reasonable

In their TY 2024 forecast, the Executive Office areas at both SoCalGas and SDG&E request non-labor expenses associated with memberships in two trade associations, the American Gas Association (AGA) and Edison Electric Institute (EEI).[2791] Three intervenors – TURN, CEJA and PCF – argue in their Opening Briefs that these requests should be denied in their entirety because neither SoCalGas nor SDG&E has shown that the requested amounts exclude "lobbying activities."[2792] While PCF argues that SDG&E should not be allowed to be a member of EEI by falsely claiming that "EEI actively works against ratepayer interests,"[2793] neither TURN or CEJA dispute that SoCalGas and SDG&E are permitted to be members of these trade organizations so long as ratepayers are not charged any amount of membership dues allocated to "lobbying activities." Despite the intervenors' false assumptions to the contrary, no evidence has been submitted that establishes this is the case and all three intervenors completely ignored SoCalGas's and SDG&E's Rebuttal Testimony, which provided compelling examples of the ratepayer benefits of membership in the AGA and EEI.

The intervenors spend multiple pages of their Opening Briefs laying out various activities they deem to be non-recoverable "lobbying activities" engaged in by AGA and EEI. What the intervenors fail to do, however, is connect those specific activities to the amounts being requested by SoCalGas and SDG&E in their TY 2024 forecast. They also fail to connect the activities listed in their Opening Briefs to the 2021 base-year recorded costs of each membership. In other words, the intervenors fail to connect any activities from 2021 as amounts that were improperly included in the 2021 base-year recorded costs for each membership. While the intervenors speculate about what may/may not be "lobbying activities," both SoCalGas and SDG&E provided a reasonable basis by which it formed its TY 2024 forecast for AGA and EEI dues. None of the intervenor's challenge SoCalGas's or SDG&E's use of a base year forecasting methodology for AGA or EEI dues. However, CEJA and PCF cherry pick activities by AGA and EEI that occurred prior to, or after, 2021 and argue those activities should be the basis for denying, in full, the TY 2024

[2791] SCG/SDG&E OB at 737-739, 748-750.

[2792] Notably, Cal Advocates does not dispute either SoCalGas's or SDG&E's request for AGA or EEI dues. TURN and PCF only dispute SDG&E's request for EEI dues. TURN OB at 362-366; PCF at 60-63. CEJA is the only intervenor to address both AGA and EEI dues. CEJA OB at 106-114.

[2793] PCF OB at 60.

forecasts.[2794] It is inappropriate to reduce SoCalGas's and SDG&E's TY 2024 forecasts for AGA and EEI dues for amounts allegedly incurred by AGA and EEI in years other than 2021.

33.1.1 Ratepayers Benefit from SoCalGas's and SDG&E's Membership in the American Gas Association (AGA)

CEJA is the only intervenor to object to SoCalGas and SDG&E's TY 2024 forecast for the non-lobbying portion of AGA dues, or $926,581 and $122,841, respectively.[2795] In their Opening Brief, CEJA fails to raise any new, substantive arguments and, instead, recites many of the arguments already set forth in its Direct Testimony. Put simply, CEJA disagrees with SoCalGas's and SDG&E's TY 2024 forecast for AGA dues because it believes the forecasted amounts include items that are not ratepayer recoverable. CEJA spends multiple pages in their Opening Brief listing various activities it believes should not be ratepayer recoverable.[2796] What CEJA fails to do, however, is connect those specific activities to activities that have been included in SoCalGas and SDG&E's TY 2024 forecast as ratepayer recoverable. For example, CEJA fails to connect any online advertisement or social media promotion run by AGA in 2021 as improperly included in the 2021 AGA invoice used by SoCalGas and SDG&E to support its TY 2024 forecast.[2797] CEJA also makes statements about AGA's activities that are completely unsupported by the record.[2798] In the absence of specific evidence that amounts were improperly attributed to ratepayers in 2021, the forecasts provided by SoCalGas and SDG&E should be adopted as reasonable.

As discussed in detail in Rebuttal Testimony, SoCalGas and SDG&E garner substantial ratepayer benefit from membership in the AGA. The Rebuttal Testimony sets forth specific and compelling examples of how AGA membership has delivered key insights and innovative solutions to real issues faced by the Utilities – all of which is ignored by CEJA.[2799] It is because of these insights and ability to benchmark against others in the utility industry that membership in the AGA is listed as an important RAMP mitigation. As stated in its 2021 RAMP Filing, when

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[2794] CEJA OB at 108-114; PCF OB at 60-63.

[2795] CEJA OB at 106-111.

[2796] *Id.* at 108-111.

[2797] *Id.* at 108-109.

[2798] *Id.* at 111, n.546. In its Opening Brief, CEJA asserts that "AGA has prioritized the interests of the gas industry over public health." These statements are false and not supported by the evidentiary record.

[2799] Ex. SCG-228 (Nishimoto) at 13-15.

SoCalGas began to review its pipeline safety management system, SoCalGas engaged with its peers at the AGA to better understand how new, recommended practices from the American Petroleum Institute (API) could benefit SoCalGas and its management of pipeline safety risks. As a result of this collaboration, SoCalGas took a more expansive view of pipeline safety to include other assets and functions. This work eventually led to the formal creation of SMS in 2019.[2800]

SoCalGas and SDG&E believe their TY 2024 forecasts for the non-lobbying portion of AGA dues is reasonable and supported by the specific examples of ratepayer benefits set forth in the evidentiary record.

33.1.2 Ratepayers Benefit from SDG&E's Membership in the Edison Electric Institute (EEI)

In their Opening Briefs, TURN, CEJA and PCF argue that the Commission should deny, in its entirety, SDG&E's request for membership dues in EEI as part of its TY 2024 forecast. Much of the support for their argument comes from recitation of the Commission's July 16, 2020, D.20-07-038, Order Modifying D.19-09-051 and Denying Rehearing, as Modified, wherein the Commission modified its initial decision to allow SDG&E to recover the full amount of its TY 2019 forecast for EEI dues, or $800,000.[2801] As stated in its Opening Brief, SDG&E acknowledges that the Commission ultimately reduced this amount by 39% following an appeal by TURN.[2802] The Commission's rationale for the modification was, in part, because "the testimony did not clearly show how the membership dues would provide clear ratepayer benefits."[2803] SDG&E understood this language to mean that, in order to support EEI dues in this GRC, it would need to provide very specific and tangible examples of how its EEI membership has yielded ratepayer benefits. SDG&E did this, in detail, in its Rebuttal Testimony.[2804]

The intervenors spend considerable time arguing that SDG&E ignored or disregarded D.20-07-038 and that, as a result, SDG&E should be punished. Not only is this a false assertion

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2800 SoCalGas RAMP-D-10 (May 17, 2021).

2801 D.20-07-038 at 6-7.

2802 SCG/SDG&E OB at 750.

2803 D.20-07-038 at 7.

2804 Ex. SDG&E-232 (Taylor) at 22-25. TURN's sole reliance on SDG&E's Direct Testimony is misguided and does not take into consideration the full evidentiary record that must be considered when determining whether SDG&E has met its burden of proof (direct testimony, workpapers, data requests, rebuttal, and cross-examination testimony). TURN OB at 362-366.

that misstates the burden of proof, but it completely ignores the information provided by SDG&E showcasing specific examples where ratepayers have benefitted from SDG&E's membership in EEI. Importantly, none of the intervenors attempt to refute or even address the examples of ratepayers benefits from EEI's non-lobbying activities set forth in SDG&E's Rebuttal Testimony. As such, the benefits identified by SDG&E should be included in the overall assessment of the reasonableness of its request.

Additionally, it should not be discounted that, at the time the Commission issued D.20-07-038 in July 2020, it had already issued its decision in Southern California Edison's (SCE) GRC, D.19-05-020, denying EEI membership dues in their entirety.[2805] TURN argues that, because the Commission denied EEI dues to SCE in the last GRC, it should do the same here for SDG&E.[2806] However, TURN's argument is misguided. It ignores the tangible ratepayer benefits presented by SDG&E to support its TY 2024 forecast and ignores the fact that D.20-07-038 was issued *after* the Commission's 2019 GRC decision denying SCE's request for EEI dues. Thus, if the Commission had wanted to fully disallow SDG&E's EEI dues in the last GRC, it could have. Rather, the Commission reduced SDG&E's request to an amount it felt was reasonable based on the evidence presented and noted that, "as 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 consul[2807] The various decisions by the Commission on trade association dues indicate that, where specific ratepayer benefits can be identified, the Commission has historically allowed recovery of a percentage of these expenses.

SDG&E believes its TY 2024 forecast of $792,294 for the non-lobbying portion of EEI dues is reasonable and supported by the evidence.[2808] However, if the Commission is inclined to grant less than what SDG&E is requesting, it should not reduce the amount by more than the

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[2805] D.19-05-020 (2019) at 249-250.

[2806] TURN OB at 365-366.

[2807] D.20-07-038 at 7.

[2808] PCF alleges that SDG&E is falsely claiming the amount it is requesting for EEI dues. PCF OB at 58-60. The allegation is as confusing as it is misguided. The only forecast for EEI dues that has been presented in this GRC is a TY 2024 forecast of $792,294. Ex. SDG&E-232 (Taylor) at 23; SCG/SDG&E OB at 748; Ex. CEJA-28. PCF's citation to the G.O. 77-M Report is irrelevant. PCF OB at 59-60. The G.O. 77-M is a separate report generated in a different manner and for a different purpose and does not form a basis for SoCalGas's GRC forecast. *See* General Order No. 77-M for reporting requirements.

disallowance set forth in D.20-07-038 as SDG&E has provided substantial and compelling information about the ratepayer benefits of its EEI membership in this GRC. At the very least, the evidence supports funding EEI dues at a level equal to what was approved in the last GRC.

33.2 SoCalGas's TY 2024 Forecast for People and Culture is Just and Reasonable and Should be Adopted

As noted above, only Cal Advocates submitted an Opening Brief addressing areas of People and Culture other than AGA and EEI dues. Neither Cal Advocates nor any other intervenor opposed O&M expenses for the following areas: (1) Shared Services, (2) Executive Offices, (3) Labor Relations and Wellness, (4) Organizational Effectiveness, (5) Performance Management, or (6) Diversity, Equity, and Inclusion.[2809] As such, the TY 2024 forecasts for these areas should be adopted as reasonable.

33.2.1 SoCalGas's Headcount Forecast is Reasonable Based on Year-Over-Year Headcount Growth and Personnel Needed for Anticipated Projects and Programs in this GRC Cycle

In its Opening Brief, Cal Advocates takes issue with SoCalGas's TY 2024 headcount forecast of 10,080 and believes SoCalGas's number is inflated.[2810] Cal Advocates suggests using the average of SoCalGas's historical 2017-2021 ICP Headcount as a reasonable method to calculate a forecast of 8,570 for TY 2024 for both ICP Expenses and medical costs. In support of this argument, Cal Advocates simply refers to the positions it took in its testimony and completely ignores SoCalGas's rebuttal testimony that substantively addressed this issue.

In the Rebuttal Testimony of Abigail M. Nishimoto, SoCalGas explains in detail why Cal Advocates' headcount projections are flawed.[2811] First, Cal Advocates based its headcount proposal on a calculation of the four-year average of year-over-year growth rates from 2017 to 2021 using ICP Headcount numbers. However, a headcount forecast based on ICP Headcount is flawed in that the number is not inclusive of the total employee population. ICP Headcount only includes active employees and fails to include employees on a leave of absence. When averaging the historical 2018-2021 headcount with the accurate number of employees, the year-over-year average growth rate is 1.9%, not 1.6% as proposed by Cal Advocates.[2812] Because the headcount

[2809] Cal Advocates OB at 265-267.

[2810] *Id*. at 256.

[2811] Ex. SCG-228 (Nishimoto) at 4-7.

[2812] *Id.* at 5.

numbers relied upon by Cal Advocates in their forecast are inaccurate, their forecast is inaccurate. This is evidenced by the fact that Cal Advocates proposes a TY 2024 headcount (8,570 employees) that has already been realized by SoCalGas (2022 headcount was 8,821).[2813]

Additionally, Cal Advocates' headcount projection is not representative of SoCalGas's workforce needs for the future. SoCalGas's actual headcount increased by 3.3% in 2020 and 4.1% in 2021.[2814] The year-over-year growth rate for 2020-2021 demonstrates that Cal Advocates' use of a forecast methodology that relies solely on backward looking data is not the best predictor of future needs. As described in the Policy section of the Opening Brief, to meet the personnel needs associated with the anticipated projects and programs in this GRC cycle, SoCalGas expects at least a similar percentage increase in future years.[2815]

The Utility Workers Union of America, Local 132 (Local 132) claims in its Opening Brief that SoCalGas should be required to "submit, within thirty days, a plan under which it will recruit, hire, train and deploy enough new employees to eliminate double-time work."[2816] Local 132 asserts this action is needed because SoCalGas has "allowed its workforce to erode to dangerously low levels" and employees are "working excessive, exhausting amounts of double time."[2817] Not only is Local 132's proposal outside the scope of this GRC, but it also contains false assertions about the Company's workforce to create a narrative of fear that is simply not supported by the evidence. Notably, Local 132 supports its recommendations by discussing extensively in its Opening Brief secondhand accounts presented in its comments on the 2021 RAMP Reports.[2818] Local 132's comments on the 2021 RAMP Report are not the same as witness testimony, have not been verified, and were not subject to cross-examination.[2819] Moreover, even if the comments are in evidence, the statements contained therein are multiple levels of hearsay and should be

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[2813] *Id.* at 6.

[2814] *Id.*

[2815] SCG/SDG&E OB at 28.

[2816] UWUA OB at 10.

[2817] *Id*. at 6-7.

[2818] UWUA OB at 6-8.

[2819] When admitting Ex. UW132-01 into the record, the ALJ expressly recognized that UWUA "has not served any testimony in this proceeding, and this exhibit is the opening comments on the RAMP report in another proceeding". Tr. V13:2412:2-4.

disregarded entirely or at least given little value. Local 132's proposal is unnecessary and should be rejected.

Setting aside the minimal weight of the evidence supporting Local 132's recommendation, it is readily contradicted by other evidence. First, and as discussed further in the testimony of Neena N. Master, the safety of its employees has been and continues to be a foundational value.[2820] Second, as set forth in the Rebuttal Testimony of Ms. Nishimoto, SoCalGas has realized a year-over-year growth of its workforce, not a decrease.[2821] Finally, the alleged cost savings associated with Local 132's assertion that SoCalGas needs to hire 250 employees immediately[2822] is not supported by the evidence as Local 132 only considers the cost of straight-time rates paid to employees, not the full cost of employment (health and welfare benefits, retirement contributions, etc.). In short, while SoCalGas agrees that additional employees are needed in this GRC cycle to support anticipated projects and programs, it does not agree with (and takes exception to) Local 132's rationale for the increase.

SoCalGas's headcount projections should be adopted as reasonable, especially in light of the fact that the only intervenor to object to the projections used flawed data to support their proposed headcount forecast.

33.2.2 The TY 2024 O&M Forecast for Human Resources and Employee Services (HR&ES) is Reasonable and Should be Adopted

SoCalGas requests $12.172 million for TY 2024 for HR&ES.[2823] Cal Advocates recommends a downward adjustment to 2021 recorded costs but, in doing so, relies on inaccurate forecast numbers. As it does in other sections of its Opening Brief, Cal Advocates does not rely on updated numbers included in Revised Testimony or Rebuttal Testimony. Rather, Cal Advocates relies on forecasts since corrected or adjusted in the record. When using the correct numbers, the difference between SoCalGas's TY 2024 forecast and its 2021 adjusted recorded costs for HR&ES is $1.339 million. Additionally, Cal Advocates makes generalized and unsupported statements in its Opening Brief that SoCalGas did not provide sufficient information to support its TY 2024

[2820] Ex. SCG-27-2R-E (Master).

[2821] Ex. SCG-228 (Nishimoto) at 4-7.

[2822] UWUA OB at 9.

[2823] *Id.* at 741.

forecast.[2824] In making these arguments, however, Cal Advocates simply reiterates the positions it took in its testimony and does not address SoCalGas's Rebuttal Testimony that specifically addresses these issues.[2825] As such, SoCalGas's forecast for these activities should be adopted as reasonable.

33.2.3 SoCalGas's Use of the Base Year Recorded Methodology for its Long-Term Disability (LTD) TY 2024 Forecast is Reasonable and Consistent with Commission Precedent

Although LTD is addressed on behalf of both SoCalGas and SDG&E in the Opening Brief, Cal Advocates raises a few new arguments in its Opening Brief related to SoCalGas's TY 2024 forecast that are worth addressing. First, as with HR&ES, Cal Advocates' entire argument is based on incorrect numbers. SoCalGas is not requesting $23.801 million for Workers Compensation and LTD as stated by Cal Advocates.[2826] Rather, as set forth in the Revised Prepared Direct Testimony and Rebuttal Testimony of Abigail Nishimoto, SoCalGas is requesting $23.475 million, or $326,000 less than what Cal Advocates asserts.[2827] When using the correct TY 2024 forecast, the delta between what SoCalGas has requested and what Cal Advocates recommends, is $668,000, not $994,000.[2828]

Further, Cal Advocates does not appear to disagree with the escalation rates provided by Willis Towers Watson (WTW) but rather the use of 2021 adjusted-recorded expenses as the basis upon which the escalation factors are added.[2829] In doing so, Cal Advocates argues that a three-year average is the most appropriate forecast methodology. SoCalGas disagrees with the use of a three-year average because it does not correctly reflect future LTD costs. LTD costs are forecast using estimated labor escalation costs, which are not appropriately forecast using a three-year average because labor costs go up each year, not down. The Commission recognized this in the prior GRC when it approved SoCalGas's use of the base year methodology with escalation rates

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2824 Cal Advocates OB at 267-268.

2825 Ex. CA-14 at 27-28; Ex. SCG-228 at 7-11.

2826 Cal Advocates OB at 268.

2827 Ex. SCG-28-R-E (Nishimoto) at 29; Ex. SCG-228 (Nishimoto) at 12, n.29.

2828 Cal Advocates OB at 268.

2829 *Id.* at 268-269.

provided by WTW.[2830] This is also exemplified by the fact that 2022 actual expenses have already exceeded Cal Advocates' recommendation for TY 2024.

33.3 SDG&E's TY 2024 Forecast for People and Culture is Just and Reasonable and Should be Adopted

Except as detailed below, the parties' Opening Briefs did not raise any new issues, arguments, or proposals that are substantially different than what the parties have presented in testimony, and SDG&E has responded to each of the intervenor's proposals in its Rebuttal Testimony and Opening Brief.

Cal Advocates' positions on People and Culture are essentially a repeat of their original positions, sometimes verbatim, and often the only citation is back to their direct testimony.[2831] Accordingly, for the following areas, Cal Advocates' Opening Brief did not address SDG&E's Rebuttal Testimony in the following areas:

- VP – People and Culture
- Human Resources
- Long-Term Disability
- Diversity and Inclusion
- Diversity and Workforce Management
- Organizational Effectiveness

Because SDG&E substantively addressed these areas in its Rebuttal Testimony and in its Opening Brief, it will not repeat its arguments here and recommends that the forecasts for these areas be adopted as reasonable.

33.3.1 SDG&E's Headcount Forecast for TY 2024 is Just and Reasonable and Should be Adopted

Similar to Cal Advocates' headcount forecast for SoCalGas, Cal Advocates' bases its headcount forecast for SDG&E on flawed data and incorrect assumptions. Just as it did for SoCalGas, Cal Advocates bases its proposal on a calculation of the four-year average of year-over-

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2830 D.19-09-051 at 573-574.

2831 In its Opening Brief, Cal Advocates implies that SDG&E's requests should be denied because it did not provide "verifiable, line-item detail that demonstrates the specific activities associated with the requested increase." Cal Advocates OB at 274-275. This phrasing reflects a misunderstanding of the required burden of proof as, for all areas, SDG&E provided a just and reasonable basis for its request through substantive descriptions in its Direct Testimony, Workpapers, Rebuttal Testimony and Opening Brief.

year growth rates (2017-2021) using ICP Headcount information.[2832] However, ICP Headcount is not an accurate representation of current headcount because it only includes active employees and fails to include employees on leaves of absence.[2833] When averaging the historical 2018-2021 headcount, with the accurate number of employees (active employees and employees on a leave of absence), the year-over-year average growth rate is 4.3%.[2834] SDG&E's forecasted growth rates for 2022, 2023, and 2024 are 2.9%, 4.0%, and 5.0%, respectively. When averaging this period (2022-2024), SDG&E's request is 4% average headcount growth per year. This growth rate is reasonable considering historical growth rates and is needed to support the expanding and growing workload anticipated in this GRC cycle.[2835]

34. Administrative and General

34.1 SoCalGas

SoCalGas's Administrative and General (A&G) functions provide accounting, financial and business planning, regulatory support and analysis, case management, legal, business strategy and energy policy, community relations, media relations and strategic engagement. They are services that are necessary to attend to SoCalGas's customers, maintain its internal controls, support internal clients and external stakeholders, and meet accounting, regulatory, and legal requirements. A&G also includes Franchise Fees expenses paid to counties and incorporated cities under franchise ordinances that permit the Company to place utility property in public rights of way.[2836]

Only Cal Advocates and CEJA made recommendations relating to SoCalGas's A&G Division. With two exceptions, Cal Advocates' OB states that it does not oppose SoCalGas's TY 2024 O&M forecasts, and Cal Advocates does not oppose SoCalGas's Franchise Fees O&M costs.[2837] Cal Advocates recommends a reduction to the Legal Claims Payments and Recovery (Claims) forecast and the SoCalGas Business Strategy and Energy Policy (BSEP) incremental FTE

2832 Cal Advocates OB at 254-256.

2833 Ex. SDG&E-232 (Taylor) at 5-9.

2834 *Id.*

2835 SCG/SDG&E OB at 37.

2836 Further information regarding SoCalGas – Administration & General is provided in the SCG/SDG&E OB at Section 34.1 (pages 751-762) and the prepared testimony of Sara P. Mijares at Ex. SCG-29-R-E (Mijares), Ex. SCG-229-E (Mijares), and Ex. SCG-29-WP-R-E (Mijares).

2837 Cal Advocates OB at 276-281.

forecast.[2838] CEJA's OB requests a reduction of "at least $1.993 million" of the $4.869[2839] million TY 2024 O&M forecast for BSEP expenses, and proposes proscriptive rules to govern accounting treatment of Political Activities costs.[2840] These recommendations should be rejected, and SoCalGas's proposals should be adopted, as explained in SoCalGas's Opening Brief and testimony,[2841] and summarized below.

The following tables, based on SoCalGas's rebuttal testimony, summarize the differences between SoCalGas's proposals and other parties' 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)[2842]	(19,944)
CEJA	39,365	45,239	5,820	(1,993)

[2838] *See id.* at 277-278 and 280-281.

[2839] The numbers provided in Ex. SCG-229-E (Mijares) and the OB Table 34.1 had been adjusted as part of SoCalGas's Update Testimony. Exhibit SCG-401/SDG&E-401 Update Testimony dated July 7, 2023, which was served after Cal Advocates and CEJA's March 27, 2023 testimony. While the Table 34.1 reflects SoCalGas's updated O&M forecast, which includes reducing BSEP from $4.869 million to $4.814 million, SoCalGas has not adjusted Cal Advocates or CEJA's numbers.

[2840] CEJA OB at 115-128.

[2841] *See* SCG/SDG&E OB at 751-762; Ex. SCG-29-R-E (Mijares) and Ex. SCG-229-E (Mijares). Any minor difference in numbers is due to rounding.

[2842] As noted in SoCalGas's OB at 752, n. 3807, Cal Advocates submitted two chapters of testimony relevant to SoCalGas A&G, by Refat Amin (Ex. CA-14-E), and Stephen Castello (Ex. CA-23-C-E-R). Cal Advocates did not specify a 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. SoCalGas addresses the propriety of the blanket adjustment recommended by Cal Advocates in Section 48.2, Other Issues, *infra*.

Table 34.2
IT Capital Project Business Case Justifications[2843]

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[2844]

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)

No party takes issue with SoCalGas's Franchise Fees forecast, and the Commission should adopt it as proposed. In addition, for the reasons set forth below, SoCalGas requests that the Commission adopt all of SoCalGas's TY 2024 GRC proposals as reasonable.

34.1.1 SoCalGas's Response to Cal Advocates

SoCalGas has justified approval of its TY 2024 A&G O&M and IT capital expense forecasts, as demonstrated in testimony and in SoCalGas's Opening Brief.[2845] A&G seeks $47.178 million for its non-shared and shared services O&M costs, as well as IT Capital expenditures of $7.954 million in 2022, $51.757 million in 2023 and $32.415 million in 2024.[2846] Cal Advocates

[2843] As reflected in SoCalGas's OB, SoCalGas A&G provided the business justification for four capital IT projects and only one project was challenged. These capital project costs are contained within the IT Capital Section. The discussion of the IT Capital project challenged by Cal Advocates (SAP Transformation Project) is addressed in Section 27.1 of this Reply, *supra*.

[2844] As reflected in SoCalGas's OB, the numbers provided in the Franchise Fees 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 does not contest SoCalGas's Franchise Fees forecast. *See* Cal Advocates OB at 277. *See also* Ex. CA-14-E (Amin) at 2:21-23, and 3, Table 14-1. While Table 34.3 reflects SoCalGas's updated Franchise Fees forecast, SoCalGas did not adjust Cal Advocates numbers, which is the reason for the variance in values.

[2845] SCG/SDG&E OB at 751-762; Ex. SCG-29-R-E (Mijares) and Ex. SCG-229-E (Mijares). Any minor difference in numbers is due to rounding.

[2846] SCG/SDG&E OB at 751, 753 n.3808 and Table 34.2.

does not oppose SoCalGas's Franchise Fees O&M costs.[2847] Cal Advocates took issue with only one of the four IT Capital projects sponsored by A&G. SoCalGas addresses Cal Advocates' position on the one IT Capital project in Section 27.1.2.2 (Information Technology).[2848] Because Cal Advocates largely repeats its testimony in its Opening Brief, SoCalGas summarizes its arguments below.

34.1.1.1 Cal Advocates Fails to Understand the Non-Labor Forecast for Claims Payments and Recovery (Claims) and Cannot Justify its Adjustment to the Forecast

SoCalGas justified approval of its TY 2024 Legal Claims Payments and Recovery (Claims) forecast of $8.467 million, for Claims, which is an increase of $2.817 million from BY 2021 adjusted recorded costs. As SoCalGas explained, this non-labor forecast consists primarily of payments to third parties for claims associated with property damage, business income losses, and bodily injury claims, with the remainder comprised of expenses SoCalGas incurs when it seeks recovery for damages the Company suffered from at-fault responsible third parties. Costs contained in this forecast reflect the actual claims payments made, offset by any recoveries the Company receives from third parties for harm to Company property or interests.[2849]

In its Opening Brief, Cal Advocates continues to oppose funding ($1.940 million) for SoCalGas's Claims. Cal Advocates simply repeats its initial objection to the funding request that "SCG's historical data shows continuous decrease in expenses and SCG failed to provide support for the requested increase in its TY forecast."[2850] For the detailed reasons in SoCalGas's direct and reply testimonies, and summarized in its Opening Brief,[2851] the Commission should approve the requested funding levels, as there is no meaningful basis provided for Cal Advocates' recommendation.

As explained in rebuttal testimony,[2852] 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

2847 Cal Advocates OB at 276-281.

2848 SCG/SDG&E OB at 753 n.3808.

2849 *Id.* at 754, *citing* Ex. SCG-229-E (Mijares) at 12-13. *See also* Ex. SCG-29-WP-R-E (Mijares) at 61-65.

2850 Cal Advocates OB at 277.

2851 *See* SCG/SDG&E OB at 754-755.

2852 Ex. SCG-229-E (Mijares) at 10-14.

2019 GRC approval of the five-year adjusted average methodology used for Claims Payments and Recovery, and (2) the results of the Cal Advocates Financial Examination, as evidence for the accuracy of historical costs used for the TY 2024 GRC forecast. SoCalGas's TY 2024 GRC presentation supporting its Claims expenses is consistent with the evidence it has presented in prior GRCs, and on which the Commission has previously determined numerous times, provides an appropriate forecasted level of funding.[2853] A five-year adjusted average has been consistently applied for this workpaper in prior SoCalGas GRCs.[2854] As the Commission recognized in D.19-09-051 when discussing Section 34.1.6 (relating to A&G), a 5-year forecast is appropriate to account for activities with known fluctuations in costs year-to-year, stating:

> 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.[2855]

Cal Advocates entirely ignores the evidence SoCalGas provided that detailed the variations in expenses between years,[2856] and provides no compelling reason to depart from this forecast methodology.

The Commission should reject Cal Advocate's proposed reduction to SoCalGas's Claims Payments and Recovery workpaper and adopt SoCalGas's forecast as proposed.

[2853] *See, e.g.,* SCG/SDG&E OB at 754, n.3815 (*quoting* D.19-09-051 at 589).

[2854] *See, e.g.,* Ex. SCG-29-WP-R-E (Mijares) at 61 (Explaining justification for 5-year forecast methodology: "The 5-year average methodology produces the most representative forecast of Claims Payments and Recovery expenses because it captures the annual fluctuations in activity. It should be noted that the year-to-year variability is attributable to various drivers. Since these activities are managed in aggregate, this methodology is appropriate to normalize year-to-year variability and has been consistently applied for these costs in prior SoCalGas GRCs.").

[2855] SCG/SDG&E OB at 754-755, *citing* D.19-09-051 at 589.

[2856] *See id.* at 755 and n.3821 (*citing* to Ex. SCG-229-E (Mijares) and data request responses provided to Cal Advocates).

34.1.1.2 BSEP's O&M Forecast for Incremental Labor and Non-Labor has been Demonstrated as Reasonable and Should Be Approved.

SoCalGas justified approval of its TY 2024 BSEP forecast of $4.815[2857] million. Cal Advocates OB makes no mention of SoCalGas's rebuttal testimony or the compelling evidence it provided in response to Cal Advocates' assertions. As explained in rebuttal testimony,[2858] SoCalGas disagrees with Cal Advocates' recommendation that $3.377 million in TY 2024 provides adequate funding. This position fails to take into account incremental work that necessitates incremental FTEs, namely to support regulatory proceedings before the CPUC, such as the Gas System Planning Order Instituting Rulemaking 20-01-007 (Gas System OIR), and other proceedings concerning system infrastructure planning and energy system decarbonization.[2859] In addition, Cal Advocates' proposed reduction in non-labor to $0.590 million fails to acknowledge that SoCalGas's ~$0.700 million increase to its $1.133 million request is attributable to incremental consulting services related to the Gas System OIR proceeding.[2860]

As noted in the Climate Policy direct testimony (Ex. SCG-02-R, Chapter 1), since SoCalGas's last GRC filing, the State's GHG emissions reduction goals and policies have evolved. Previously, SB 32 established an economy-wide goal to reduce GHG emissions 40 percent below 1990 levels by 2030.[2861] More recently, Executive Order B-55-18 set a goal of economy-wide 100% carbon neutrality goal no later than 2045.[2862] In addition, State agencies have begun establishing supportive decarbonization policies and scoping plans, such as the California Air Resources Board (CARB)'s adopted 2022 Scoping Plan that sets forth GHG emission reduction strategies and highlights the critical role of clean fuels and carbon management to help reach carbon neutrality.[2863] The California Energy Commission (CEC)'s Integrated Energy Policy Report (IEPR) highlights the role of hydrogen and renewable gas in California's clean energy

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2857 Any minor difference in numbers is due to rounding.

2858 Ex. SCG-229-E (Mijares) at 8-10.

2859 *Id.* at 9-10.

2860 SCG/SDG&E OB at 757 n.3825.

2861 Ex. SCG-02-R (Peress), Chapter 1 at 3-4.

2862 *Id.* at 4.

2863 Ex. SCG-202-E (Niehaus/Arazi) at 3-5.

future.[2864] These regulatory efforts will likely have significant implications on the energy transition and SoCalGas's 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.[2865]

SoCalGas demonstrated in its direct and rebuttal testimony what the incremental FTEs would be responsible for, broken down by sub-group.[2866] Cal Advocates does not acknowledge or otherwise address the detailed descriptions provided regarding this work and need. It also does not appear to understand that the substantial change in State energy policy and increased activity by the state agencies that regulate these areas have similarly increased SoCalGas's need for resources. 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 implications for our customers. Therefore, the Commission should reject Cal Advocate's proposed reduction to SoCalGas's BSEP workpaper.[2867]

34.1.2 SoCalGas's Response To CEJA

Similarly, CEJA takes issue with SoCalGas's justification for its TY 2024 GRC forecast for the BSEP workpaper. CEJA requests that the Commission "[d]eny at least $1.993 million of the revenue requested for [BSEP]." Unlike Cal Advocates' recommendation, however, CEJA

2864 *Id.* at 4.

2865 Ex. SCG-29-R-E (Mijares) at 29:10-20.

2866 *See id.* at 31-39; Ex. 229-E (Mijares) at 8-10 and Table SM-2.

2867 SCG/SDG&E OB at 756-758.

further requests that the Commission "adopt additional measures to protect customers from bearing SoCalGas' advocacy costs," and make a finding "that the costs of participating in agency proceedings that do not directly relate to a utility's existing or proposed operations are below-the-line expenses that must be booked to Account 426.4 because the purpose of engaging in a government proceeding is to influence the decision of public officials on the proceeding's outcome." [2868] These requests lack merit. CEJA's requests in this proceeding are founded on its failure to understand GRC ratemaking principles and the faulty premise that the activities conducted by the four business areas contained in the BSEP workpaper constitute Political Activities, as defined by the FERC Uniform System of Accounts (USoA) or are otherwise not for ratepayers benefit and should be booked "Below the Line." CEJA's false construct is inconsistent with applicable law and Commission Decisions as well as the evidentiary record contained in SoCalGas's testimony and workpapers in this proceeding.[2869]

34.1.2.1 SoCalGas Has Shown Both the Costs and Activities for BSEP are Reasonable and Appropriate

CEJA's proposed reduction of $1.993 million constitutes approximately 41% of the BSEP group's TY 2024 request.[2870] BSEP is comprised of four areas: Energy Policy, Planning and Legislative Analysis, Business Strategy, and Energy System Integration and Planning (ESIP).[2871] Although the primary focus of CEJA's downward adjustment relates to its count of pages in the letters that just one of the areas, Energy Policy, has written to regulatory bodies, CEJA asserts that it took a "generous" approach when viewing the BSEP organization as a whole because SoCalGas has "failed to justify any ratepayer recovery of the historic costs of its Planning and Legislative Analysis or Business Strategy teams."[2872] CEJA's recommendation is incorrect on numerous levels. As SoCalGas's testimony, workpapers and Opening Brief demonstrate, the activities and forecast for the areas encompassed by the BSEP workpaper are reasonable and appropriate for Commission authorization.

[2868] CEJA OB at 6 (Summary of Recommendations for the SoCalGas A&G Request).

[2869] Sections 29 and 48.2 of this Reply Brief further address CEJA's incorrect interpretation of ratemaking and accounting principles in this GRC.

[2870] Ex. CEJA-01 (Vespa/Gersen/Saadat/Barker) at 121:24-25.

[2871] Ex. SCG-29-R-E (Mijares) at 28-39.

[2872] CEJA OB at 121-122.

SoCalGas, like other utilities in the state, has an important role to help the State achieve decarbonization and carbon neutrality. As an example, during a CEC public workshop regarding the IEPR, one of the Commissioners noted that "…the last thing we want to do is act without all the information at hand."[2873] SoCalGas is one of many participants in the CEC, CARB, and air district proceedings, bringing data and relevant information for consideration by the regulators, policymakers, and the public. This is not a myopic push for Sempra Shareholders, but rather a fulfillment of our responsibility to act in accordance with the public interest at the forefront and to remain in compliance with forthcoming regulations, impacts to SoCalGas's operations, and its customers. The topics of affordability, reliability, equity/energy access, and technological feasibility all make up the foundation of the public interest and should be afforded consideration in the context of key regulatory state proceedings.

As an initial matter, CEJA miscomprehends ratemaking principles in a general rate case. It requests a "conservative" adjustment allegedly "because SoCalGas has not met its burden of showing that ratepayers should bear any historic costs of the Planning and Legislative Analysis team and Business Strategy team."[2874] In its Application, SoCalGas utilized a 2021 BY forecast with an adjustment for 1.7 incremental FTEs that were vacant for part of the year. This methodology is most appropriate because BSEP is a recently formed department and a BY forecast method with an adjustment for personnel changes reflects the best representation of the ongoing needs for this function.[2875] SoCalGas further identified in its workpapers that "[l]abor has exhibited an overall upward trend during the 2017-2021 historical period. This is primarily due to the increased focus on policy, regulatory, and legislative matters relative to natural gas, decarbonization planning, and clean fuels."[2876] Under well-established rate-making principles, this means that, in this TY 2024 GRC, SoCalGas is not requesting "ratepayer recovery of any historic

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2873 Refer to Event Recording of IEPR Commissioner Workshop on Natural Gas Infrastructure at 02:05:38. CEC, *IEPR Commissioner Workshop on Natural Gas Infrastructure* (May 20, 2021), *available at:* https://www.energy.ca.gov/event/meeting/2021-05/iepr-commissioner-workshop-natural-gas-infrastructure. *See also* Ex. SCG-229-E (Mijares), Appendix I, Row 30 at I-3.

2874 CEJA OB at 124. CEJA also takes issue with the Energy Policy group as described, *infra*, and appears to believe that the proposed ESIP group is not relevant because it did not exist or have employees in 2021. *See id.* at 123 n.616. CEJA does not otherwise object to the ESIP group's proposed activities and request for FTEs.

2875 Ex. SCG-29-R-E (Mijares) at 30.

2876 Ex. SCG-29-WP-R-E (Mijares) at 68.

spending" or that "ratepayers should bear any historic costs,"[2877] as CEJA decries, rather the Commission sets rates on a forward, forecasted basis. Activities by BSEP in 2021 and anticipated to occur in the test year inform SoCalGas's forecast for the test year.[2878] Contrary to CEJA's narrative, no cost recovery for past activities is sought. For the reasons discussed above and in Section 34.1.1.2, addressing Cal Advocates' recommendation for BSEP, SoCalGas has demonstrated that its TY 2024 costs and incremental FTE requests are reasonable and should be adopted as proposed.

34.1.2.2 CEJA Mischaracterizes BSEP's Activities

In testimony, SoCalGas succinctly described the nature and activities of BSEP as follows:

> The Business Strategy & Energy Policy (BSEP) team was formed in 2021 by merging the Policy & Environmental Solutions team, established in 2013 and expanded in 2015, with the new Business Strategy group. Business Strategy & Energy Policy is comprised of: Energy Policy (EP), Planning & Legislative Analysis (P&LA), and Business Strategy (BS). The groups are collectively responsible for policy and legislative analysis, decarbonization planning, engagement and outreach related to existing and proposed state and federal policies, which are increasingly focused on the transition away from traditional natural gas, as well as long-term organizational strategic and system planning toward decarbonization targets. This group also includes environmental program managers that monitor and analyze issues to identify air quality regulatory and compliance impacts on SoCalGas customers and on utility operations. The group works directly with air agency staff and with customers on rulemaking and compliance matters.[2879]

SoCalGas further proposed to establish the ESIP group, which would be responsible for issues involving optimizing gas/electric coordination and the integrated energy system, as well as participation in the decarbonization and integrated reliability and resiliency planning efforts at the CAISO, CEC, CPUC and FERC, including development and implementation of a system planning framework as envisioned by the CPUC's Gas System Planning OIR, and other comprehensive system planning proceedings at the CPUC and CAISO.

2877 *See* CEJA OB at 123-124.

2878 *See* SCG/SDG&E OB at 10-12, 16. *See also* Section 29.3.

2879 Ex. SCG-29-WP-R-E (Mijares) at 68.

These activities involve management and participation in ongoing system planning, focused on achieving state climate policy goals while maintaining customer access to safe, affordable and reliable energy.[2880]

From these descriptions, CEJA attempts to portray BSEP as an "administrative lobbying" arm of SoCalGas seeking to advance its corporate interest in increasing the demand for methane.[2881] Resurrecting the false narrative advanced in SoCalGas's 2019 GRC by CEJA's predecessors (Sierra Club and Union of Concerned Scientists (UCS)), CEJA claims that "SoCalGas continues its pattern and practice of misusing ratepayer funds to obstruct electrification policies."[2882] As an example of this behavior, CEJA posits a new theory:

> instead of designating the costs of efforts of its Business Energy & Policy group to influence the outcome of climate and air pollution regulations by agencies such as the California Air Resources Board ("CARB") and the South Coast Air Quality Management District ("SCAQMD") as below-the-line expenses as required under Federal Energy Regulatory Commission ("FERC") Account 426.4, SoCalGas seeks to pass these costs to its customers.[2883]

Contrary to the parallel CEJA attempts to draw here to a legislative affairs organization, the controlling rules and precedent require no such result.

Advancing arguments similar to those made by Sierra Club and UCS in SoCalGas's last GRC, CEJA appears to conflate legitimate engagement and education of state and local regulatory bodies in open rulemaking and policy-oriented regulatory proceedings with lobbying state legislative bodies. As detailed in its testimony and Opening Brief, SoCalGas participates in state and local regulatory agency proceedings to meaningfully engage and share its expertise in support

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[2880] Ex. SCG-29-R-E (Mijares) at 37-38.

[2881] *See* CEJA OB at 117. Throughout its Opening Brief, CEJA mischaracterizes SoCalGas's participation and positions taken in regulatory proceedings as attempting to "increase dependance on methane." *See id.* at 16. As discussed *infra*, none of SoCalGas's comments in the letters CEJA refers to for its assertions argue for expansion or dependance on gas.

[2882] *Id.* at 2. Earth Justice lawyers, Matt Vespa and Sara Gersen, who represent CEJA in this proceeding, made similar claims in SoCalGas's TY 2019 GRC while representing Sierra Club and the Union of Concerned Scientists. They continue their unsupported refrain on behalf of CEJA here. *See* Ex. CEJA-01, Attachment 1. Indeed, only a few words were changed from the theory advanced in 2019 that the Policy and Environmental Solutions group (BSEP's predecessor) "is effectively a SoCalGas lobbying arm advocating in service of its shareholder interest to maintain California's reliance on natural gas" *See* A.17-10-007/008 (cons.) Sierra Club-UCS Opening Brief (September 21, 2018) at 16. The Commission did not buy into their attempt to twist the facts in the 2019 GRC proceeding, just as the Commission should not in this proceeding.

[2883] *Id.*

of its customer interests, and the potential impacts on those customers and SoCalGas's operations.[2884] In nothing more than a transparent effort to stop SoCalGas's discourse with regulatory bodies on behalf of its customers, CEJA recommends that the Commission drastically reduce BSEP's funding at a critical time in the State's efforts to implement ambitious climate goals, and impose sharp limitations on the Company's ability to participate meaningfully on behalf of its operations and its customers in regulatory proceedings before agencies that are developing rules that will impact both SoCalGas operations and the services it provides, and its customers. SoCalGas disagrees with CEJA's characterization and its recommendation.

Now, like in the 2019 proceeding, CEJA argues that the BSEP group "effectively" functions as an "administrative lobbyist" and therefore its expenses are not recoverable from ratepayers. CEJA asserts that "SoCalGas has improperly stuffed its revenue request for its BSEP Department with costs of advocacy activities that should have been booked to FERC Account 426.4."[2885] CEJA's assertion regarding lobbying appears to be based upon a misunderstanding of the function and activities of the four groups that comprise BSEP, and the controlling regulations. This assertion also ignores the fact that any costs associated with activities that meet the applicable definition of advocacy were excluded from the adjusted recorded 2021 BY used to derive the TY 2024 GRC forecast. CEJA's position appears to be that all participation and engagement in state regulatory body proceedings (such as CEC, CARB, and regional air districts) and legislative and policy analysis and strategy is impermissible lobbying, and not done for the benefit of ratepayers. This construct is wrong. CEJA's assertion is flawed as it is based on a narrow definition of political activities that is not in line with the FERC USofA, specifically that anything that does not directly impact the business is considered lobbying, regardless of the audience, message and intent.[2886]

CEJA's position is inconsistent with the applicable regulatory definition of Political Activities that may not be recoverable from ratepayers, CPUC decisions and the purpose of the BSEP group.

[2884] *See, e.g.*, Ex. SCG-229 (Mijares) at 16-19; SCG/SDG&E OB at 758-760.

[2885] CEJA OB at 115.

[2886] SCG/SDG&E OB at 759.

34.1.2.2.1 Participation in Proceedings Before State and Federal Regulatory Agencies Does Not Constitute Lobbying or Political Activities Under the Applicable Accounting Regulations

Although CEJA pays lip service to FERC USoA Account 426.4,[2887] the controlling rule that defines Political Activities for purposes of energy utility accounting, it describes its applicability in various ways that do not accurately capture the rule or its guidance. To be clear, FERC Account 426.4 states:

> (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.[2888]

The CPUC also recognizes that for CPUC accounting purposes, the FERC definition of lobbying applies.[2889] 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."

While CEJA does not dispute that this FERC Account is controlling, it attempts to parse too finely the circumstances in which a utility may treat activities before a regulatory body as part of utility operations. For example, CEJA claims that "SoCalGas routinely booked spending on advocacy that was unrelated to its operations to GRC-funded accounts and included those costs in

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2887 CEJA points to Account 426.4 repeatedly in its OB but offers no more than its own interpretation of what the rule requires. As demonstrated *infra*, CEJA's interpretation is incorrect.

2888 18 C.F.R. § 367.4264(a) and (b).

2889 *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."

the revenue requirement request in this case."[2890] Referring to SoCalGas's activities as "administrative lobbying," CEJA implies that the Commission need look no further than the nature of the regulatory proceeding itself to know SoCalGas is lobbying, stating:

> For any stakeholder, the basic purpose of voluntarily investing resources in an agency rulemaking or planning process is to affect its outcome. It is not necessary to scrutinize SoCalGas' comments for prescriptive language to determine whether their purpose was to influence the decisions of public officials because their context reveals their purpose.[2891]

CEJA goes on to mischaracterize SoCalGas's activities as attempts to "influenc[e] policy outcomes that would entrench reliance on gas," and "work to expand gas dependency,"[2892] or "encourage agencies to adopt policies that would promote the use of methane and hydrogen fuels in various sectors," and concludes that SoCalGas's "advocacy before public officials is not directly related to safe and reliable system operations, is contrary to California's climate, public health and air quality objectives, and should not be funded by SoCalGas ratepayers."[2893] CEJA's arguments here are wrong, both legally and factually.

First, CEJA is incorrect that the FERC Account 426.4 was meant to capture a utility's activities in the course of regulatory proceedings, such that its participation was "per se" a form of lobbying (which CEJA refers to pejoratively throughout its OB). In its decision to create Subaccount 426.4, the Federal Power Commission (FPC) provided guidance on the intended activities and costs to be captured in the account. The FPC expressly recognized that no matter where the line was drawn, it may not capture certain types of expenses that were made for political purposes, and conversely, would "encompass particular expenditures which usually are [made for political purposes] but which in a particular case may not have been made for political purposes." With this in mind, the FPC excluded from text the phrase '"or having any direct or indirect relationship to political matters, including the influencing of public opinion with respect to public policy'" and instead "add[ed] thereto a clause excluding 'expenditures which are directly related to

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2890 CEJA OB at 116.

2891 *Id.*

2892 *Id.* at 115.

2893 *Id.*

appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.'"[2894]

CEJA's interpretation and application of FERC Account 426.4 would eliminate the exclusion contained in clause (b) of Account 426.4.[2895] CEJA asks the Commission to ignore ordinary rules of statutory construction, which require a decisionmaker to give effect to the language and purpose of the rule.[2896] The FPC was instructive here as well. First, giving deference to the utility to make the initial accounting determination, finding: "[w]hether a given utility's specific expenditures should be charged to Subaccount 426.4 or placed in an appropriate operating expense account must be determined, of course, in the first instance by a proper application of the standard set forth in the text of the subaccount, as here modified, by the officers of electric and gas utilities who are conversant with the day-to-day operations of their respective business entities."[2897] Second, the FPC provided a table of illustrative expenditures that should either appear in Subaccount 426.4 or in an appropriate operating expense account. Importantly, the FPC listed under "Operating Expense Accounts," which are above-the-line accounts, the following activities and costs:

> *Operating Expense Accounts*
>
> Reasonable expenditures for promotional and 'good will' advertising.
>
> **Costs of appearances before the Federal Power Commission or other Federal and State regulatory agencies in various regulatory proceedings.**

[2894] 30 F.P.C. 1539, 1540, 1963 WL 4051 (Dec. 18, 1963).

[2895] CEJA also appears to imply that the exemption language of Account 426.4(b) should be used sparingly. *See* CEJA OB at 120 and n.598. This argument is illogical and would defeat the purpose of the language contained in subsection (b). The decision, CEJA cites for its proposition is completely inapt. That Decision pertains to the Commission's ability to grant exemptions from Section 851 "only in extraordinary circumstances," which were not shown in the circumstances at issue in the proceeding. *See* D.04-08-048 at 14 (citation omitted).

[2896] *See* D.17-08-033 at 14 (rejecting Mr. Aguirre's arguments that a Government Code exemption should not apply and affirming that '"[u]nder the principles of statutory construction, statutes are to be interpreted first based on their plain language, because statutory language is generally the most reliable indicator of legislative intent.'"); *see also* D.14-05-034 at 3 (citations omitted) (stating that "Commission Rules are generally interpreted using the same principles of construction that apply to statutes or tariffs. Their meaning is derived by first looking to the language of the Rule, and giving words their ordinary or 'plain meaning.'"). CEJA's attempted construction here would defeat the very purpose of the exemption from Account 426.4 that the FPC added.

[2897] 30 F.P.C. 1539, 1541, 1963 WL 4051 (Dec. 18, 1963). The FPC also held that designation of an expenditure as "political" by this Commission did not "in itself signify improper or illegal conduct" by the utility making the expenditure. *Id*.

Costs of submitting comments on this proceeding or other regulatory proceedings.

Necessary appearances before or communications to Congress or legislative bodies regarding matters of direct operating concern to the utility company.

Appearances before zoning and tax appeal boards.

Appearances before municipal councils or other local authorities on charter or franchise regulations of direct operating concern to the utility company.

Appearances before or communication with local bodies or officials regarding ordinances such as those concerning tree-trimming and safety of equipment.

Appearances before or communication with local bodies or officials concerning permits such as those for erecting poles on public property or obtaining rights of way.[2898]

SoCalGas's longstanding activities appearing and participating in dockets before state and local agencies (such as the CEC, CARB and the SCAQMD) which promulgate rules and policy within their jurisdictional mandates that impact how SoCalGas operates and serves its customers today and prospectively, plainly fall within the exemption created by the FPC in Account 426.4 and the list of activities and costs belonging in the Operating Expense Accounts. The approach taken by SoCalGas to account for such activities above-the-line is consistent with CPUC precedent as well. In its 2019 GRC proceeding, CEJA's predecessor and the lawyers representing them here, made virtually identical accusations about SoCalGas's Policy & Environmental Solutions (P&ES) group whose members similarly participated in state and local agency proceedings. The Commission dismissed accusations that the P&ES group's comment letters were an attempt to block state climate policy objectives.[2899] Instead, the Commission read each of the letters as a whole and determined that SoCalGas was not attempting to block state climate policy and provided its "input and opinion with regards to the topics being addressed in the comment letters. Comment letters including "information on the benefits of natural and renewable gas options or suggest[ing] consideration of these options. . .[were found by the Commission to be] generally informational as opposed to what Sierra Club and UCS suggest."[2900]

2898 *Id*. at 1542 (emphasis added in bold; italics in original).

2899 D.19-09-051 at 379-380.

2900 *Id.* at 380.

As in multiple prior GRCs, the Commission has consistently approved SoCalGas's participation before other state and local regulatory agencies.[2901] The Commission has similarly approved the same types of activities by other utilities in the state, including Southern California Edison Company (SCE). In 2022, the Commission approved SCE's revenue request encompassing policy and external engagement "activities that support and implement energy, environmental and wildfire mitigation policies as well as policies instituted by state, federal and local agencies. These activities include case management of all proceedings before state and federal regulatory agencies, educating government officials, staff and local community stakeholders on policy initiatives and programs."[2902] No different result is warranted here. SoCalGas's similar activities should not beget a different outcome based solely on its status as a gas and clean fuels utility rather than an electric utility. The cases CEJA cite do not compel a different result. Those cases primarily involve advertising campaigns and public relations efforts, rather than addressing the activity CEJA claims here (*i.e.*, participation in state and local agency regulatory proceedings) constitutes below-the-line administrative lobbying.[2903]

34.1.2.2.2 The Energy Policy Group's Activities Do Not Constitute Lobbying or Political Activities Under the Applicable Accounting Regulations

Against this backdrop, CEJA asks the Commission to believe that the Energy Policy group's work on "development and implementation of policies affecting natural gas and clean fuel delivery and utilization' by engaging with proceedings at CARB, the CEC and the South Coast Air Quality Management District" constitutes Political Activities that must be booked to FERC Account 426.4.[2904] As reflected above, CEJA points to no authority for its proposition. Instead,

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2901 *See id.*

2902 *See, e.g.,* D.21-08-036 at 455.

2903 The cases CEJA cites are inapposite for CEJA's request here to ban cost recovery for legitimate participation before state and local regulatory agencies in their rulemaking and policy-related proceedings. *See, e.g.,* D.22-12-055 at 48 (finding public outreach and public relations activities and engaging with legislators and public officials about the project were unnecessary for Phase I of the project); Decision No. 84902, 78 CPUC 638, 1975 WL 34393 (Cal. P.U.C.), at 43 (Sept. 16, 1975) (finding PG&E radio ads and public communications on the benefits of nuclear energy in advance of voter initiative should receive FERC Account 426.4 treatment);and Oregon Pub. Util Comm'n Order No. 22-388 at 19-24 (Oct. 24, 2022)(excluding recovery of costs related to Community Affairs and Governmental Affairs where utility did not adequately delineate political activity to demonstrate communications with local governments were informational in nature).

2904 CEJA OB at 116.

taking a page from its 2019 GRC playbook, where Sierra Club and UCF isolated fragments of sentences and document headings to assert SoCalGas was advocating positions contrary to state environmental policy, here too CEJA points to words on a page that it claims are suspect. It then adds up the number of pages with language it claims is suspect from comment letters submitted over the course of 2021 in regulatory agency proceedings and workshops to concoct a "proxy" for the percentage of work (60%) it recommends for disallowance on the entire BSEP workpaper.[2905] SoCalGas detailed the flaws in this approach in its rebuttal testimony and Opening Brief and will only summarize those arguments below.

The record evidence in this proceeding demonstrates that CEJA's assertions are unfounded, and its recommended disallowance is unwarranted. Of the 57 comment letters that SoCalGas produced in discovery, CEJA takes issue, in particular with two comment letters as it argues that Energy Policy group advocates to agencies on matters not connected to SoCalGas operations:[2906] (1) the October 18, 2021 letter to CARB on its Mobile Source Strategy efforts to determine "pathways forward for the various mobile sources that are necessary to achieve carbon neutrality by 2045 and support near-term federal attainment deadlines"[2907] and (2) the SCAQMD's Indirect Source Rules. At hearings, when CEJA's counsel asked why SoCalGas provides comments to CARB on matters such as Low NOx vehicles while developing its Mobile Source rules, Ms. Mijares explained that "[i]t's typical [for SoCalGas] to provide information to various agencies, whether it's CARB or CEC, on proposed studies or strategies that they are taking, just given our expertise at the utility and the need for that information to be used by these various agencies to determine the most cost-effective, safe and reliable way to implement some of the aggressive strategies and decarbonization goals that have been set in the State of California."[2908] Ms. Mijares further testified that, rather than the narrow focus that CEJA sought to portray concerning "whether or not the availability of incentives for Low NOx trucks would impair SoCalGas' ability to provide safe and reliable utility service," a full read of the letter showed that SoCalGas was

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2905 *See* Ex. SCG-229-E (Mijares) at 14-15 (discussing the calculation CEJA conducted to arrive at its $1.993 million recommended disallowance, *citing* Ex. CEJA-01 ((Vespa/Gersen/Saadat/Barker) at 121:226-27, 122:1-2).

2906 CEJA OB at 120-121.

2907 Ex. CEJA-27 at 72 (Letter from SoCalGas to CARB Regarding Comments on the 2020 Mobile Source Strategy (Oct. 18, 2021)). *See also* Ex. SCG-229-E (Mijares), Appendix I at I-2, Row 12.

2908 Tr. V16:2900:12-2901:1 (Mijares).

responding to the agency's inquiry into pathways to achieve the "most cost-effective way to reduce overall emissions,"[2909] noting that SoCalGas, too, has emissions reduction goals, including the emissions reduction of its customers, vendors and suppliers.

CEJA attempts to similarly portray SoCalGas's participation at the SCAQMD on its Indirect Source Rule (ISR) proceeding narrowly, claiming: "Proceedings to develop these Indirect Source Rules are not meaningfully connected to SoCalGas' operations because the utility does not own or operate railyards and ports and, therefore, would not be a regulated utility subject to the new rules."[2910] Again, CEJA focuses on only one small tree (ports and railyards) and ignores the forest (agency planning to meet state policy goals) in its narrow reading of agency activities. SoCalGas explained its participation in the SCAQMD's ISRs proceeding in testimony, addressing both the forest and the trees:

> SCAQMD continues to develop and introduce new and increasingly complex air quality regulations in what is one of the most heavily impacted air districts in the nation. The development of new air district regulations is driven by Air Quality Management Plan (AQMP) development and implementation. The AQMP is a regional blueprint for achieving air quality standards and healthful air. It includes a comprehensive analysis of emissions, meteorology, regional air quality modeling, regional growth projection, and the impact of existing and proposed control measures. SCAQMD, along with stakeholders, develop a new Plan every four to six years. In addition to serving on the Advisory Group Committee for the 2022 AQMP, EP staff will be needed to support the development of Indirect Source Rules (ISR) at SCAQMD at railyards and ports. The Indirect Source Rules (ISR) proceeding determines requirements to impose on a site not because of emissions the facility itself generates, but because of emissions from vehicles that intermittently visit the site. **ISRs allows an opportunity for EP to partner with SCAQMD to advance clean fuels, technologies, and infrastructure to help reduce customers' mobile source emissions.**
>
> EP staff will attend meetings, work with SoCalGas business areas and SCAQMD staff, **and write comment letters in these proceedings as they develop over the next 3 to 5 years to ensure natural gas customers are considered**. For 2022 to 2025, EP will support the 2022 AQMP and ISR efforts to identify the most cost-effective paths for achieving air quality standards and to advance technologies that ensure a reliable, resilient, and affordable energy system. **The group will also be responsible for educating SoCalGas business areas about available incentives so they can share this information with customers, thus enabling**

[2909] Tr. V16:2901:9-2902:6 (Mijares). *See also, id.* at 2902:8-2903:13.

[2910] CEJA OB at 121.

customers to take advantage of funding to reduce emissions from their operations and to advance SCAQMD air quality goals.[2911]

A review of the letters submitted by SoCalGas to state and regional agencies shows SoCalGas's comments focus on the state's decarbonization goals, improving air quality, and maintaining safe and reliable energy systems. These integrated energy systems are complex and may have multiple potential decarbonization end states for state agencies to consider, which explicitly implicate SoCalGas and other state utilities' role in the collective effort to address climate change.[2912] There are a number of activities in which the CARB and CEC will impact operations of the gas system and SoCalGas's compliance obligations. An example of this activity is the CEC's Demand Forecast.[2913] The CEC requires electric and gas utilities to populate the CEC's data forms, which is then used to create the CEC's forecast; SoCalGas then reviews and comments on the forecast.[2914] The CEC's demand forecast is the foundation for procurement and investment decisions at the CPUC and CAISO. In these cases, it is entirely appropriate for SoCalGas to record the activities as Above-the-Line, in accordance with the FERC Uniform System of Accounts[2915] and CPUC decisions.[2916]

Another example is the CEC's IEPR where SoCalGas's comments support the state's decarbonization policies, including electrification. SoCalGas's comment letters reflect its position that achieving,

> A net zero 2045 will require transformative change to the energy system. While pathways may differ among decarbonization studies, a consistent theme is that gas demand is projected to decline in all scenarios. The magnitude and rate of decline is uncertain, but under any pathway utilization of design of the gas grid will undoubtedly change. While a 2045 future may potentially have significant levels

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[2911] Ex. SCG-29-R-E (Mijares) at 33-34 (emphasis added).

[2912] Ex. SCG-202-E (Niehaus/Arazi) at 2.

[2913] Ex. CEJA-27 at 3-8, "SoCalGas/SDG&E Comments on CEC's proposed gas forecast Forms for 2021 IEPR," (January 22, 2021). *See also* Ex. SCG-229-E (Mijares), Appendix I at I-2, Row 15.

[2914] Ex. CEJA-27 at 3-8, "SoCalGas/SDG&E Comments on CEC's proposed gas forecast Forms for 2021 IEPR," (January 22, 2021). *See also* Ex. SCG-229-E (Mijares), Appendix I at I-2, Row 15.

[2915] Ex. SCG-229-E (Mijares) at 20.

[2916] Tr. V16:2794:1-12 (Mijares).

of building electrification, the gas system will continue to be needed and served by clean molecules for a myriad of reasons.[2917]

These comments do not reflect SoCalGas pushing to expand the gas system but rather an understanding of the evolving nature of the energy system that will see greater levels of electrification, clean fuels and carbon management. This pathway is consistent with the views of all levels of California's state government that a clean fuels and a clean fuels network are essential to achieving the State's environmental goals.[2918] It remains critical to analyze the effects of the energy transition on the operations of the gas system, including analysis that captures a range of potential outcomes and solutions to capture the inherent uncertainty with planning for the decarbonization of an integrated gas and electric energy system more than two decades out.

Underlying CEJA's critique of SoCalGas's comment letters in its OB[2919] is a reflection that CEJA does not believe that clean fuels have a place in the state's decarbonization strategy. However, the State is clear that clean fuels do have a critical role and therefore, CEJA's position appears to be in direct conflict with state goals and policies. As stated in policy rebuttal testimony, SB 1075 requires the CEC and CARB to analyze the potential growth of hydrogen and its role in decarbonizing the electricity and transportation sectors.[2920] SB 1440 authorized the CPUC to adopt biomethane targets for gas utilities,[2921] and the CPUC subsequently established the first renewable gas standard in the United States in February 2022.[2922] Additionally, the delivery of clean fuels is anticipated to play a critical role in California's decarbonization strategy.

CARB's recently adopted 2022 Scoping Plan also makes clear that a diverse set of technologies and resources are needed to meet the state's climate goals, of which clean fuels are an essential component. In the Executive Summary, the plan states: "scaling up new options such as renewable hydrogen for hard-to-electrify end uses and biomethane where needed."[2923] SoCalGas

2917 Ex. SCG-229-E (Mijares), Appendix I at I-3, Row 30, SoCalGas Comments on the Integrated Energy Policy Report Commissioner Workshop on Natural Gas Infrastructure (June 3, 2021) at 7 https://efiling.energy.ca.gov/GetDocument.aspx?tn=238137&DocumentContentId=71399.

2918 SCG/SDG&E OB at 244-327.

2919 CEJA OB at 116-121.

2920 Ex. SCG-202-E (Niehaus/Arazi) at 10, 17.

2921 Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 4, Ex. SCG-202-E (Niehaus/Arazi) at 3.

2922 Ex. SCG-02-R, Ch. 1 (Peress/Niehaus) at 11.

2923 CARB, *2022 Scoping Plan for Achieving Carbon Neutrality*, *available at:* https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp-es.pdf.

focused its comments on this category, because as a gas company with infrastructure supporting various functions of the economy, including electric reliability, this is how SoCalGas can contribute GHG reductions to the energy system. Hard-to-electrify sectors are high heat industrial facilities as well as heavy-duty transit like locomotives, offshore vessels, long haul trucking all of which need access to fuel infrastructure. Assessing the ability to leverage existing infrastructure and the potential to build new dedicated infrastructure to deliver decarbonization solutions directly implicate SoCalGas planning and future operation of the system. CEJA's theory is misleading and lacks any evidentiary support in this proceeding's record and should be rejected.

34.1.2.2.3 SoCalGas Has Demonstrated the Reasonable Costs for the BSEP Working Groups

CEJA's myopic view permeates its testimony and Opening Brief, rendering its analysis of SoCalGas's comment letters and agency participation suspect. As the party recommending a result different than the utility's proposal, CEJA bears the "burden of going forward to produce evidence raising a reasonable doubt as to the utility's position and presenting evidence explaining the counterpoint position."[2924] CEJA's isolation of excerpts or selected pages from a document is not a valid method for determination of accounting treatment to justify an adjustment to the BSEP forecast. As determined by the Commission in SoCalGas's last GRC, context matters, and the document must be read as a whole. The context of SoCalGas's activities is thoroughly described in SoCalGas's testimony, workpapers and Opening Brief and leads to only one conclusion—the Energy Policy group's engagement and participation in state and regional agency proceedings, workshops and responses to agency requests for information do not constitute Political Activities or "lobbying" as defined by FERC USoA Account 426.4 and are appropriately booked as above-the-line Operating Expenses.

CEJA's recommended reduction to BSEP's TY 2024 O&M forecast fails, not only because the conduct it attributes to improper inclusion of below the line expenses is demonstrably wrong, but its method is also unreasonably overinclusive. As SoCalGas has confirmed consistently throughout this proceeding, SoCalGas considers the instructions and guidance in FERC 426.4 when looking at where the costs of its activities are booked.[2925] SoCalGas has made a concerted and good faith effort to accurately track costs associated with political activities as defined by the

[2924] D.04-03-034 at 7, *citing* D.87-12-067.

[2925] *See* Tr. V16:2903:18-24 (Mijares).

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.[2926] SoCalGas further excluded costs for letters (and the costs associated with their creation) related to matters the CPUC determined could not be included in above-the-line accounts.[2927]

SoCalGas also demonstrated that using the activities of the one group (Energy Policy) involved in agency comment letters could not reasonably serve as a proxy for a reduction in funding for the entire BSEP organization.[2928] While CEJA asserts that extension of the 60% reduction should apply to all of the other groups in the BSEP workpaper, its arguments again lack substance. Specifically, the Energy Policy group is one of four groups, described below, in the BSEP workpaper:[2929]

TABLE 34.4
BSEP Sub-Groups

BSEP Sub-Group:	**Worked on Comment Letters:**	**CEJA Proposed 60% Reduction**
Energy Policy (EP)	X	X
Planning & Legislative Analysis (P&LA)		X
Business Strategy		X
Energy System Integration and Planning (ESIP)[2930]		X

Energy Policy Group: Although CEJA's focus has been exclusively on its comment letters in agency proceedings, Energy Policy's activities are much broader than agency monitoring and participation, as Energy Policy supports the enterprise's decarbonization planning and sustainability efforts, including state and federal policies that impact SoCalGas's operations.

2926 SCG/SDG&E OB at 760 (*citing* Ex. SCG-245-E (Mijares) at 13:4-24 and Figure SM-1 at 8).

2927 Ex. SCG-229-E (Mijares) at 18-20. *See* Ex. SCG-314 at 3-5 (Data Request Response to CEJA-SEU-027 Questions 8a and 8b). At CEJA's specific request for all comment letters, SoCalGas produced all agency comment letters for 2021. SoCalGas's rebuttal testimony identified the 7 letters that had been recorded below-the-line prior to SoCalGas's GRC Application.

2928 Ex. SCG-229-E (Mijares) at 14-20.

2929 *Id.* at 18:11-22.

2930 CEJA OB at 121-122. CEJA does not otherwise object to the ESIP group's proposed activities and request for FTEs.

Additional activities performed by the group include monitoring rules, regulations, and compliance obligations at the local air districts to support SoCalGas's Environmental Services group and assessing potential federal or state funding opportunities that SoCalGas may apply for on behalf of ratepayers, performing research and analytics to stay up-to-date on pertinent information related to the energy system, and providing comments regarding policy decisions linked to the public interest.[2931]

Planning & Legislative Analysis Group: The Planning and Legislative Analysis group focuses on analysis of the impact of proposed legislation on SoCalGas operations, rates, and customers in their utilization of gas. Nevertheless, CEJA attempts to cast the Planning and Legislative Analysis group as a lobbying function. After correctly identifying the role of the legislative analysis FTE as "monitoring, analyzing, and determining how a broad range of legislative proposals will affect SoCalGas customers and operations,"[2932] CEJA speculates that "[t]he apparent purpose of tracking legislative proposals is to support SoCalGas lobbying efforts by helping the company identify where to deploy its lobbying resources." It then draws the remarkable inference that "it would be unreasonable –if not impossible—to incur compliance costs before a legislative change is enacted."[2933] There is no evidence in the record that members of the Legislative Analysis group perform or assist in any lobbying activity. On the contrary, these employees focused on proposals regarding Renewable Gas Procurement, Hydrogen and Carbon Capture, Long-Term Energy Planning, Net Energy Metering, Pipeline Safety, Building Decarbonization, Microgrids, Energy Storage, Distributed Generation, Renewable Gaseous Fuels used for Transportation, Climate Change, and Sustainability. CEJA ignores SoCalGas's rebuttal testimony that stated explicitly "The Legislative Analysis group records time to 426.4 for any lobbying or political activities, consistent with the FERC USofA."[2934] Costs already independently removed cannot form the basis for a further adjustment.

Business Strategy Group: In its Opening Brief, CEJA continues to demonstrate that it does not understand the nature of a GRC forecast and that requests are forward in nature. It concedes that "some historic costs of the Business Strategy group may be properly recoverable but argues

2931 *Id.* at 19:1-10.

2932 *Id.* at 124 (*citing* Ex. SCG-29-R-E (Mijares) at 35).

2933 *Id.* at 124.

2934 Ex. SCG-229-E (Mijares) at 20.

that SoCalGas "has not presented sufficient evidence to identify those costs."[2935] This misunderstanding of ratemaking may explain CEJA's continued attack on the Clean Fuels report described in SoCalGas's testimony. SoCalGas explained that its forecast for the Business Strategy group were appropriately informed by the costs and activities incurred in its BY. This includes costs incurred for the technical analysis conducted to examine California's options for moving to a net-zero energy system.[2936] The suggestion that the white paper is self-serving and poorly documented is misguided, and there is no connection to future department spending, as explained above. However, contrary to CEJA's claims, the department time spent supporting the white paper served the public good and forecasted department spend is reasonable because it is driven by regulatory needs, which is further described below.[2937] The clean fuels white paper, and the Business Strategy group's time spent developing it, was aligned with California policy goals.

The Clean Fuels Study analyzes various economy wide pathways to decarbonization out to 2050, including corner cases assuming high degrees of electrification. Analyzing implications of decarbonization is directly aligned and consistent with issues within the scope of the Gas System OIR, which seeks to examine the implications of decarbonization on the gas system from both a system impact and infrastructure perspective, as well as a customer perspective. It is important to note that the Clean Fuels Study did not anchor to any preferred pathway to decarbonization but instead analyzed corner cases meant to capture a wide range of potential outcomes and to better assess the value of various decarbonization tools.

With regard to the Business Strategy group, SoCalGas enumerated a series of concrete Business Strategy activities related to a key focus area for the group during the rate case period: supporting SoCalGas in R.20-01-007, the 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. R.20-01-007 is, perhaps, the single largest and most complex gas system proceeding that the CPUC has undertaken, and it will have far-reaching implications for SoCalGas's customers and operations. As reflected in SoCalGas's testimony:

> Consistent with the direction of the Gas System Order Instituting Rulemaking (OIR), during the rate case period, Business Strategy will be responsible for developing, adapting and evolving SoCalGas' business model so the utility can

[2935] CEJA OB at 126.

[2936] Ex. SCG-29-R-E (Mijares) at 36.

[2937] *See* Ex. SCG-229-E (Mijares) at 21:22-24.

> continue to fulfill its obligations to serve customers in a safe, reliable, equitable and affordable manner during the energy transition. This will necessitate the group developing analytical tools and conducting financial and technical analyses to support the long-term capital planning process, such that it aligns with decarbonization objectives, and that capital is optimally deployed to benefit customers. In addition, Business Strategy will need to develop and maintain collaboration tools to effectively manage considerations ranging from gas acquisition to workforce transition and impacts.[2938]

These activities are concrete, help build a robust record in the Gas System OIR and are critical to SoCalGas planning for and continuing to fulfill its obligation to serve customers in a safe, reliable, equitable and affordable manner during the energy transition.[2939]

Consequently, the Business Strategy group's funding request is reasonable, aligned with State policy goals, necessary and justified. Both the historical and forecasted labor and consulting spend primarily support the Long-Term Gas Planning Rulemaking (R.20-01-007) and related needs like the Distribution Decommissioning Framework Staff Proposal are appropriately included in the BSEP forecast.[2940]

34.1.2.2.4 CEJA's Request for Additional Measures is Unnecessary and Constructed on a Faulty Premise

SoCalGas has demonstrated that it adheres to the appropriate accounting standard applicable to its business. CEJA has provided no evidence that SoCalGas has misclassified any activities by BSEP or that its activities constitute Political Activities as defined by FERC 426.4 and related decisions.

Notwithstanding a dearth of evidence to justify the adjustment to the BSEP TY 2024 O&M forecast, CEJA proposes for the first time in its Opening Brief that the Commission create proscriptive rules that limit SoCalGas's participation in regulatory proceedings before state and regional agencies. CEJA's request is untimely and should be rejected. As an initial matter, Commission precedent makes clear that recommendations that are not part of testimony entered into the record and of which no party has had the opportunity to cross examine sponsoring

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2938 Ex. SCG-29-R-E (Mijares) at 36-37.

2939 Ex. SCG-229-E (Mijares) at 22:11-31.

2940 *Id.* at 23: 1-6.

witnesses or present evidence on the proposals, as is the case here, are inappropriate.[2941] The Commission has determined that new arguments in briefing constitute "additional testimony," which should have been served on parties.[2942] Further, the Commission has determined that this type of "extra-record material" contained in briefing is inadmissible and "serves no useful purpose because it cannot be considered by the Commission, either as fact or argument."[2943] Accordingly, SoCalGas moves to strike CEJA's additional recommendations in briefing and urges the Commission to disregard CEJA's proposal.

Additionally, CEJA's measures are entirely unjustified for the reasons discussed above and further below in Section 48.2.[2944] As required by the FERC USoA, specifically Account 426.4, SoCalGas will continue to appropriately book its costs to the proper accounts, maintain its robust controls and train its employees. Clearly demonstrated by its testimony, Opening Brief and showing here, these groups comprising BSEP engage in activities to analyze policy and regulation impacting SoCalGas, support customers and engage with stakeholders in support of ratepayer interests. Moreover, CEJA's proposal would create an inequitable and discriminatory standard for one utility in the state, where all utilities engage with other state and local regulatory agencies. One utility's GRC is not an appropriate forum for consideration of broad interpretations of FERC accounting rules and the creation of compliance items governing utility participation in other state and local agency regulatory proceedings. The Commission should reject CEJA's proposal to do so here. SoCalGas's TY 2024 request includes no lobbying activities and should be adopted as proposed.

[2941] *See* D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); *see also* D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence.").

[2942] D.10-06-038 at 45.

[2943] D.92-06-065 at *91-92 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating "[i]f that is so, it is not proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact, or argument.").

[2944] *See* Section 48.2.6 (Cal Advocates Belatedly and Unpersuasively Shifts Its Arguments from "Political Campaigns" to Outside Legal Counsel Fees as Evidence of SoCalGas's "Pattern and Practice" of Booking Political Activities to Ratepayers), *intra*.

34.2 SDG&E

SDG&E has justified approval of its reasonable TY 2024 Administrative and General (A&G) O&M, IT capital expense forecasts and the methodology for Franchise Fee expense, as fully shown in testimony and in SDG&E's opening brief.[2945] SDG&E's A&G functions provide accounting, financial and business planning, regulatory support and analysis, case management, legal, and community relations. They are services that are necessary to attend to SDG&E's customers, maintain its 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 under franchise ordinances that permit the Company to place utility property in public rights of way.[2946]

Only Cal Advocates made recommendations relating to SDG&E's A&G Division. With one exception, Cal Advocates' OB states that it does not oppose SDG&E's TY 2024 O&M forecasts, and, although silent in its OB, Cal Advocates stated in testimony that it did not oppose SDG&E's Franchise Fees expense or its IT Capital forecasts.[2947] Cal Advocates recommends a reduction of $492,000 related only to SDG&E's Financial & Business Planning incremental FTE forecasted expense request.[2948] This recommendation should be rejected, and the Commission should approve SDG&E's A&G TY 2024 requests, as explained below.

34.2.1 SDG&E's Response to Cal Advocates' O&M Recommendation

SDG&E requested a total O&M forecast of $41.885 million, comprised of $30.118 million Non-Shared O&M and $11.767 million Shared O&M.[2949] In its testimony and opening brief, Cal Advocates did not dispute SDG&E's Shared O&M forecast of $11.767 million.

2945 SCG/SDG&E OB at 763-767.

2946 Further information regarding SDG&E's Administration and General is provided in the OB at Section 34.2 (pages 763-767) and Ex. SDG&E-33-R-E (Agarwal); Ex. SDG&E-233 (Agarwal), and Ex. SDG&E-33-WP-R-E (Agarwal).

2947 Cal Advocates OB at 281-285. *See also* Ex. CA-14-E (Amin) at 5:13-15 (no opposition to Franchise Fee methodology) and Ex. CA-11 (Waterworth) at 67, Table 11-34 (showing no recommended difference for A&G IT 2022-2024 Capital Expenditure Forecast).

2948 *See* Cal Advocates OB at 282-283. *See also* Ex. CA-14-E (Amin) at 72, Table 14-33.

2949 Ex. SDG&E-233 (Agarwal) at 1, 3. In its OB (at 281), Cal Advocates mistakenly reflects SDG&E's Shared Service Request as $11.769 million, which is slightly higher than SDG&E's O&M forecast request ($11.767 million). However, "Cal Advocates does not oppose SDG&E's request." Cal Advocates OB at 282, referring to Ex. CA-14-E (Amin) at 42.

SDG&E justified approval of its TY 2024 Non-Shared O&M forecast of $30.118 million, including its TY 2024 Financial & Business Planning expenses of $6.37 million, as demonstrated in testimony and in SDG&E's Opening Brief.[2950] Cal Advocates merely restated its objections to the incremental full-time equivalent (FTE) resources SDG&E requested and its Opening Brief contained no new basis for the generalized and unsupported reasons contained in Cal Advocates' witness's testimony.[2951] Cal Advocates ignored SDG&E's witness Rajan Agarwal's rebuttal testimony entirely, which provided compelling reasons and data demonstrating why additional FTEs were required to provide increased financial accounting and regulatory compliance efforts as well as financial support and analysis related to the Company's increased O&M and Capital Planning activities, the large increase in capital projects, and increasing Commission reporting requirements. These include complying with this Commission's Risk Spending Accountability Reporting (RSAR) reporting requirements and other active rulemaking proceedings. SDG&E provided detailed examples of the expanded and growing workload expected for the test year of compliance, reporting and tracking activities that will be undertaken.[2952] Cal Advocates' recommendation to disallow Financial & Business Planning funding, effectively eliminated all funding for this department's incremental costs.[2953]. SDG&E fully addressed Cal Advocates' positions in its Opening Brief and will not reargue them here.[2954] The Commission should adopt the SDG&E's reasonable A&G TY 2024 GRC request as proposed.

35. Shared Services & Shared Assets Billing, Segmentation and Capital Reassignments

Only two intervenors submitted opening briefs addressing Shared Services & Shared Assets Billing, Segmentation and Capital Reassignments: EDF and Cal Advocates. Cal Advocates states only that its forecast recommendations differ from SoCalGas and SDG&E due

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[2950] SCG/SDG&E OB at 765-767 referencing Ex. SDG&E-33-R-E (Agarwal) at 16-19; Ex. SDG&E-233 (Agarwal) at 3-4; and Ex. SDG&E-33-WP-R-E (Agarwal) at 31.

[2951] Cal Advocates OB at 282-283 referencing Ex. CA-14-E (Amin) at 73-75.

[2952] *See* SCG/SDG&E OB at 766-767 and associated SDG&E exhibit references.

[2953] The Financial & Business Planning department is comprised primarily of labor dollars and costs for the department. SCG/SDG&E OB at 766, referencing Ex. SDG&E-33-R-E (Agarwal) at 16:6–18:18. Although Cal Advocates complained that no line-item data was provided (Cal Advocates OB at 283), it fails to acknowledge that labor dollars ($0.479 million) account for 97% of the incremental costs requested in TY 2024 ($0.492 million) as demonstrated in SDG&E's workpapers. Ex. SDG&E-33-WP-R-E (Agarwal) at 31 and that SDG&E's testimony detailed the nature of the activities that comprise the department's labor expense.

[2954] SCG/SDG&E OB at 765-767.

only to the summation of Cal Advocates' different expense and capital recommendation.[2955] Cal Advocates does not oppose SoCalGas's or SDG&E's cost allocation methodologies.[2956] EDF argues that the Sempra Utilities have failed to properly segment and account for their hydrogen and CCUS lines of business, resulting in inappropriate costs proposed to be borne by ratepayers, and cost-subsidization of their hydrogen products resulting in anticompetitive effects.[2957] EDF's argument on this point is addressed in this Reply Brief at Sections 3 and 18.1.

SoCalGas and SDG&E have adequately supported their forecasts and methodology for Shared Services and Shared Assets Billing, Segmentation and Capital Reassignments, and they should be approved by the Commission.

36. Rate Base

As discussed in opening briefs, SoCalGas and SDG&E applied the Commission's longstanding weighted average rate base method.[2958] No party challenged that methodology. As Cal Advocates states, "[a]ny differences in forecast where Cal Advocates does not oppose [SoCalGas and SDG&E's] methodologies are attributable to Cal Advocates' adjustments in other exhibits."[2959] The Commission should thus adopt this methodology.

PCF is incorrect in stating that SoCalGas and SDG&E failed to present evidence that SoCalGas and SDG&E's authorized rate of return reasonably approximated AFUDC.[2960] In fact, as Patrick Moersen and Steven Dais testified, on a historical basis, the rate of return has been around where AFUDC rates normally are.[2961] They added that the Commission has repeatedly used the same mechanism to forecast AFUDC for the GRC.[2962] As the Commission found in D.19-09-051, the "use of the authorized rate of return for estimating AFUDC as applied to

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2955 *See* Cal Advocates OB at 286-293.

2956 *Id.* at 286.

2957 EDF OB at 79.

2958 SCG/SDG&E OB at 772.

2959 Cal Advocates OB at 294.

2960 PCF OB at 61 (*citing* Tr. V18:3170-3171 (Dais/Moersen); Ex. SDG&E-35-R (Dais) at 4; Ex. SCG-31-2R (Moerson) at 7).

2961 Tr. V18:3170:19-3171:1 (Dias/Moerson).

2962 *Id.* at 3171:1-7.

construction work in progress is a practice that has been generally accepted and applied by the Commission in previous GRCs."[2963] This practice should again be adopted here.

EDF's discussion of gas demand in Section 36 (Rate Base) of its Opening Brief is misplaced and does not speak to the methodology used to calculate rate base. It instead offers broad commentary on the capital expenditures incorporated into the rate base calculation.[2964] SoCalGas and SDG&E's forecasted capital expenditures are discussed and fully supported in the relevant operational sections of SoCalGas and SDG&E's Opening Brief and should be approved to maintain a safe and reliable system.[2965] EDF's incorrect assumptions of how gas demand impacts the operation of gas systems, and the delivery of gas service should be disregarded.

37. Depreciation

In comparison with intervenors' proposals, SoCalGas and SDG&E's depreciation recommendations strike a reasonable balance between current and future ratepayers, consistent with Commission precedent. This includes SDG&E's proposal to keep SDG&E's current common and electric depreciation parameters in place for this GRC cycle, which Cal Advocates does not oppose. And it is reflected in Dane Watson's comprehensive study for SoCalGas and SDG&E's gas assets.[2966]

By comparison, Cal Advocates, TURN, and IS often adopt SoCalGas and SDG&E's proposals when it increases lives but generally reject shortening lives. Cal Advocates does so solely based on its policy argument that rates are "high and increasing," which would create an unintelligible standard going forward.[2967] TURN asserts that its proposals are not about achieving "revenue requirement reductions"[2968]—but then ignores its depreciation analyst's recommendations that would increase rates relative to SDG&E's proposals.

Conversely, EDF proposes a novel accelerated depreciation, that would increase rates. Such a proposal is better considered in a state-wide rulemaking.

[2963] D.19-09-051 at 612-613.

[2964] EDF OB at 79-83.

[2965] SCG/SDG&E OB at 770-774.

[2966] SCG/SDG&E OB at 774-775.

[2967] Cal Advocates OB at 302.

[2968] TURN OB at 370-371

37.1 The Commission Should Adopt SoCalGas and SDG&E's Proposed Gas Plant Deprecation Rates

37.1.1 Dane Watson's Comprehensive Study of the Service Lives Necessary for SoCalGas and SDG&E's Gas Plant Accounts Should be Adopted

As noted, Mr. Watson's service life recommendations for SoCalGas and SDG&E's gas assets are based upon his comprehensive study. Cal Advocates does not take issue with SDG&E's proposals for gas storage and gas transmission.[2969] Yet Cal Advocates continues to cherry-pick SoCalGas and SDG&E's gas depreciation study, accepting SoCalGas and SDG&E's gas service life proposals when they maintain or lengthen lives, while rejecting any suggestion to shorten lives.

Cal Advocates states that "depreciation studies are essential tools for establishing a base line depreciation parameter."[2970] Yet Cal Advocates' proposal to not allow an increase in test year depreciation expense is not based upon a study. Instead, it is based solely on Cal Advocates' policy position that "[g]iven that rates are currently high and increasing, any changes to depreciation parameters that result in increasing test year depreciation expense should be denied."[2971]

But there is no limiting principle to Cal Advocates' proposed depreciation standard. Unless rates are reduced, under Cal Advocates' position, depreciation expenses would never be increased again. This is inconsistent with the Commission's longstanding precedent, as cited by TURN, to "allow a utility to recover the original cost of the assets, as well as the net salvage value (salvage minus cost of removal) over the life of the asset," using the "Straight-Line Remaining Life depreciation method described by Standard Practice U-4."[2972] It also creates inherent uncertainty—it is unknowable in advance when rates are sufficiently "high" such that depreciation expenses should be frozen.

Conversely, as Mr. Watson describes, TURN and IS's recommendations are overly reliant upon mathematical fitting and improperly rely upon only one placement and experience band.[2973]

[2969] Cal Advocates OB at 305.

[2970] *Id.* at 299.

[2971] *Id.* at 302.

[2972] TURN OB at 367-368 (quoting D.19-05-020 at 315-316).

[2973] *See* Ex. SCG-232 (Watson) at 7, 11; Ex. SDG&E-236-E (Watson) at 9.

TURN cites the treatise *Depreciation Practice* regarding using visual and mathematical fitting to determine the curve that best fits utility-recorded data.[2974] But as TURN acknowledges, *Depreciation Practices* "also advises against the complete removal of judgement from the process of selecting life-curves."[2975] TURN states in briefing that its depreciation analyst also considered different banding information and employee input.[2976]

But TURN's depreciation analyst provided no indication in his testimony or workpapers that he looked for the best fit among multiple bands.[2977] Nor did he state or provide evidence that he tempered his use of mathematical fitting based upon SoCalGas or SDG&E employee input. To the contrary, TURN's analyst spent pages belittling the use of employee input, opining (incorrectly) that Mr. Watson was privy to information that was not made available to TURN,[2978] and "rais[ing] concerns" regarding whether field personnel can be objective regarding service lives.[2979]

TURN likewise states that it relied upon 1991-2020 as an experience period.[2980] But Mr. Watson demonstrated several accounts where relying on the 1991-2020 experience band did not provide a good fit for that account data.[2981] For example, for SoCalGas Account 368, Mr. Watson stated that when "only 10% of the retirement data for Mr. Garrett's single band come from ages after 40, it makes little sense to base a life recommendation on a single band," that from 1991-2020.[2982]

IS's recommendations for SoCalGas' accounts suffers from the same overreliance on mathematical fitting and one placement and experience band.[2983] IS did not rebut that it relied

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2974 TURN OB at 375 (citations omitted).

2975 *Id.* at 376 (citation omitted).

2976 *Id.* at 376-377.

2977 Tr. V:12:2083:21-23 (Watson) ("We got [Garrett's] full workpapers, and there was only one band in there. So, if he would have reviewed any others, they should have been in his workpapers.").

2978 *See* Ex. SCG-232 (Watson) at 9 (discussing how TURN was provided all of Mr. Watson's interview notes in workpapers); Ex. SDG&E-236-E (Watson) at 12 (same).

2979 Ex. TURN-12 (Garrett) at 21.

2980 TURN OB at 377.

2981 *See, e.g.*, Ex. SCG-232 (Watson) at 17-18; Ex. SDG&E-236-E (Watson) at 19-20.

2982 Ex. SCG-232 (Watson) at 22.

2983 *Id.* at 11.

upon one placement and experience band.[2984] This overreliance on a single band resulted in IS at times having insufficient retirement experience to base a life prediction upon, such as with SoCalGas Account 376.[2985] As with TURN, IS claims that it is not entirely dependent upon mathematical fitting.[2986] But IS' depreciation analyst did not document any instance where his recommendation was changed by non-mathematical factors.

Conversely, EDF proposes accelerating depreciation of gas assets.[2987] As IS states, such a proposal leads to higher rates today.[2988] IS agrees with SoCalGas and SDG&E that issues regarding accelerating depreciation on gas assets are "better addressed as part of a more comprehensive evaluation of depreciation methodologies in a standalone rulemaking proceeding;"[2989] including PG&E's purported Unit of Production proposal.[2990] As IS notes, it is otherwise premature to assume that gas customer growth will be smaller going forward because "'customer count is actually anticipated to grow over the period of the GRC.'"[2991] SoCalGas and SDG&E's gas depreciation life proposals based upon Mr. Watson's comprehensive study thus strike a reasonable balance between current and future ratepayers compared to the two extremes of the intervenors' positions.

37.1.2 The Intervenors' Net Salvage Proposals Regarding SoCalGas and SDG&E's Gas Assets Are Inconsistent with Precedent and Should be Rejected

Mr. Watson proposed reasonable depreciation rates that are consistent with the Commission's gradualism principle to limit any increase in negative net salvage rates to 25 basis

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2984 IS OB at 10.

2985 Ex. SCG-232 (Watson) at 31-33.

2986 *Id.* at 34.

2987 EDF OB at 82.

2988 IS OB at 11.

2989 *Id.* (citing Ex. IS-03 at 7.); *see* SCG/SDG&E OB at 787-788 ("EDF's proposal to alter how gas assets are depreciated consider 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.") (citing Ex. SDG&E-201 (Folkmann) at 5).

2990 EDF OB at 86.

2991 IS at 11-12 (quoting Tr. V5:990:4-11 (Niehaus)).

points.[2992] Cal Advocates' proposal to freeze net salvage,[2993] is inconsistent with this gradualism precedent. In D.21-08-036, the Commission applied its gradualism principle to SCE's net salvage rates, finding that, "although we are concerned about the overall rate impacts of SCE's request for this GRC cycle, we are also mindful of the need to balance the equities of current and future ratepayers."[2994]

In fact, as Mr. Watson observed, Cal Advocates themselves recommended increases in negative net salvage in that proceeding.[2995] Cal Advocates provides no reasonable basis for why negative net salve for SoCalGas and SDG&E in this proceeding should be treated differently. Cal Advocates' contention that SoCalGas and SDG&E have been collecting more than enough adequate funds for the cost of removal,[2996] is incorrect because the cost of removal for many accounts is in the early stages.[2997] As Mr. Watson describes regarding SoCalGas Account 376, the life cycle for the account is up to 120 years, but the average age of plant is only 17.35 years—meaning that there will be a much higher level of retirements in the future.[2998]

TURN recognizes the Commission's gradualism precedent.[2999] But TURN proposes increasing negative net salvage by only 25 percent of what SoCalGas and SDG&E proposed[3000]—even though Mr. Watson himself applied the Commission's gradualism precedent to limit any proposed change in negative net salvage for SoCalGas and SDG&E's gas accounts to 25 basis points.[3001] TURN's interpretation to simplistically apply the precedent to limit an increase in

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2992 SCG/SDG&E OB at 788-789.

2993 Cal Advocates OB at 29.

2994 D.21-08-036 at 511.

2995 Ex. SCG-232 (Watson) at 39 (noting that Cal Advocates recommended increases in negative net salvage for various accounts by as much as 20 percent) (citing D.21-08-036 at 510); SDG&E-236-E (Watson) at 28 (same).

2996 Cal Advocates OB at 29.

2997 Ex. SCG-232 (Watson) at 50; Ex. SDG&E-236-E (Watson) at 29.

2998 Ex. SCG-232 (Watson) at 50.

2999 TURN OB at 384.

3000 *Id.* at 386.

3001 SCG/SDG&E OB at 789 (citing Ex. SDG&E-236-E (Watson) at 13; Tr. V12:2097:7-10 (Watson)).

negative net salvage to no more than 25 percent of a utility's proposed increase would create perverse incentives.[3002]

It would require a utility to propose an actual negative net salvage amount—knowing that is inconsistent with Commission precedent—just so another party or the Commission could take 25 percent of that amount.[3003] Or it would alter the Commission's gradualism precedent such that, if a utility does follow that precedent and propose a 25 percent increase, the outcome would then be taking 25 percent of that utility proposal, for a six percent change.[3004]

TURN incorrectly states that Mr. Watson did not present any supporting analysis for the negative net salvage rates he would have proposed absent the Commission's gradualism precedent.[3005] In Mr. Watson's workpapers, he demonstrated the ten-year negative net salvage average.[3006] But more importantly, it would be absurd to require a utility to propose and provide the full negative net salvage amount, just so the Commission could take 25 percent of that figure.

Mr. Watson explicitly testified that he proposed only a 25-basis point change, consistent with Commission precedent.[3007] SoCalGas and SDG&E are required to present just and reasonable proposals in its application. If a utility knows that the Commission position is that an increase in negative net salvage should be no more than 25 basis points, it would not be proposing a just and reasonable rate if it had to propose a larger increase in negative net salvage just so the gradualism principle could result in a 25 percent change of that amount.

TURN cites the Commission adopting 25 percent of PG&E's negative net salvage proposals in the Decision establishing the gradualism precedent.[3008] But PG&E self-evidently would not have applied gradualism themselves before the concept was created by the Commission.

3002 TURN OB at 386.

3003 SCG/SDG&E OB at 789 (citing Ex. SDG&E-236-E (Watson) at 13; Tr. V12:2108:5-9 (Watson)).

3004 *Id.*

3005 TURN OB at 384.

3006 *See* Tr. V12:2098:8-14 (Watson) ("For reference in Appendix D [of Mr. Watson's workpapers], you can look at that account and see the actual indicated net salvage shown"); Ex. SCG-32-2R (Watson) at Attachment C, Appendix D; Ex. SDG&E-36-R (Watson) at Attachment C, Appendix D.

3007 Tr. V12:2097:4-10 ("Q: So with this cap of plus minus-25 percent, future net salvage added to the current net salvage levels for all depreciation accounts? A: No. Only for ones where the experienced net salvage was significantly higher than the approved, and in those cases—in other words, more negative than the approved, we would step only 25 basis points.").

3008 TURN OB at 388 (citing D.14-08-032 at 602).

Likewise, the fact that SCE did not apply the gradualism concept to its recommendations in SCE's 2021 GRC does not mean that SoCalGas and SDG&E should be punished for doing so here.[3009] Following Commission precedent is thus far from "a situation of the utilities' own making," as TURN alleges.[3010] There is no reason to act as if SoCalGas and SDG&E did not apply gradualism here. Nor should SoCalGas and SDG&E be penalized for doing so.

TURN's "alternative" net salvage proposal—which IS supports[3011]—of using the sum of the increases each utility sought in its last two GRCs and then taking 25 percent of that amount is difficult to follow and implement.[3012] It requires relying on the record of past proceedings and has never been adopted by the Commission. And, again, it only works if the utility is not applying the Commission's gradualism precedent itself.

37.2 The Commission Should Adopt SDG&E's Proposal to Hold its Electric and Common Depreciation Rates Constant to Support Affordability

As noted, Cal Advocates does not object to SDG&E's proposal to hold electric and common depreciation rates at current levels to support affordability[3013]—given the opportunities provided by electrification and wildfire mitigation.[3014] TURN seemingly continues to conflate SDG&E's proposal to hold these rates constant with Mr. Watson's study regarding SDG&E's electric and gas assets. For example, TURN provides a table where it alleges that SDG&E is proposing to shorten the life for several electric accounts[3015]—even though SDG&E is proposing to hold all such lives constant. Similarly, TURN states that SDG&E "propose[s] to shorten the currently-authorized life" for Accounts E394.11 and E397.10[3016]—even though SDG&E is proposing no such thing.

It is thus difficult to assess TURN's proposal relative to SDG&E's—because they are often comparing to Mr. Watson's study, not SDG&E's proposal. Moreover, TURN's positions are seemingly contradictory. For example, TURN states that its recommendations are based on its

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[3009] *See* TURN OB at 390 (citing D.21-08-036 at 512).

[3010] TURN OB at 390.

[3011] IS OB at 11.

[3012] TURN OB at 387.

[3013] Cal Advocates OB at 305.

[3014] SCG/SDG&E OB at 791 (citing Ex. SDG&E-01-R (Folkmann) at 18; Ex. SDG&E-201 (Folkmann) at 4).

[3015] TURN OB at 378.

[3016] *Id.* at 380, n.1240.

proposals being "reasonable;" not about reducing rates.[3017] Yet it later argues that SDG&E's proposal to hold common and electric rates constant "should not prevent the Commission from making reasonable adjustments to SDG&E's depreciation parameters for common and electric plant accounts where those adjustments would yield a further revenue reduction decrease even as compared to the status quo.[3018]

But TURN's depreciation analyst's recommended shortening the life for SDG&E account E361, compared to SDG&E's proposal to retain a 63 year service life.[3019] Similarly, as noted in opening briefs,[3020] TURN is also proposing to increase negative net salvage (under either of its net salvage proposals) compared to SDG&E's proposal for nearly every electric and common plant account.[3021] Yet TURN makes no mention of either fact in its brief. It is thus unclear if TURN's statement that its recommendations would save $17.3 million compared to SDG&E's currently authorized electric account depreciation rates includes those proposed increases in depreciation expense relative to SDG&E's proposals. In sum, SDG&E's proposal supports affordability through holding electric and common depreciation rates constant—based on the benefits of electrification and the investments now in wildfire mitigation—without making the minute changes in both directions argued for by TURN.

38. Tax

SoCalGas and SDG&E's tax expense forecasts have not been opposed by any parties. For example, Cal Advocates stated that it does not take issue with SoCalGas and SDG&E's:

- Payroll tax calculation methodology;
- Ad valorem tax estimating methodology; or
- Income tax adjustment, deductions, and credits.[3022]

Nor does any party oppose SoCalGas and SDG&E's proposal to continue their Tax Memorandum Accounts (TMA) for this GRC cycle.[3023] The Commission should thus adopt

[3017] *Id.* at 370-371.

[3018] *Id.* at 371.

[3019] Ex. TURN-12 at 10, Table 6.

[3020] SCG/SDG&E-OB at 792.

[3021] Ex. TURN-12 at 10, Table 6.

[3022] Cal Advocates OB at 308, 310, 313 (citations omitted).

[3023] *See id.* at 314.

SoCalGas' forecast of 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, and SDG&E forecast of 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.[3024] And the Commission should continue the TMA.[3025]

PCF's reference to deferred taxes in the Annual 2021 Form 10-K Annual Report (10-K Report) to the Securities and Exchange Commission (SEC)[3026] is misplaced and should be disregarded. PCF is off base when it states that "SDG&E could not—and nowhere does—explain the huge discrepancy between the deferred taxes identified in SDG&E-35-R and the deferred taxes reported as required by federal securities law."[3027] First, PCF failed to cross examine the witness responsible for deferred taxes.[3028] Far from SDG&E not being able to explain the "discrepancy," in the testimony that PCF cites, the cross-examined witness clearly states that he is not responsible for the deferred tax testimony.[3029]

Second, Sempra's 10-K Report reflects information for all Sempra subsidiaries, not just SDG&E. Most, if not all, line items in Sempra's 10-K (including deferred taxes) would thus be different than line items in SDG&E's GRC because they are for multiple companies. And even for SDG&E, the 10-K includes non-CPUC jurisdictional items such as FERC-jurisdictional activities, and SDG&E's CPUC-jurisdictional activities that are outside the scope of the GRC. As such, given the differences in the content of the 10-K Report, amounts included in GRC testimony would not be expected to precisely match the amounts in the 10-K report.

39. Working Cash

Four intervenors submitted opening briefs addressing Working Cash: Cal Advocates, TURN, FEA, and IS. SoCalGas and SDG&E addressed the bulk of their comments in their Opening Brief,[3030] however, we address a few sub-arguments below.

3024 SCG/SDG&E OB at 793 (*citing* Ex. SCG-33-2R (Reeves); Ex. SDG&E-37-R (Reeves); Ex. SCG-401/SDG&E-401).

3025 SCG/SDG&E OB at 793.

3026 PCF OB 60-61.

3027 *Id.* at 60.

3028 *See* Ex. SDG&E-37-R (Reeves).

3029 Tr. V18:3169:24-3170:5 (Dais).

3030 SCG/SDG&E OB at 794-800.

39.1 Indicated Shippers' Argument Regarding Bank Lag Ignores Facts on the Record

Cal Advocates has argued, and IS supports their position, that SoCalGas and SDG&E's bank lag is overstated because electronic payments have increased and therefore bank lag should decrease.[3031] SoCalGas and SDG&E have addressed this argument in their Opening Brief at pages 795-797. However, the Companies seek to address one specific statement of IS on this issue. IS states that "[i]t is illogical to assume that bank lag will increase simply based on the fact that paying at a branch office has less lag than electronic payment, because this completely ignores the various other methods by which customers pay (such as by mailing a check), which may be much more commonly utilized than physically paying cash at a brank office."[3032] The flaw in IS's argument is that SoCalGas and SDG&E are not "assuming" anything. Indeed, IS has made an assumption that the example provided—i.e., a customer switching from cash to My Account electronic payment—was the full and only basis for SoCalGas and SDG&E's position that switching from non-electronic to electronic payments is likely to increase bank lag. The facts on the record show that both SoCalGas and SDG&E conducted an analysis, including various forms of non-electronic payment. SoCalGas's rebuttal testimony states as follows:

> SoCalGas provides customers with an array of electronic and non-electronic payment options. In calculating the appropriate bank lag days request, SoCalGas considers each of these individual payment methods and assigns a bank lag day to each based on actual historical data of bank lag timing and calculates the weighted average bank lag days by multiplying the assigned lag days by the payment amounts for each payment option. Over the period of 2019 through 2021, there was an increase in electronic payments received. This increase consisted primarily of customers switching from various forms of non-electronic payment to electronic payments through SoCalGas's My Account system, which has a bank lag of one day. <u>If the increase in customers transitioning from other payment methods to My Account continues, SoCalGas would expect an increase from its current request of 0.76 bank lag days in future GRC bank lag requests, not a decrease as Cal Advocates suggests.</u>[3033]

3031 IS OB at 13.

3032 *Id.*

3033 Ex. SCG-234 (Hornbeck) at 8 (emphasis added).

SDG&E includes similar factual data on the record, which also shows an expected increase in bank lag days.[3034] Accordingly, SoCalGas and SDG&E have supported their bank lag analysis and it is IS making that assumption that an increase in electronic payments would decrease bank lag.

39.2 The Commission Should Not Disregard More Recent Arrearage Data As Unrepresentative

TURN argues that the Sempra Utilities' revenue lags should be adjusted to reflect "more realistic" or "normalized" arrearage assumptions, rather than rely on 2021 arrearage data as the basis for its forecast.[3035] SoCalGas and SDG&E address this argument in their Opening Brief,[3036] however, the Companies address here TURN's specific argument that the December 2022 arrearage data is unrepresentative.

SoCalGas and SDG&E argue that TURN is merely making an assumption that 2021 arrearage levels are high due to the disconnection moratorium in effect during 2021 and that arrearages will return to pre-pandemic levels.[3037] However, this is not only just an assumption, it is clearly not borne out by the data. As SDG&E states in its rebuttal testimony, "December 2022 residential customer arrearages were approximately $239 million, representing an increase of $43 million from 2021 levels of approximately $196 million."[3038] The increase over 2021 data in December 2022 was $60 million for SoCalGas.[3039]

TURN asks the Commission to disregard the December 2022 arrearage data as an outlier, arguing that arrearages at that time were unusually high due to high gas commodity prices in late 2022 and early 2023.[3040] Although gas commodity prices were higher than previous years during this period, the data does not support the conclusion that December 2022 was an outlier. The following chart tracks arrearages during 2021 (the base year used by SoCalGas and SDG&E) as compared to 2022.

3034 Ex. SDG&E-238 (Guidi) at 7-8.

3035 TURN OB at 393; Ex. TURN-13-R (Dowdell) at 5.

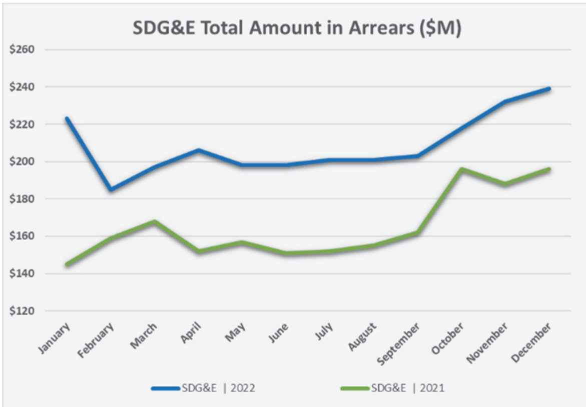
3036 SCG/SDG&E OB at 797-798.

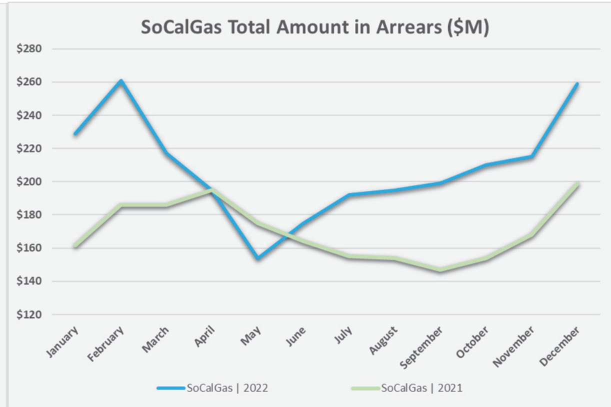
3037 *Id.* at 394 ("Between December 2020 to December 2021, the exact period Sempra Utilities used to develop their revenue lag forecast, the level of utility arrearages increased dramatically relative to 2018 and 2019 due the CPUC disconnection moratorium under effect during the COVID-19 Pandemic.")

3038 Ex. SDG&E-238 (Guidi) at 9.

3039 Ex. SCG-234 (Hornbeck) at 11.

3040 TURN OB at 395-396.





As is clear from the charted data, 2022 arrearage data is consistently higher than the same data for 2021.[3041] Thus, December 2022 is not an outlier for that year, despite the higher commodity gas prices at that time. TURN cannot account for this year-over-year increase, which disproves their overarching argument that 2021 arrearage data generally is unrepresentative due to COVID and should be "normalized" to pre-COVID levels. Significantly, UCAN supports the Sempra utilities in this position and argues that arrearages will continue to rise.[3042]

39.3 TURN's Goods and Services Argument Reveals That Their Concern Is Not With SDG&E's Methodology, But Rather With SDG&E's Result

TURN takes issue with SDG&E's Goods and Service Expense lag, but fails to point to any failure in SDG&E's methodology or data. Instead, TURN attacks the result, arguing that SDG&E's goods and services expense lag of 28.05 days is unreasonable as compared to SoCalGas's proposal and SCE's proposal.[3043] SDG&E does not disagree that its result is different from that of SoCalGas and SCE, but does disagree that the fact that its result is different does not indicate ineffective cash management. SDG&E is a different company than SoCalGas and SCE and is relying on entirely different data than SoCalGas. Tellingly, SDG&E used the same methodology as SoCalGas,[3044] whose result TURN does not dispute,[3045] revealing not that

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3041 *See generally,* R.18-07-005, Disconnection Settlement Monthly Reports of SoCalGas and SDG&E (January 20, 2023 and January 20, 2022) at Section 3 (providing arrearage data for January 2022 through December 2022 and January 2021 through December 2021, respectively).

3042 UCAN OB at 200.

3043 TURN OB at 398.

3044 *Compare* Ex. SCG-34-2R-E (Hornbeck) at 13 *with* Ex. SDG&E-38-R-E (Guidi) at 18.

3045 TURN OB at 398 ("TURN does not contest SoCalGas's proposed expense lag for Goods and Services.").

SDG&E's analysis is erroneous, but that TURN does not like SDG&E's result alone. This is not a reason to disregard SDG&E's well supported analysis.

40. Customer Forecasts

As discussed in SoCalGas and SD&GE's Opening Brief, most of the utilities' proposed customer forecasts were uncontested in testimony.[3046] That remains the case after opening briefs. Only two intervenors propose alternative customer forecasts, for a total of four customer classes across both utilities: for gas, SoCalGas Single-Family Gas Residential, SoCalGas Multi-Family Gas Residential, and SDG&E Gas Residential (together, the "Contested Gas Forecasts"), and SDG&E Electric Residential. Other intervenors offer generalized critiques of one or both utilities' forecasts but do not propose alternative forecasts of their own. As discussed below, the critiques of the utilities' forecast methodologies lack merit and the alternative forecasts for the contested customer classes have multiple flaws and should not be adopted. Accordingly, all customer forecasts proposed by SoCalGas and SDG&E in this proceeding should be adopted.

Before turning to the specific issues in dispute here, it is important to acknowledge, as the Commission has, that forecasting inherently involves uncertainty.[3047] By its nature, forecasting involves making predictions about future events, and those events often are the result of demographic, economic, and other drivers that are beyond the ability of a utility or its regulators to control. Thus, the fundamental question that must be considered in reviewing one of the utilities' contested customer forecasts is whether the methodologies underlying the forecasts and the forecasts themselves have indicia the Commission has recognized as suggesting that they will tend to produce reasonable forecasts for the relevant period. Basically, are the methodologies analytically sound and do they have a history of producing reasonably accurate forecasts? If that is established affirmatively by a preponderance of the evidence—and SoCalGas and SDG&E believe that it is for all four contested forecasts—then the utilities' forecasts should be adopted.

It is not enough for critics of a utility's proposed forecast methodology simply to point out or even to quantify, on an after the fact basis, how a previously approved forecast might have compared to events that unfolded after the forecast was developed. Rather, the Commission

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[3046] SCG/SDG&E OB at 803 (identifying the three gas customer forecasts challenged by Cal Advocates and TURN); *id*. at 811 ("SDG&E's proposed forecasts for all non-residential electric customer classes are uncontested.") (citation omitted).

[3047] *See*, *e.g.*, D.19-09-051 at 667 ("Forecasting is not an exact science and there will be times that a forecast will be incorrect.").

requires "show[ing] through evidence that [the] forecasts are frequently incorrect by large margins for other periods or that their methodology is intrinsically flawed."[3048] Thus, standing alone, even a significant one-time forecast error is insufficient; rather, the error must be both large *and* frequent.

The core of Cal Advocates' and TURN's arguments attempting to argue against the utilities' proposals consist of efforts to present a skewed view of how prior forecasts that relied on vendor-sourced data ultimately fared. Based on those claims about the performance of prior utility forecasts and speculation about future impacts of new policies, Cal Advocates and TURN propose abandoning the utilities' proposals in favor of unreasonable, untested, backward-looking approaches that ignore the sorts of emerging demographic drivers that the vendor data underpinning the utility forecasts are designed to reflect. Indeed, even the sponsors of these alternative methodologies required multiple errata before, apparently, they could actually calculate what they say they intended.[3049] Notwithstanding the inherent uncertainty, the Commission routinely accepts utility forecasts that, as here, rely in good faith on housing data sourced from private vendors.[3050] Indeed, the forecasts proposed here by SoCalGas and SDG&E were developed using the same methodologies as other forecasts the Commission has previously approved.

The facts show that the utilities' customer forecast methodologies have performed well even in the face of profoundly disruptive macroeconomic events. Therefore, because SoCalGas and SDG&E (as applicable) have established, by a preponderance of the evidence, that each of the Contested Gas Forecasts and the SDG&E Electric Residential forecast were developed using sound methodologies with a demonstrated track record of producing results within reasonable margins, they should be approved without modification.

3048 *Id*.

3049 *See* 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"); SDG&E-240 (Schiermeyer), Appendix E, TURN response to data request Question 1a (admitting to and describing calculation error in housing completions forecast).

3050 *See generally* D.19-09-051 at 664-668 (accepting forecast methodology relying on vendor data).

40.1 Gas Customer Forecasts (SoCalGas and SDG&E)

As stated, a threshold requirement for intervenors challenging utility forecasts or inputs to them is to prove that those "forecasts are frequently incorrect by large margins for other periods or that their methodology is intrinsically flawed."[3051] The opening briefs of Cal Advocates and TURN, as they did in testimony, attempt to argue both points. They then each propose alternative forecast methodologies. Below, SoCalGas and SDG&E dispose of the criticisms of the SoCalGas and SDG&E forecasts. Inasmuch as SoCalGas and SDG&E have previously explained the problems with the Cal Advocates and TURN proposals to replace the utilities' forecast methodologies with alternative approaches built around moving averages of historical data, that discussion will not be repeated here.[3052]

40.1.1 The Proposals to Develop Customer Forecasts Using Ten-Year Averaging Are Unreasonable and Should Not Be Adopted.

On the issue of alternative forecast methodologies, SoCalGas and SDG&E note that TURN's opening brief addresses Mr. Martinez's criticism of the ten-year period for averaging.[3053] To recap the issue, in testimony, Mr. Martinez explained that the backward-looking ten-year approaches advocated by Cal Advocates and TURN introduce unreasonable downward bias into the forecasting process because they overweighs periods of weakness for housing construction and discounts more recent, comparatively robust growth driven by factors including Millennial homebuying.[3054] SoCalGas and SDG&E's opening brief noted the curiosity of both Cal Advocates and TURN proposing to develop customer forecasts using some form of averaging over a ten-year period, given no apparent history of proposing such an approach before.[3055] SoCalGas and SDG&E questioned why they "chose ten years as opposed to, say, five, or fifteen, or some other number[,]" asserting that, "At best, the ten years idea is arbitrary."[3056]

[3051] *Id*. at 667.

[3052] *See generally* SCG/SDG&E OB at 805-809.

[3053] *See generally* TURN OB at 417-419.

[3054] Exs. SCG-235 (Martinez) at 12-13; SDG&E-239-E (Martinez) at 11-12. In his electric customer forecasts rebuttal testimony, Mr. Schiermeyer also expressed concerns with this historical averaging approach. *See* Ex. SDG&E-240 (Schiermeyer) at 4.

[3055] *See generally* SCG/SDG&E OB at 805-806; *see also id*. at 808-809 (discussing discovery demonstrating coordination between Cal Advocates and TURN regarding customer forecasts).

[3056] *Id.* at 806.

TURN's response to these concerns is almost pure misdirection. TURN denies that it chose the ten-year period "because it grabs particular years[,]"[3057] which is not actually what Mr. Martinez alleged. But there is reason to question whether that is true. In SCE's TY 2021 GRC, TURN advocated using a five-year average (2015-2019) of actual housing starts in lieu of the utility's forecasts, given TURN's calculation that SCE had a 178,000-meter over-forecast of new meter connections over the period 2012-2018.[3058] Neither Ex. TURN-14-R nor Section 40 of TURN's opening brief even cite the decision in SCE's TY 2021 GRC, let alone reconcile TURN's recommendation of ten years in this case with TURN's advocacy for five years in SCE's case.

Rather, TURN merely claims that the "proposal of a 10-year rolling average purposely discards old data as we move forward in time, to the next GRC."[3059] But that would be true of *any* rolling average over *any* duration; old data slowly roll out, while new data slowly roll in. That is how rolling averages work. TURN's opening brief eventually answers the question and, in so doing, squarely admits that TURN was motivated by the precisely the concern expressed by Mr. Martinez: because TURN wanted to ensure that the data set includes at least one recession, a period of very weak new housing demand, so TURN's forecasts can reflect the downward hit to housing growth associated with such macroeconomic disruptions.[3060]

After that, TURN defensively pivots by trying flip the question around, asking "if a ten-year rolling average is not the right amount of time, what do the Sempra Utilities propose? Either the answer must be a longer period, or a shorter one."[3061] SoCalGas' and SDG&E's answer to that question is no, it need not be longer or shorter. SoCalGas and SDG&E believe Cal Advocates' and TURN's use of historical averages is not an appropriate method to develop customer forecasts for the utilities' large, open residential customer classes, for the reasons previously discussed.[3062]

3057 TURN OB at 417.

3058 D.21-08-036 at 142.

3059 TURN OB at 417-418.

3060 *Compare id*. at 418 (discussing TURN's view of the necessity of capturing recessions) *with* Exs. SCG-235 (Martinez) at 11 (discussing how the ten-year method biases forecasts downward by including "an exceptionally weak period for homebuilding and customer activity at the beginning of the previous decade to decrease growth forecasts for the future period governed by this proceeding."); SDG&E-239-E (Martinez) at 12 (same).

3061 TURN OB at 418.

3062 SCG/SDG&E OB at 806-807 and n.4081 (explaining that "the logic of Mr. Schiermeyer's discussion about the impropriety of using historical averages to develop forecasts in SDG&E's large, open rate

While SoCalGas and SDG&E acknowledge that the Commission in SCE's TY 2021 GRC approved TURN's recommended five-year average methodology, SoCalGas and SDG&E believe that case represents the proverbial exception to the rule, a product of and limited to the facts there.[3063] Here, for instance, the proposed historical rolling (for TURN) and moving (for Cal Advocates) averages over ten-year periods would capture lingering impacts from the Great Recession, whereas in the SCE case the Commission found that TURN's proposed five-year average did not.[3064] In addition, the Commission's concern in 2021 with then-uncertain COVID-19 pandemic impacts[3065] plainly do not continue to apply now, more than two years later. Finally, in contrast to that case, here, as discussed more fully below, SoCalGas and SDG&E have established, with well-documented proof, that the allegations of persistent, large over-forecasting made by both Cal Advocates and TURN in this case simply are not backed up by facts.[3066] The facts actually show modest meter forecast variances, with instances of both under-forecasting and over-forecasting within acceptable margins.[3067] Thus, the historical averaging approaches proposed by TURN and Cal Advocates are not appropriate on the facts in this case.

Residential Electric customer class applies equally in the context of each utility's large, open residential gas customer classes.") (citing Ex. SDG&E-240 (Schiermeyer) at 4).

3063 *See* D.21-08-036 at 144 ("The question of whether it is appropriate to use a historical average to forecast costs is highly fact specific. TURN's proposed methodology may not be appropriate in all years, such as when past circumstances are unlikely to repeat during the forecast period.").

3064 *Compare* Exs. SCG-235 (Martinez) at 11 (discussing how the ten-year method biases forecasts downward by including "an exceptionally weak period for homebuilding and customer activity at the beginning of the previous decade to decrease growth forecasts for the future period governed by this proceeding."); SDG&E-239-E (Martinez) at 12 (same), *with* D.21-08-036 at 144-145 (noting TURN's recommended five-year average started *after* evidence suggested there had been "a leveling off of housing starts after the recovery from the Great Recession." (citation omitted)). That post-recovery leveling off obviously implies that lingering impacts from the Great Recession itself already would have been worked through by then, in contrast to circumstances here with the proposed rolling and moving averages.

3065 D.21-08-036 at 145.

3066 *See, e.g.,* SCG/SDG&E OB at 805 (citations omitted).

3067 Exs. SCG-235 (Martinez) at 10-11, Tables EM-4 and EM-5; SDG&E-239-E (Martinez) at 10-11, Table EM-3.

40.1.2 Attempts to Show Historic Over-Forecasting by SoCalGas and SDG&E Rely on Flawed Analyses and Seek to Relitigate Matters the Commission Has Previously Decided.

With that aside, by and large, the opening briefs of Cal Advocates and TURN repeat positions stated in testimony to the effect that the Contested Gas Forecasts are based on a methodology that historically produces forecasts that are too high.[3068] In sweeping hyperbole, TURN even characterizes this recent history as the product of "a fundamental change in the nature of the new customer gas connections and in the relationship between the dependent and independent variables in the model used for both SDG&E and SoCalGas gas connections."[3069] There are two basic problems with the Cal Advocates and TURN line of argument. *First*, for the most recent years of the Cal Advocates and TURN analyses (*i.e.*, post-TY 2016 GRC data), the analyses by Cal Advocates and TURN are flawed, draw conclusions that are contrary to the historical record, and therefore cannot be relied upon. *Second*, the argument of Cal Advocates and TURN that forecast data from the utilities' TY 2016 GRCs reflects significant inaccuracy of the utilities' forecasts[3070] is an improper attempt to relitigate matters decided in the Commission's decision in the utilities' TY 2019 GRC.

With respect to the Cal Advocates and TURN notion of historic over-forecasting, in the post-TY 2016 GRC context, as discussed in the opening brief of SoCalGas and SDG&E, Mr. Martinez's rebuttal testimonies identified a critical flaw in the analyses sponsored by Cal Advocates and TURN.[3071] Specifically, those analyses are based on flawed comparisons that, among other deficiencies, fail to account for the addition of two attrition years to the TY 2019 GRC cycle. As a result, the analyses materially inflate the baseline for the comparison and therefore also materially overstate the extent of forecast variances.[3072]

The residential forecasts that SoCalGas and SDG&E sponsored in the TY 2019 GRC were developed in 2017, to cover the years 2017, 2018, and 2019. Mr. Martinez has explained that workpapers in the TY 2019 GRC included certain forecast data that looked beyond the 2019 test

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3068 TURN OB at 403-405; Cal Advocates OB at 324.

3069 TURN OB at 403.

3070 *See generally* Cal Advocates OB at 327-330; TURN OB at 404-411.

3071 SCG/SDG&E OB at 805, n.4071.

3072 Exs. SCG-235 (Martinez) at 7-8; SDG&E-239-E (Martinez) at 7-8.

year.[3073] Cal Advocates and TURN now use those post-test year data in their analyses purporting to show persistent over-forecasting by SoCalGas and SDG&E. But the post-test year data included in TY 2019 GRC workpapers did not constitute official, utility-sponsored GRC-quality forecasts for years beyond 2019. Nor were they the basis of any decision in that proceeding. On the contrary, the utilities only requested approvals through 2019 and, indeed, the GRC decision itself expressly limited its approvals to forecasts through the 2019 TY.[3074]

At that time, SoCalGas and SDG&E anticipated that they would need to develop new forecasts in 2020, for a TY 2022 GRC filing. But an unexpected change in circumstances came to pass in 2020 with the Commission's decision to extend the IOUs' GRC cycles from three to four years.[3075] In that decision, the Commission also established procedures to govern the transition from the old three-year cycle to the new four-year cycle, which included a directive for SoCalGas and SDG&E to file a Petition for Modification of D.19-09-051 to make 2022 and 2023 as additional attrition years, and established the new filing date in 2022 for their TY 2024 GRC applications.[3076] SoCalGas and SDG&E filed the required Petition on April 9, 2020, and the Commission approved in a decision issued on May 6, 2021.[3077]

The error of using unofficial, unsponsored, and unapproved forecast workpaper data for historical comparison purposes now is bad enough in its own right. The unreasonableness becomes glaring considering that during the years in question—2020 and 2021—the economy was rocked by an unforeseeable worldwide, first-in-a-century pandemic. Mr. Martinez explained that the COVID-19 pandemic caused "a brief but sharp recession … [with] lingering impacts in housing-related industries for the following years. Housing developers delayed planned construction during the pandemic amid economic uncertainty."[3078]

3073 *See* Exs. SCG-235 (Martinez) 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 (Martinez) at 8-9 (same).

3074 *See* D.19-09-051 at 665 (approving SoCalGas forecast of 5.82 million gas customers for 2019) and 667 ("We therefore find that the [SDG&E] gas customer forecast of 892,419 for TY2019 should be accepted.").

3075 *See generally* D.20-01-002.

3076 *See id*. at 52-53 (directing SoCalGas and SDG&E to file a Petition for Modification of D.19-09-051 to make 2022 and 2023 as additional attrition years, with a TY 2024 GRC filing to be made in 2022).

3077 *See generally* D.21-05-003.

3078 Exs. SCG-235 (Martinez) at 8; SDG&E-239-E (Martinez) at 8.

The numbers back up Mr. Martinez's conclusions. As demonstrated in Mr. Martinez's rebuttal testimonies, in 2020, during the extended GRC cycle established by the Commission, SoCalGas and SDG&E each produced customer forecasts based on then-current economic forecast data for the 2020 California Gas Report (CGR).[3079] Pursuant to the Commission's D.95-01-039, California utilities including SoCalGas and SDG&E are required to prepare and file a CGR biennially in even-numbered years. In addition to the regulatory requirement, SoCalGas and SDG&E also use the CGR for planning purposes.

The 2020 CGR residential forecast data for 2020 and 2021 showed sharp decreases as compared to the years immediately preceding the COVID-19 pandemic. For SoCalGas, the total residential housing starts forecast decreased from the 71,737 in 2019 to 56,196 in 2020, and it was not until the 2022 forecast included in this GRC that the total (61,129) would again surpass 2017 levels.[3080] The picture is even more dramatic for SDG&E, with housing starts falling more than 30 percent from 13,275 in 2019 to 9,146 in 2020.[3081] SDG&E had not seen levels this low since before 2014,[3082] suggesting that the sharp pandemic-driven drop has caused a buildup of significant pent up demand for housing in future years.

While the source of Cal Advocates' and TURN's error is easy enough to understand, the error renders their analyses unreliable. Correcting the flawed Cal Advocates and TURN analyses to reflect each utility's 2020 CGR in lieu of unofficial post-test year data from the TY 2019 GRC shows a track record of remarkably modest variances across all of the Contested Gas Forecasts, including many instances of *under*- rather than over-forecasting.[3083] As noted in the SoCalGas and SDG&E Opening Brief, "the facts belie the existence of persistent and large scale over-forecasting as alleged by Cal Advocates and TURN."[3084]

The Opening Brief of Cal Advocates does not address Mr. Martinez's testimony on this point. For its part, TURN responds by requesting the Commission "disregard any analysis of the

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3079 *See* Exs. SCG-235 (Martinez) 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 (Martinez) at 8-9 (same).

3080 Ex. SCG-235 (Martinez) at 9-10, Table EM-3.

3081 Ex. SDG&E-239-E (Martinez) at 10, Table EM-2.

3082 *Id*.

3083 Ex. SCG-235 (Martinez) at 11, Table EM-5; Ex. SDG&E-239-E (Martinez) at 10-11, Table EM-3.

3084 SCG/SDG&E OB at 805.

forecasts used in the CGR as evidence for improved forecasting as the CGR forecasts are not relevant to the GRC forecasts."[3085] But TURN's response ignores the very reasons the 2020 CGR forecasts are directly relevant. For one thing, the 2020 CGR residential forecasts were developed using the same methodology the Commission approved in accepting the SoCalGas and SDG&E forecasts in the TY 2019 GRC, and which SoCalGas and SDG&E have used in this TY 2024 GRC as well. With a shock to the economy such as we experienced in the pandemic, one would expect to see reduced demand for new housing and, as discussed above, that is precisely what the 2020 CGR forecasts showed and what was realized. Far from showing unreliability of the utilities' methodology, the way it responded to changing circumstances demonstrates its resilience and reliability. SoCalGas and SDG&E believe that continued reliance on the outdated forecasts for 2020 and 2021 from the TY 2019 GRC workpapers, when there existed updated forecasts that had to be prepared for the 2020 CGR, a required regulatory filing, would have been tantamount to forecasting malpractice. Yet Cal Advocates and TURN insist that the Commission refuse to acknowledge the updated forecasts included in the 2020 CGR.

Moreover, with respect to the threshold element of the test set forth by the Commission for challenging a forecast or input to one—that the "forecasts are frequently incorrect by large margins for other periods…"[3086]— the Commission has not said that the only forecasts that are relevant for such an analysis are those approved in a GRC. And for good reason. Such a view would be cramped and unreasonable even without the unusual circumstances between the TY 2019 and TY 2024 GRCs; but it is untenable given them. An analysis tracking the performance of a methodology over time cannot simply ignore the time its results are inconvenient. Accordingly, forecasts developed for the 2020 CGR, which relied on fresh data, can and should be relied upon to show that the utilities' forecast methodology performs well within acceptable ranges.

As to the arguments by Cal Advocates and TURN attempting to use TY 2016 GRC forecast data to show a history of over-forecasting by the utilities, the basic problem is that in the TY 2019 GRC Decision, the Commission expressly found otherwise. For SoCalGas, the Commission expressly determined that the company's "customer forecast … has minimal differences with

[3085] TURN OB at 411.

[3086] D.19-09-051 at 667.

historical data since 2012."[3087] Data substantiating the Commission's determination for the residential classes specifically can be found in Mr. Martinez's rebuttal testimony for SoCalGas.[3088]

The Commission likewise accepted SDG&E's forecasts, which were developed using the same methodology as SoCalGas', rejecting an argument by TURN that SDG&E should be required to base its forecasts on data from a different vendor.[3089] In its approval of the SDG&E forecast, the Commission noted that the forecast for 2017 of 880,249 was "quite close" to the actuals for that year of 880,394.[3090] As with the SoCalGas forecasts, the Commission evidently concluded as well for SDG&E that the overall historical margins, beyond just the remarkably close 2017, were acceptable. Residential customer forecast margins can be seen in data included in Mr. Martinez's rebuttal testimony for SDG&E.[3091] Notably, the variance for 2016 also confirms than an off year does not render an otherwise sound forecast unreasonable.

Simply put, Cal Advocates' and TURN's use of TY 2016 GRC data to support an argument that SoCalGas and SDG&E have a history of over-forecasting amounts to an improper collateral attack on the Commission's determinations in the TY 2019 GRC Decision that SoCalGas' and SDG&E's forecasts had performed well historically.[3092] Accordingly, such arguments must be rejected. There simply is no basis for the claims by Cal Advocates and TURN that SoCalGas' and SDG&E's forecasts have a history of persistent or biased over-forecasting.

40.1.3 The SoCalGas and SDG&E Residential Gas Customer Forecast Methodology Is Sound.

The Commission's TY 2019 Decision went even further than just finding that the SoCalGas and SDG&E forecasts themselves had "minimal differences" from and were "quite close" to actuals. Rather, before acknowledging that SDG&E's forecasts were based on the same

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3087 *Id.* at 665.

3088 Ex. SCG-235 (Martinez) at 10-11, Tables EM-4 (Connected Customers) and EM-5 (Active Customers).

3089 D.19-09-051 at 666-667.

3090 *Id*. at 667.

3091 *See* Ex. SDG&E-239-E (Martinez) at 11, Table EM-3 (Residential Customers) (showing variances by year since 2014).

3092 D.07-04-017 at 8 (defining "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.") (citation omitted). For a fuller discussion of the law governing collateral attacks, *see* the SCG/SDG&E OB at 352-353.

methodology as SoCalGas',[3093] the Commission stated that it "[did] not have objections to the *methodology* utilized by SoCalGas and using information from Global Insight's regional forecast. Global Insight's forecasts have been utilized or served as the basis for utility forecasts in prior and other GRCs."[3094] The Commission's words mean what they say. Thus, arguments offered by Cal Advocates and TURN that attempt to pick apart and examine in isolation particular elements of the SoCalGas and SDG&E forecasting methodology also amount to still more improper collateral attacks on the 2019 GRC Decision.

Cal Advocates' and TURN's arguments in this regard, in any event, are also wrong on the merits. To cite one example, TURN argues the following: "This ratio of connected customers to active customers will not translate to the new customers in reality, as it would be unlikely that a customer would join as a gas customer, only to immediately become inactive."[3095] This is nonsensical. A connected meter may not initially have usage due to a variety of possible factors. One obvious example would be if utility work is completed before a residence is ready for occupancy, perhaps because *other* work (*e.g.*, installing flooring, painting the interior, or any number of other possibilities), still needs to be completed. Another reason a unit may be connected but not active is that it is used as a short-term rental, with utility services inactive in between occupancies.

The true test of a methodology's soundness is how it performs when tested. As noted above in section 40.1.2, the 2020 CGR forecasts showed reduced demand for new housing, which is precisely what would be expected during an economic shock such as that experienced with the COVID-19 pandemic. Thus, the way the forecast methodology responded to rapidly-changing macroeconomic conditions demonstrates its resilience and reliability.

Turning from the merits, Cal Advocates' opening brief includes a lengthy discussion describing, from Cal Advocates' perspective, interactions with the utilities related to the AREMOS software package, and Cal Advocates' request for re-runs of the model using a different software package.[3096] In an obvious attempt to muddy the waters, Cal Advocates and TURN both raise

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3093 D.19-09-051 at 666.

3094 *Id*. at 665 (emphasis added). As noted in Mr. Martinez's rebuttal testimonies, Global Insight is currently known as S&P Global. Exs. SCG-235 (Martinez) at 7; SDG&E-239-E (Martinez) at 7.

3095 TURN OB at 413.

3096 Cal Advocates OB at 332-334.

vague concerns about a supposed lack of transparency in the SoCalGas and SDG&E modelling.[3097] The claims about transparency are ironic given that Cal Advocates and TURN needed to submit a total of three errata to correct errors in their own alternative forecast methodologies.[3098] In contrast, there has been no claim of any inaccuracy to the calculations actually performed by the software SoCalGas and SDG&E used.[3099]

In any event, Cal Advocates' and TURN's "transparency" claims are belied by the fact that the methodology used by SoCalGas and SDG&E in this GRC is the same as they used in the TY 2019 GRC decision. Cal Advocates and TURN both expressed positions on the utilities' forecasts in that case.[3100] For its part, TURN evidently understood the methodology well enough to understand that if the Commission ordered SDG&E to use Moody's data instead of Global Insight's, that would have made a difference TURN preferred, so TURN advocated for that.[3101] And the Phase 1 Decision in the TY 2019 GRC leaves no doubt that the Commission's approval of the utilities' forecasts was based in part on its understanding of the methodology.[3102]

But even if there could have been some colorable claim to a lack of understanding on Cal Advocates' or TURN's part, the fact is that SoCalGas and SDG&E filed their GRC applications more than a year ago. Thus, Cal Advocates and TURN have had ample time to conduct discovery. SoCalGas and SDG&E have responded to thousands of questions in discovery since this proceeding began, including substantial numbers of discovery requests addressing the customer forecasts subject area. SoCalGas and SDG&E have fully complied with the requirements of the Commission's Rules of Practice and Procedure, including in particular Rule 10.4, and neither Cal Advocates nor TURN has made any claim to the contrary concerning customer forecasts

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3097 *Id*. at 320; TURN OB at 416-417.

3098 *See* 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"); SDG&E-240 (Schiermeyer), Appendix E, TURN response to data request Question 1a (admitting to and describing calculation error in housing completions forecast).

3099 SCG/SDG&E OB at 809 (citing Exs. SCG-235 (Martinez) at 16; SDG&E-239-E (Martinez) at 16).

3100 *See* D.19-09-051 at 665, 668 (indicating Cal Advocates expressed non-opposition to either utilities' forecast, while TURN did not oppose SoCalGas' and recommended a methodological change for SDG&E's).

3101 *See generally id*. at 665-668.

3102 *See id*. at 665 ("We reviewed the forecast and do not have objections to the methodology….").

discovery. Among other things, SoCalGas and SDG&E have performed model runs for parties using their requested parameters, as well as providing a live demonstration/walkthrough and voluminous data in Microsoft Excel format. Thus, Cal Advocates' and TURN's insinuations about "transparency" are plainly intended for rhetorical purposes and should carry no weight substantively.

Regarding the walkthrough that SoCalGas and SDG&E performed for Cal Advocates, moreover, Cal Advocates cannot be heard to complain that the walkthrough occurred "only a month"[3103] before its testimony was due. After all, Cal Advocates submitted *two* errata to correct major methodological errors *after* SoCalGas and SDG&E had already submitted rebuttal testimonies, with the second errata served on June 1, 2023—almost literally on the eve of evidentiary hearings.[3104] The purpose of the Cal Advocates errata was to correct methodological errors identified by SoCalGas and SDG&E. SoCalGas and SDG&E did not have an opportunity to submit refreshed testimony to address the multiple errata.

So that there is no confusion, SoCalGas and SDG&E are not taking the position that the Commission's approval of a forecast methodology on one set of facts necessarily means that methodology's results will always be acceptable under any different set of facts. To state the obvious, a utility with a history of predicting customer growth even while it was losing customers, for instance, might have a difficult time justifying the continued use of its forecasting methodology. But that clearly is not the case here. As discussed above, the SoCalGas and SDG&E methodology has performed as one would expect an analytically sound approach would in the face of changing economic conditions. Moreover, Cal Advocates and TURN have failed to demonstrate a history of large forecast errors arising out of the methodology used by SoCalGas and SDG&E, and they cannot because the facts show the contrary.[3105] Plainly, the circumstances here are not the same as the Commission found to exist in SCE's TY 2021 GRC.[3106]

3103 Cal Advocates OB at 323.

3104 *See* Exs. CA-18-2E (Sierra) at 3, n.6 and n.7 (discussing Cal Advocates error in prior version of testimony); Ex. 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").

3105 The flaws in the Cal Advocates and TURN historical averaging approaches are discussed in SCG/SDG&E OB at 805-807, as well as in Mr. Martinez's rebuttal testimonies, Exs. SCG-235 (Martinez) at 11-15; SDG&E-239-E (Martinez) at 11-15.

3106 *See* D.21-08-036 at 142 (discussing 178,000-meter over-forecast during period 2012-2018).

40.1.4 SoCalGas and SDG&E Have Considered Impacts of State and Local Policies Promoting Electrification in Developing Customer Forecasts That Reasonably Reflect Improving Macroeconomic Conditions and Demographic Trends.

As discussed above, history provides no support for the Cal Advocates and TURN proposals to use historical averages of any kind—let alone rolling or moving averages—as the basis for developing forecasts applicable to future periods. For this reason, the only remaining argument against the SoCalGas and SDG&E forecast methodology is that it purportedly does not account for policy initiatives aimed at discouraging the use of natural gas and encouraging electrification. Critics of SoCalGas's and SDG&E's proposed gas customer forecasts use this in two ways. These are by way of criticism of the utilities' methodology and as support for the 50% reduction to forecasts proposed by Cal Advocates and TURN as part of their alternative methodologies. Either way, the substance of the argument is generally the same. The Opening Brief of EDF is illustrative. EDF encourages the Commission not to "lose sight of the forest for the trees[,]" which EDF defines as "adjust[ing] to the reality of fewer new and prospective gas customers."[3107] TURN argues similarly,[3108] as does CEJA.[3109] Some even argue that SoCalGas and SDG&E have failed to consider the impacts of these policies in developing the utilities' customer forecasts and other proposals in this case.[3110]

But where these arguments are long on rhetoric, they are short on facts. As Mr. Martinez points out, the future impacts of policies that had not been firmly established as of the May 2022 GRC applications, and to date have yet to be fully implemented, are unsupported and speculative at this time.[3111] Remarkably, CEJA even cites Title 2025 Building Code as somehow supporting TURN's proposal to cut its growth forecasts in half, even while admitting it will not take effect until ***2026***, fully two years after test year.[3112] While the notion that these various policy initiatives

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3107 EDF OB at 87-88.

3108 TURN OB at 418 (criticizing SoCalGas and SDG&E for allegedly refusing to acknowledge for purposes of new customer forecasts the impacts on changing future use of natural gas).

3109 CEJA OB at 129-131.

3110 *See* TURN OB at 420-421 (acknowledging that SoCalGas and SDG&E initiated this GRC before the issuance of D.22-09-026, but nevertheless criticizing the utilities for allegedly refusing to address its impacts in testimony).

3111 Exs. SCG-235 (Martinez) at 14-15; SDG&E-239-E (Martinez) at 14-15.

3112 CEJA OB at 130.

will necessarily lead to sharp reductions in new customers taking gas service has certainly been *asserted*, it has not been *established*. And, indeed, there is reason for skepticism in this regard as historical experience suggests the contrary may be the case. As Mr. Martinez notes, the utilities have consistently experienced positive customer growth even as demand for natural gas commodity declined.[3113]

With respect to the elimination of gas line extension allowances, TURN's Table 35 shows per meter allowances that total somewhat less than $3,000 for SoCalGas and SDG&E.[3114] TURN then criticizes SoCalGas and SDG&E for not including in the new meter forecast model these connection costs, on the ground that the removing ratepayer subsidies from the cost of connection would negatively impact demand for gas connections.[3115] Conflating the cost of gas commodity with the cost of the gas connection, TURN offers no explanation for its apparent assumption that homeowners will pay their connection costs in the same manner as they pay for gas they consume.[3116]

But when considering the cost of purchasing new homes in California, together with the fact that buyers of those homes tend to finance their purchases rather than pay cash, it seems more probable that new home connection costs would simply be embedded in the purchase price from the builder. TURN even admits to this possibility, making its conflation of commodity and connection costs more head scratching.[3117] The incremental cost to a home purchaser of including the connection costs in a financed home purchase is likely to be negligible on a mortgage payment by mortgage payment basis. Thus, it may well be that eliminating allowances will have little to no impact on new gas customer connections. The fact that homes with natural gas service tend to sell at a premium to new homes without natural gas service supports this conclusion.[3118]

3113 Exs. SCG-235 (Martinez) at 6; SDG&E-239-E (Martinez) at 6.

3114 TURN OB at 420, Table 35.

3115 *Id*. at 422-423.

3116 *Id*. at 423.

3117 *See id*. at 423 (admitting that eliminating subsidies means customers would pay connection costs "either directly, or via the developers.").

3118 Exs. SCG-235 (Martinez), Appendix C at C-7 (reporting survey results indicating sales prices of new homes with natural gas service were approximately 21 percent higher than new homes without natural gas service); SDG&E-239-E (Martinez), Appendix C at C-7 (same).

The customer growth forecasted by SoCalGas and SDG&E for the three Contested Gas Forecasts reflect modest upticks relative to the period immediately preceding the filing of this GRC,[3119] consistent with improving economic conditions post-COVID[3120] and emerging demand from the largest cohort of Millennial homebuyers.[3121] The Commission has previously accepted customer forecasts that reflected increases relative to the historical baseline, characterizing growth increases of "around a quarter of 1 percent …[as] minimal and within acceptable deviations.[3122] The increases forecasted here are of a similar magnitude or smaller, and, as such, are well within "acceptable deviations" and should be approved.

Whether some of this forecasted growth does not materialize is an issue that surely will be examined in the utilities' next GRC, when there will be experience backed by data regarding the impacts, if any, of the policies cited by intervenors. In contrast, the proposals by Cal Advocates and TURN, along with those supporting their proposals, would front-run the usual process by imposing risk on the utilities now through sharp reductions to the residential customer forecasts in this case, based on pure wishcasting—before relevant data even exist, let alone have been analyzed.

In true "heads I win, tails you lose" fashion, TURN then adds insult to injury by proposing a one-way balancing account. If adopted, such a mechanism would punish the utilities for growth that does not materialize; but it would afford no opportunity for being made whole should growth come in higher than anticipated. In addressing a similar issue with respect to SDG&E's residential electric customer forecast in the last GRC, the Commission determined that the risk associated with adopting a lower customer forecast was not justified.[3123] And that was even without a proposed one-way balancing account; with one, the risks of adopting forecasts that are too low would be even more pronounced.

3119 *See* Ex. SCG-35 (Wilder) at 2, Table SW-1 (showing 2017-2024 percentage changes in average annual total active meters for SoCalGas); *id*. at 5, Table SW-3 (showing 2021-2024 total change with percentages for each customer class); Ex. SDG&E-39 (Wilder) at 2, Table SW-1 (showing 2017-2024 percentage changes for average annual total gas customers for SDG&E); *id*. at 4, Table SW-2 (showing 2021-2024 total change with percentages for each customer class).

3120 Ex. CA-200 (Response to PAO-SCG-202-MPS), question 4ai at pdf p. 13; Ex. CA-200 (Response to PAO-SDGE-203-MPS, question 3ai at pdf p.46.

3121 Exs. SCG-235 (Martinez) at 12-14; SDG&E-239-E (Martinez) at 11-13.

3122 D.19-09-051 at 665.

3123 *Id.* at 669-670.

For the reasons discussed above and in the Opening Brief of SoCalGas and SDG&E, 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. Accordingly, all of SoCalGas's and SDG&E's proposed gas customer forecasts—the three Contested Gas Forecasts and the other, uncontested forecasts—should be adopted without modification, and TURN's proposed one-day balancing account should be rejected.

40.2 Electric Customer Forecasts (SDG&E)

The Opening Briefs of Cal Advocates and TURN largely repeat their respective testimonies in arguing that SDG&E's residential electric customer forecast methodology should be abandoned in favor of alternatives based on historical averages. And as in testimony, each rationalizes its proposed alternative methodology for use in developing the Residential Electric customer forecast, based on exaggerated claims that SDG&E's prior residential electric forecasts have been overstated.

TURN's Opening Brief, for instance, cites Figures 10 and 11 of Ex. TURN-14 as support for the proposition that SDG&E has a history of over-forecasting its residential electric customer forecast.[3124] According to Ex. TURN-14-R, these figures show GRC forecasts versus actuals for three-year blocks corresponding to SDG&E's two most recent GRCs (2014-16 for the TY 2016 GRC and 2017-19 for the TY 2019 GRC). Mr. Schiermeyer addressed this issue in his rebuttal testimony. Without disputing the data depicted in TURN's figures, Mr. Schiermeyer did dispute the lesson TURN attempted to draw from them. As Mr. Schiermeyer explained:

> However, TURN conveniently leaves out not only that it was SDG&E that realized that the 2016 GRC forecast could be improved, but also that SDG&E in fact took steps to implement changes in the forecasting process in the TY 2019 GRC in order to improve its forecast. The TY 2016 GRC used housing starts from only one economic forecasting service, Global Insights. To address the forecasting difference that SDG&E observed, SDG&E used a 50/50 blend of two different economic forecasts produced by different services, Moody's and Global Insights, in SDG&E's very next GRC, which was the TY 2019 GRC. This reduced the forecast error in the 2019 GRC and the methodology change was accepted by the CPUC in the TY 2019 GRC.[3125]

[3124] TURN OB at 427 (citing TURN-14-R at 14).

[3125] Ex. SDG&E-240 (Schiermeyer) at 9.

Thus, TURN's attempt to use TY 2016 forecast performance in arguing against SDG&E's TY 2024 forecast is unavailing. This is because, as Mr. Schiermeyer's rebuttal testimony explains, the methodology SDG&E used to develop the residential electric customer forecast in the TY 2016 GRC is not the same as the methodology SDG&E used in this GRC. The fact that TURN continues this obviously misleading line of argument—despite not only having been an active participant in the TY 2019 GRC, when the current methodology was adopted over TURN's objection,[3126] but also having been reminded in Ex. SDG&E-240 (Schiermeyer) of the methodological change made in the 2019 case—speaks volumes about TURN's credibility on this issue.

As to the TY 2019 GRC period, both TURN and Cal Advocates present data purporting to show over-forecasting of residential electric customer additions, although their figures do not match. TURN's Figure 11 represents that it depicts growth in residential electric meters, with different color bars representing, by year, values forecasted in the TY 2019 GRC and the corresponding, later known actuals.[3127] The bars show forecasted meter growth values ranging from slightly over 8,000 in 2017 to slightly over 12,000 in the test year, 2019.[3128] For actuals, it shows values of approximately 7,000 in 2017, slightly over 12,000 in 2018 (and under-forecast in that year), and slightly over 10,000 in 2019.[3129] All told, TURN represents that over the three years, the forecasts developed in the TY 2019 GRC exceeded actual residential electric customer growth by 2,800 meters.[3130]

For its part, Cal Advocates' Table 40-9 and Figure 40-4 of electric housing completions, however, indicate much smaller values across the board, with the highest forecasted (2,846) and actual (2,397) completions in 2019 and 2018, respectively.[3131] When comparing the total forecast to the total actuals for the three-year period 2017-2019 as depicted by Cal Advocates, the resulting

3126 *See generally* D.19-09-051 at 668-670 (discussing electric customer forecast issue).

3127 Ex. TURN-14-R (McGovern) at 14.

3128 *Id*.

3129 *Id*.

3130 TURN OB at 427.

3131 Cal Advocates OB at 334.

variance is 1,307.[3132] Whether the actual variance is 1,307 or 2,800, however, it is plainly *de minimis* considering SDG&E has more than 1.3 million average annual residential electric customers, and more than 1.5 million total electric customers.[3133] And it is also plainly the case that experience with the forecast methodology adopted over TURN's objection in the TY 2019 GRC—a methodology proposed by SDG&E to improve upon the results of the TY 2016 GRC forecasts, and re-proposed here—has been successful.

Notwithstanding these facts, however, both Cal Advocates and TURN propose alternative forecast methodologies that would result in far greater reductions to the utility's forecasts. Cal Advocates states that its recommended Residential Electric forecast over the three years 2022-2024 is 7,520 lower than SDG&E's forecast.[3134] TURN states that its forecast is lower than SDG&E's forecast by 8,471.[3135]

In SDG&E's TY 2019 GRC, the Commission addressed another TURN proposal to lower the customer forecast and rejected it. The Commission's reasoning shows how it balanced competing considerations and is worthy of attention here.

> [A] difference of 6,012 customers out of the total forecast of 1,468,391 customers will have minimal impact on the financial needs of customer service and miscellaneous revenues which rely on the forecast number of customers for their own TY2019 forecast. It does have more impact with respect to the financial needs for new meter installations if the forecast of 38,216 new meters is reduced by 6,012. However, given the uncertainty of forecasts and what we have discussed in the previous paragraph, we find it unnecessary to direct SDG&E to redo its electric customer forecast.[3136]

The same considerations apply here. Indeed, they apply with even greater force given the fact that the reductions sought by Cal Advocates (7,520) and TURN (8,471) are not even roughly proportionate with the forecasting variance about which Cal Advocates and TURN complain. On the contrary, the proposed reductions are multiple times larger than the calculated over-forecasts

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3132 The difference between the sum of the values Cal Advocates describes as "forecast" (2,387 + 2,656 + 2,846 = 7,889) and the sum of the values Cal Advocates describes as "actual" (2,027 + 2,397 + 2,158 = 6,582) is 1,307 (7,889 – 6,582 = 1,307).

3133 Ex. SDG&E-40 (Schiermeyer) at 1, Table KS-1.

3134 Cal Advocates OB at 333, Table 40-8.

3135 TURN OB at 428 (citing Ex. TURN-14-R (McGovern) at 47). SDG&E believes the citation should be to page 27 of Ex. TURN-14-R (McGovern).

3136 D.19-09-051 at 669.

that Cal Advocates and TURN cite as the rationale for the alternative forecast methodologies they propose.

Additionally, the three-year performance of SDG&E's TY 2019 GRC forecasts demonstrates that the reforms adopted in that proceeding have improved SDG&E's electric customer forecasts. The historical performance of the TY 2019 GRC methodology is plainly far superior to the 178,000-meter variance the Commission found to exist in SCE's TY 2021 GRC.[3137] And as discussed above in the gas forecast section, other factors at play in SCE's case weigh against adopting an untested and risky averaging approach as proposed by Cal Advocates and TURN here. Given all of this, the magnitude of the forecast reductions proposed by Cal Advocates and TURN appear punitive in nature and threaten to hamstring the utility in performing its important work in fulfilling its obligation to serve by connecting new customers who desire service. Such a result would not be in the public interest and must be rejected.

Finally, even apart from the flawed and inconsistent analyses purportedly justifying them, the alternative forecasts developed by Cal Advocates and TURN should be rejected because the methodologies on which they are based are flawed. SDG&E's views on these issues are set forth in Mr. Schiermeyer's rebuttal testimony and in the utilities' opening brief,[3138] and will not be repeated here.

The Commission has long recognized that uncertainty is inherent in forecasting, and it has reasonably balanced competing interests in determining that a reduced forecast involves costs and risks that may not be justified. That was certainly the case in the TY 2019 GRC and the Commission should reach the same determination here. The forecast reductions proposed by Cal Advocates and TURN appear intended to punish the utility for experiencing periods in the past during which actual customer growth did not materialize to the hoped-for level, and that simply is not a reasonable way to establish forecasts for the period governed by this case. Accordingly, SDG&E respectfully urges the Commission to adopt all of SDG&E's proposed electric customer forecasts without modification.

40.3 Conclusion

SoCalGas and SDG&E have shown that their gas and electric customer forecasts are reasonable and based on sound methodologies. Most of the forecasts proposed by SoCalGas and

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[3137] *See* D.21-08-036 at 142 (discussing 178,000-meter over-forecast during period 2012-2018).

[3138] *See generally* Ex. SDG&E-240 (Schiermeyer) at 4-11; SCG/SDG&E OB at 812-814.

SDG&E are uncontested. For the subset of forecasts that are contested, however, SoCalGas and SDG&E have demonstrated that the criticisms lack merit and the proposed alternatives are unreasonable. For the reasons discussed in the SoCalGas and SDG&E opening brief and herein, therefore, 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

In the Opening Briefs, no party has 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.

42. Miscellaneous Revenues

Miscellaneous Revenues are comprised of fees and revenues collected by SoCalGas and SDG&E from non-rate sources for the provision of specific products or services. 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 disputes SoCalGas's or SDG&E's Test Year 2024 forecasts for Miscellaneous revenues. As such, the SoCalGas and SDG&E forecasts for these revenues should be adopted as reasonable for the reasons stated in the OB and their respective testimonies.

43. Regulatory Accounts

The following parties submitted opening briefs addressing Regulatory Accounts: Cal Advocates, TURN, EDF, FEA and Air Products. Because SoCalGas and SDG&E address the bulk of Cal Advocates' arguments related to specific accounts in our Opening Brief, we address only the new arguments made by TURN, EDF, FEA and Air Products.

43.1 Air Products Objects to Hydrogen Projects Generally, Not the Proposed HRSBA Accounting Mechanism.

With respect to Air Product's argument regarding the Hydrogen Refueling Station Balancing Account (HRSBA), SoCalGas and SDG&E note only that their position seeks denial of the HRSBA for reasons related to the Commission's jurisdiction and whether hydrogen projects are in the public interest.[3139] These are substantive issues that do not address the balancing account

[3139] Air Products OB at 37.

mechanism proposed by SoCalGas. Accordingly, to the extent the Commission approves the underlying project costs, it should also approve the proposed recovery mechanism.

43.2 Two-Way Balancing Accounts Are Well-Established Utility Accounting Methods With Ratepayer Advantages

TURN, EDF and FEA challenge SoCalGas and SDG&E's use of two-way balancing accounts, whether for the continuation of accounts or for the establishment of new accounts, arguing that there is insufficient review of spending subject to advice letter treatment and reduced utility incentive to control costs.[3140] SoCalGas and SDG&E disagree and have addressed this issue in our Opening Brief at pages 824-826. However, it is important to reiterate that not only does the Commission and/or Commission staff review costs subject to advice letter treatment, but also that there are very significant benefits to two-way balancing accounts.

43.2.1 Balancing Accounts Are Approved When Forecasts Are Uncertain

The Commission has recently described the use of balancing accounts as follows:

> Balancing accounts were created to reduce the risks to ratepayers as well as investors where some costs are too uncertain to forecast accurately in a GRC. Refundable rates are set for the program based upon the best available forecast. The courts have accepted that when the Commission approves of the scope of a program in advance, and when there is a subsequent review of the reasonableness of the utility's decision-making and management of the program, then forecast costs can subsequently be "trued up" to actual and any revenue shortfall or overcollection is recoverable by the utility or refundable to ratepayers. The preapproval of the scope of the balancing account averts a finding of retroactive ratemaking, *i.e.*, it becomes an exception to the test year forecast requirement. For a gas utility, for example, the costs of natural gas are highly competitive and difficult to forecast and so a balancing account reduces the risk of overcharging ratepayers if the forecast for the test year proves later to be too high and protects the shareholders if the forecast is too low.[3141]

Thus, the legal purpose behind balancing accounts is to avoid retroactive rulemaking and the Commission should not lose sight of that important purpose. TURN points to the utilities' alleged lack of incentive to control costs in the instance of balancing accounts, and particularly

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[3140] TURN OB at 429-437; FEA OB at 14-15 (seeking memorandum accounts versus two-way balancing accounts); EDF OB at 93.

[3141] D.23-05-003 at 5. Additionally, SoCalGas and SDG&E note that TURN cites to this decision as "a decision denying a Sempra Utilities request for a new memorandum account." TURN OB at 429. That is incorrect. The decision approves Gas Rules Regulations Memorandum Accounts for both SDG&E and SoCalGas. *See id.* at 18-19 (OP 1 and 2).

two-way balancing accounts.[3142] But the Commission has routinely recognized that the full risk of those projects where costs are too uncertain to forecast accurately should not be borne by shareholders.[3143]

Further, treatment of such uncertain costs in other accounting mechanisms could have potential ratepayer downsides. Instead of two-way balancing accounts, TURN argues for inclusion in forecasts in GRC-authorized forecasting, or one-way balancing accounts paired with memorandum accounts, or replacement of balancing accounts with memorandum accounts.[3144] With respect to the inclusion of costs in GRC-authorized revenue requirement, the Companies acknowledge the purpose of prospective authorized ratemaking—that it provides utility incentive to "do it for less," as TURN notes in its Opening Brief[3145]—but TURN's argument ignores situations where forecasting is so uncertain that there is a risk-reduction benefit for both the utility and ratepayers in adopting a balancing account mechanism instead. On one hand, a two-way balancing account protects the utility from the downside risk of a too-low forecast, but on the other, it protects ratepayers from the risk of a too-high forecast, as any extra funds are returned to ratepayers as a rate reduction.

TURN further argues that two-way balancing accounts should be replaced with a one-way balancing account paired with a memorandum account, arguing that this account mechanism will incentivize the utilities to better control costs.[3146] While incentive to control costs is one factor to be considered, so is the proliferation of accounts (here, there would be two in many instance where there is currently one), which will likely increase administrative costs at the utilities. There will also likely be additional costs associated with a more lengthy application process, and there are also interest costs associated with the delayed recovery of costs included in memorandum accounts.[3147] These are all additional factors that should be considered in making a significant change to the structure of SoCalGas and SDG&E's current and requested accounting mechanisms.

3142 TURN OB at 431.

3143 *See, e.g.,* D.23-05-003 at 5.

3144 TURN OB at 436-437.

3145 *Id.* at 430-431 (*citing* D.19-05-020 at 151-152).

3146 *See, e.g., Id.*at 441-442 (describing TURN's proposal for the Tree Trimming Balancing Account, if approved, as requiring an application proceeding for above-authorized spending).

3147 Ex. SCG-238 (Yu) at 9-12; Ex. SDG&E-243 (Kupfersmid) at 18.

43.2.2 The Commission Approves The Scope of Two-Way Balancing Accounts

TURN further argues that Commission review of costs associated with balancing accounts is insufficient, and specifically, that the Commission cannot delegate the authority to approve costs in a two-way balancing account.[3148] This argument is inaccurate, and the concern is misplaced. First, TURN does not cite to any legal authority for its position that the Commission must recognize Tier 2 Advice Letter approval of balancing account costs as a non-delegable discretionary act.[3149] TURN points to General Rule 7.6.1. (Industry Division Disposition of Advice Letters) as support and argues that the approval of costs in a balancing account is a discretionary act that requires Commissioner approval, rather than Industry Division Approval.[3150] However, as quoted by TURN, that Rule states, *inter alia,* as follows:

> An advice letter will be subject to Industry Division disposition even though its subject matter is technically complex, so long as a technically qualified person could determine objectively whether the proposed action has been authorized by the statutes or Commission orders cited in the advice letter. Whenever such determination requires more than ministerial action, the disposition of the advice letter on the merits will be by Commission resolution, as provided in General Rule 7.6.2.[3151]

The second sentence in this excerpt will be addressed below, however the first requires an objective decision, based on a Commission order or statute, by a "technically qualified person." SoCalGas and SDG&E submit that the approval of the two-way balancing account and its scope is the discretionary action by the Commission, and whether costs clearly fall within that scope, and therefore are reasonable, is the objective decision that can be made by a technically qualified person in the Industry Division. As described below, General Order 96-B also provides for instances where the Industry Division would have to make a discretionary decision, thus requiring a Commission decision.

43.2.3 There Are Checks on The Advice Letter Process

SoCalGas and SDG&E address checks on the Advice Letter process in their Opening Brief at pages 824-825, namely that the advice letter process involves actual Commission review of

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3148 TURN OB at 433-436.

3149 *Id.*

3150 *Id.* at 434.

3151 *Id.* at 434 (*citing* General Order 96-B, Rule 7.6.1.).

costs and that *one* check on the advice letter process is intervenors' ability to protest.[3152] But there are many more checks that also deserve mention in response to TURN's Opening Brief. For one, TURN argues that protests are insufficient because the time to submit a protest is too short for it to conduct discovery and analyze the above-authorized spending and assess the quality of the evidence.[3153] Although intervenors may find this amount of time short, G.O. 96-B allows for extensions,[3154] and there is also a defined procedure for the Commission to accept a late-filed protest. [3155] Moreover, the grounds for a protest are numerous and include material error by the utility, the relief requested requires consideration in a formal hearing or is otherwise inappropriate for the advice letter process, or the relief requested is unjust, unreasonable, or discriminatory.[3156]

Additionally, any party submitting a protest can request Commission review of an Industry Division disposition.[3157] Thus, any party that has protested, has the opportunity to seek full Commission review of a Tier 2 approval. For a Tier 3 approval, an intervenor that has protested can seek rehearing or a petition for modification of the resulting Resolution.[3158] Thus, any party that is involved enough in the Advice letter process to have submitted a protest, has numerous opportunities to object to the cost recovery sought and seek additional review by the Commission. These are important ratepayer protections that serve as a balance to the real and necessary benefits of two-way balancing accounts as described above.

In addition to these intervenor-lead checks on the Advice Letter process, there is also checks provided on the process from the Industry Division itself. As quoted above, G.O. 96-B requires that "[w] henever such determination requires more than ministerial action, the disposition of the advice letter on the merits will be by Commission resolution, as provided in General Rule 7.6.2."[3159] Rule 7.6.1. further provides that for any Advice Letter <u>properly submitted</u> for Industry Division approval, the Industry Division must either: (1) issue a disposition, or (2) prepare a

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[3152] SoCalGas/SDG&E OB at 825.

[3153] TURN OB at 433.

[3154] Commission Rules of Practice and Procedure, Rule 16.6 (Extension of Time to Comply)

[3155] G.O. 96-B, Rule 7.4.4.

[3156] I*d.*, Rule 7.4.2.

[3157] *Id.*, Rule 7.6.3

[3158] *Id.,* Rule 8.1

[3159] *Id.*, Rule 7.6.1.

resolution for Commission consideration. Thus, the Commission itself, via General Order 96-B, has provided Industry Division with the authority to refer any Advice Letter to the full Commission for approval by Resolution. Again, this serves as a check on the typically more streamlined Advice Letter process.

43.2.4 TURN Uses an Inchoate Example To Prove Its Point

TURN's argument that Tier 2 Advice Letters are generally impermissible and allow for extreme, and potentially negligent spending, relies on potential outcomes that have not materialized.[3160] TURN points to a recent SoCalGas Advice Letter (AL 6060) for recovery of amounts in the TIMPBA and notes that additional amounts will be sought in an application, which will require review.[3161] TURN argues that because the potential for negligent conduct by the utility is the same for both amounts, both amounts should require review pursuant to an application.[3162] This argument is flawed in that it assumes no reasonableness review is conducted by the Commission. It further ignores the balance struck by the Commission in approving an above-forecast threshold for recovery by advice letter. The Commission approved a two-way balancing account for the TIMPBA as a recognition that it expected the costs of the project to be unpredictable and potentially significantly over those approved.[3163] As described above, two-way balancing accounts have very real benefits for ratepayers that should not be ignored. However, by imposing a threshold, the expectation of uncertainty only goes so far (135%) and amounts above that threshold have to go through the application process.[3164]

TURN's use of AL 6060, where costs are more significant than typical, to raise alarm about what it has determined to be an insufficient process, is premature. The Commission or the Industry Division has yet to rule on AL 6060; thus, whether the Commission's process for approving costs, whether it approves all costs, and even whether the Industry Division will approve all, some, or any costs, is still to be determined.

3160 *See* TURN OB at 433-436.

3161 TURN OB at 432.

3162 *Id.*

3163 *See* D.13-05-010 at 422.

3164 *See* Ex.SCG-238 (Yu) at 11-12.

Accordingly, for all of the reasons stated above, the Commission precedent related to balancing accounts and memorandum accounts, and in particular, two-way balancing accounts, should be heeded for the important benefits such accounts confer.

44. Summary of Earnings / Results of Operations

The Companies' RO model has not been opposed by any party. Cal Advocates included background information regarding the RO Model in its Opening Brief, and did not indicate any opposition to it.[3165]

45. Post-Test Year (PTY) Ratemaking

SoCalGas and SDG&E's PTY ratemaking proposals, sponsored by Khai Nguyen and Melanie Hancock,[3166] are summarized as follows in the Companies' OB:[3167]

- 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:
  - o Labor and non-labor costs based on IHS Markit Global Insight's (Global Insight or GI) forecast.
  - o Medical costs based on Willis Towers Watson's forecast shown in July 2023 Update Testimony.[3168]
  - o Calculating PTY capital-related revenue requirements using:[3169]
    - ▪ 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,

3165 Cal Advocates OB at 348.

3166 Exs. SCG-40-2R-E, SCG-40-WP-2R-E, and SCG-240-E (Nguyen); Exs. SDG&E-45-R-E, SDG&E-45-WP-R-E, SDG&E-245 (Hancock); and SCG-40-S/SDG&E-45-S (Nguyen/Hancock). As shown in the OB, SoCalGas's and SDG&E's requests are also updated as set forth in the July 2023 Update Testimony, SCG-401/SDG&E-401.

3167 SCG/SDG&E OB at 835-848.

3168 Ex. SCG-401/SDG&E-401 (Robinson) at 14.

3169 Ex. SCG-40-2R-E (Nguyen) at ii; Ex. SDG&E-45-R-E (Hancock) at ii.

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.[3170]

The Companies' proposals are designed: (1) to align PTY revenue requirements to account for unique cost escalation issues, such as the expected higher growth in 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.[3171] 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.

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.[3172]

Cal Advocates, FEA, TURN/SCGC, TURN, PCF, and EDF[3173] addressed SoCalGas's and SDG&E's post-test-year (PTY) ratemaking testimony in their opening briefs. SoCalGas and SDG&E's rebuttal testimony or OB arguments are incorporated herein by reference. Where parties' arguments are repeated from testimony and already have been addressed in the

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3170 SCG/SDG&E OB at 836-837, *citing* Ex. SCG-40-2R-E (Nguyen) at 11; Ex. SDG&E-45-R-E (Hancock) at 11. These proposals were uncontested in the opening briefs and should be approved as reasonable.

3171 *See generally,* Ex. SCG-40-2R-E (Nguyen), *passim*; Ex. SDG&E-45-R-E (Hancock), *passim*.

3172 OB at 836, *citing* Ex. SCG 401/SDG&E-401 (Hom) at 25.

3173 This list reflects the intervenors that provided opening brief argument regarding the Companies' PTY ratemaking proposals. Peripheral post-test year issues raised in other witness areas will be addressed in the corresponding section of the brief, unless otherwise noted.

Companies' rebuttal testimony and OB, those arguments will not be repeated again verbatim, for sake of brevity. Rather, SoCalGas and SDG&E address the intervenors' main briefing arguments in the sections below.

45.1 SoCalGas's and SDG&E's PTY Ratemaking Mechanism Should Be Approved as Reasonable, Consistent with Commission Precedent

45.1.1 The Companies' Proposed O&M Cost Escalation is Reasonable

Cal Advocates' OB proposes PTY increases of 3.0% each year for 2025, 2026, and 2027, with no differing escalation for medical costs or O&M and capital.[3174] For SoCalGas and SDG&E, TURN/SCGC's and TURN's OB recommends escalating PTY O&M expense using CPI-U or alternatively adjusting CPI-U by an arbitrary maximum of 50 basis points, also without acknowledging the need to treat medical cost escalation differently.[3175] 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.[3176] The Companies strongly disagree with these proposals.

As explained in the Companies' OB and testimony, CPI is an inappropriate basis for forecasting utility-specific costs, and it is not supported by numerical analysis.[3177] CPI is not intended to and does not gauge price changes of goods and services purchased by businesses, or more specifically, utilities. The Commission has repeatedly rejected parties' arguments to adopt a CPI escalator for PTY ratemaking in numerous recent GRC decisions.[3178] The Commission has confirmed that "applying a percentage increase based on the CPI does not reflect how utilities incur costs because it is a broad wholesale pricing index which reflects price increases for goods

[3174] Cal Advocates OB at 351.

[3175] TURN/SCGC OB at 87-88, TURN OB at 450.

[3176] FEA OB at 17-18.

[3177] SCG/SDG&E OB at 839, *referencing* Exs SCG-40-2R-E, SCG-240-E, SDG&E-45-R-E, and SDG&E-245.

[3178] Exs. 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 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.") (citation omitted).

and services in general"[3179] and has adopted Global Insight as the preferred index to use in escalating attrition year revenue requirement.[3180]

TURN's/SCGC's OB claim (at 86-90) that using broad-based indices such as CPI-U will provide incentives to utility management to manage cost is inconsistent with the above-discussed Commission precedent, which is based on principles of cost-based ratemaking. As discussed in the Companies' OB at Section 5.2,[3181] the Commission sets "just and reasonable"[3182] 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."[3183] At the heart of this concept is the understanding that both ratepayers and shareholders receive benefits from rates set in accordance with a utility's cost of service. In accordance with this commitment, the relevant consideration is whether the Companies' forecasts reflect costs of service. Adopting an index that is inconsistent with the utilities' cost of service (such as CPI), as other parties' suggest, would be inconsistent with the regulatory compact, as it would diminish a utility's ability to recover its reasonable costs and expenses and its opportunity to earn a rate of return on the utilities' rate base, contrary to Commission policy.

In contrast, SoCalGas and SDGE's proposals require the utilities to bear costs exceeding escalation, including factors like customer growth or shifts in industry regulation. To absorb such costs, management must already find efficiencies, independent of an escalation mechanism, to achieve a reasonable rate of return. Establishing a PTY ratemaking mechanism that is consistent with costs that utilities face neither "guarantees" a rate of return nor "shies away" from recognizing a utility's responsibility to manage costs, as TURN/SCGC claims.[3184] Rather, it merely establishes rates in accordance with the regulatory compact and the well-established principle that a "utility is entitled to all of its reasonable costs and expenses, as well as an

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3179 D.21-05-003 at 15 (citing D.19-09-051 at 708).

3180 *See, id.*

3181 SCG/SDG&E OB at 15-18.

3182 *See* Cal. Pub. Util. Code § 451.

3183 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).

3184 *See* TURN/SCGC OB at 85-90.

opportunity to earn a rate of return on the utilities' rate base."[3185] Moreover, TURN/SCGC well knows that the Commission does not establish a PTY mechanism to "provide some reasonable relief to shareholders between GRCs," as TURN/SCGC suggests.[3186] Rather, again – rates must allow for recovery of all reasonable costs and expenses to provide safe and reliable utility service, plus an opportunity for shareholders to earn their authorized rate of return. The Commission's ratemaking model already incentivizes SoCalGas and SDG&E to achieve and exceed its authorized rate of return through prudent management and sound decision-making, as discussed in Section 6, *supra*. Those efficiencies are then subsequently passed along to ratepayers. This is consistent with the "rights, obligations, and benefits for both sides of the bargain" of the regulatory compact, to which the Commission recently confirmed its commitment in D.20-01-002 (referenced herein as the Rate Case Plan Decision).[3187]

Furthermore, to support their argument for using CPI-U, TURN/SCGC cites SoCalGas and SDG&E Test Year 2012 GRC decision (D.13-05-010) where the Commission adopted an escalation based on CPI-U plus 75 basis points. However, TURN/SCGC fails to mention the Commission's statement regarding the unique circumstances under which D.13-05-010 was issued, specifically, that "[a]dopting PTY mechanisms that use cost indexes which are significantly higher than what ratepayers are experiencing in annual consumer price increases appears unreasonable in light of the current economy."[3188] The Commission's statement is consistent with a historically low CPI-U recorded during the TY 2012 GRC cycle. Parties have raised no claims that such facts are consistent with the circumstances and factual record in this case. TURN/SCGC's attempt to apply the same reasoning to the Test-Year 2024 GRC cycle is unsupported by the facts and should be rejected.

[3185] 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).

[3186] *See* TURN/SCGC OB at 85.

[3187] D.20-01-002 at 10-11.

[3188] D.13-05-010 at 1009-1010.

45.1.2 The Companies' Proposed Medical Cost Escalation is Reasonable and Well-Supported

In the direct testimony of Debbie S. Robinson on Compensation and Benefits, the Companies' provided ample evidence of the reasonableness of the medical trend forecast prepared by Willis Towers Watson (WTW), SoCalGas and SDG&E's actuary and benefits broker.[3189] TURN/SCGC's and FEA's OB arguments against SoCalGas and SDG&E's proposed medical escalation rate for the post-test years in their opening briefs[3190] should be rejected, as follows:

First, SoCalGas and SDG&E disagree with TURN/SCGC's and FEA's suggestions that the Companies have not provided adequate support for the reasonableness of their proposal in this case. As the Companies' OB and testimony explained, Willis Towers Watson's medical escalation rate is more appropriate for use in the post-test years because it takes into account 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.[3191] 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.[3192]

WTW considered California and national data and prepared a forecast specifically for SDG&E and SoCalGas, taking into account workforce demographics, historical utilization data, and medical plan design. As Ms. Robinson testified (as of the time the application was filed in May 2022):

> The pandemic and inflation are expected to create upward pressures on U.S. healthcare costs. PwC's Health Research Institute reported a 7.0% increase in medical cost trend in 2021 and a forecasted increase of 6.5% for 2022. Pandemic-related pressures include:
>
> - Increasing utilization for care deferred during the pandemic;
> - Ongoing costs of COVID-19 testing, vaccines and treatment;
> - Increasing demand for mental health and substance abuse care;

3189 SCG/SDG&E OB at 840, Ex. SCG-401/SDG&E-401 (Robinson) at 14, and Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 27-28.

3190 TURN/SCGC OB at 90-93; FEA OB at 17.

3191 SCG/SDG&E OB at 840 (citing Ex. SCG-240-E (Nguyen) at 6 and SDG&E-245 (Hancock) at 6, citing Ex. SCG-25-R/SDG&E-29-R (Robinson)).

3192 Ex. SCG-401/SDG&E-401 (Robinson) at 14.

> - Worsening population health caused by poor health behaviors, such as poor nutrition and lack of exercise during the pandemic; and
> - Investments in preparation for future pandemics.
>
> The rise in inflation is also expected to impact future healthcare costs. Historically, healthcare cost inflation has outpaced overall inflation. Overall inflation is at levels not seen in decades. Healthcare cost inflation is currently lagging overall inflation. Many healthcare costs, labor contracts, and reimbursement rates are set two to three years in advance. However, future healthcare costs are expected to be impacted by the same pressures driving up overall inflation:
>
> - Rising labor costs due to the tight labor market, including the medical worker shortage caused by COVID-19; and
> - Increasing supply chain costs.
>
> In addition to the factors discussed above, SoCalGas's and SDG&E's premiums are impacted by workforce demographics (*e.g.*, age, gender, family size and health care costs in specific geographic areas), utilization experience, and overall program efficiency. Compared to the average general industry employer in WTW's database, SoCalGas's and SDG&E's workforces are slightly older, and family sizes are larger. These factors tend to increase medical premium costs.[3193]

Second, as noted in testimony and their OB, the Commission authorized the use of a separate medical escalation factor for SoCalGas and SDG&E's TY 2019 O&M medical costs, as follows:

> [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 and SDG&E taking into account workforce demographics, location, and medical plan design which we find to be more reflective of Applicants' medical premium costs. The forecast is based on the local health care market of Southern California as opposed to national trends and considers the slightly older workforce of SoCalGas and SDG&E as well as larger family sizes which means greater coverage for dependents.[3194]

Although the Commission only adopted the use of the medical trend forecast for O&M (and not for the PTY ratemaking mechanism), SoCalGas and SDG&E believe that this inconsistency may have been inadvertent. And, certainly, the Commission's adoption of a medical trend forecast for O&M in the TY 2019 GRC Decision is relevant to considering whether the WTW medical trend forecast is reasonable and should be adopted here, despite TURN/SCGC's

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[3193] Ex. SCG-25-R-E/SDG&E-29-R-E (Robinson) at 27-28 (citations omitted).

[3194] D.19-09-020 at 551.

and FEA's suggestions to the contrary – and deflates TURN/SCGC and FEA's suggestions that the evidence presented in this case should not be examined on its own merits.[3195]

Finally, the Companies again note that their proposal is similar to the post-test year medical expense escalation rate mechanism that was adopted in SCE's TY 2018 and TY 2021 GRCs.[3196] 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."[3197] This is similar to the above-quoted language in the TY 2019 GRC Decision adopting a medical trend forecast for O&M.[3198] TURN/SCGC's observation that SCE's medical costs are subject to two-way balancing treatment is not relevant in determining the correct escalation rate for medical expenses. The Commission must set adequate revenues irrespective of whether balancing account treatment is applied. SoCalGas and SDG&E have testified in this proceeding that medical expenses escalate differently compared to other expenditures (other O&M and capital items) and should be treated as such, similar to the finding in SCE's GRC for medical expenses.

For all of these reasons, Willis Towers Watson's demographic-specific medical escalation rate should be adopted for SoCalGas's and SDG&E's PTY mechanisms.

45.1.3 SoCalGas and SDG&E's Capital-related PTY Revenue Requirement Mechanism Is Consistent with Precedent

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

[3195] *See, e.g.,* TURN/SCGC OB at 91 (claiming that "WTW has consistently overforecast medical cost escalation (and medical costs) from 2014-2019."). The Applicants disagree with this claim and note that SoCalGas and SDG&E's update testimony forecast rates for TY 2024 are higher than the original forecast. The medical forecast is updated based on a number of factors, including, inflation on medical costs. As evidenced in update testimony, WTW prepared an updated forecast of post-test year medical escalation at 6.5% for 2025 and 2026 and 5.5% for 2027. The prior forecast, which was included in the prepared direct testimony of Khai Nguyen (Ex. SCG-40-2R-E) and Melanie Hancock (Ex. SDG&E-45-R-E), was 6.0% for 2025, 5.5% for 2026, and 5.0% for 2027. *See* Ex. SCG-401/SDG&E-401 (Robinson) at 14.

[3196] D.19-05-020 at 418 (COL 114) and D.21-08-036 at 668 (COL 184).

[3197] D.19-05-020, FOF 138 and COL 114.

[3198] *See* D.19-09-051 at 551.

identified in their RAMP presentations.[3199] 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 sustainability and resiliency objectives in this GRC.[3200] 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.[3201] 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; and, as explained in Section 45.1.1 *supra* and in testimony, CPI is an inappropriate basis for forecasting utility-specific costs. FEA's, TURN/SCGC's, and TURN's methodology (proposed for SoCalGas and SDG&E) is similarly insufficient, proposing the use of a 7-year average (2015-2021) recorded capital additions escalated using the CPI-U.[3202] SoCalGas and SDG&E strongly disagree with these proposals.

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 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

3199 SCG/SDG&E OB at 840 (citing Ex. SCG-40-2R-E (Nguyen) at 3; Ex. SDG&E-45-R-E (Hancock) at 3.)

3200 SCG/SDG&E OB at 841 (citing 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))).

3201 SCG/SDG&E OB at 841 (citing Ex. SCG-240-E (Nguyen) at 5-8 and SDG&E-245 (Hancock) at 5-8, rebutting Ex. CA-20 (Hunter)); *see also* Cal Advocates OB at 352.

3202 *See* FEA OB at 18-19; TURN/SCGC OB at 96-102; and TURN OB at 450-451.

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.[3203]

In its OB, TURN/SCGC responds to the Companies' criticism that its methodology inconsistently uses CPI-U for its attrition year proposal and Global Insight rates to escalate recorded and forecasted capital additions to 2024 dollars.[3204] TURN/SCGC attempts to justify this inconsistency by stating that its approach is "logical, not a flaw in the model" – and clarifying that using Global Insight's indices is "not objectionable [*i.e.,* from TURN/SCGC's subjective point of view] for setting test year cost of service revenue requirements."[3205] Here, TURN/SCGC reveals the truth that is hidden in plain sight throughout its PTY arguments – that TURN/SCGC's PTY proposals are inconsistent with cost of service principles and the regulatory compact. As previously discussed, the Commission very recently reconfirmed its commitment to cost-of service ratemaking and the regulatory compact in the Rate Case Plan Decision[3206] – a fact that TURN/SCGC appears to be choosing to ignore. Further, the regulatory compact is well-founded in legal principles that are entirely inconsistent with TURN/SCGC's "policy choice" argument.[3207]

In reality, although the PTY ratemaking process differs from that of the test year, the same legal and public policy principles must apply. SoCalGas and SDG&E must continue to invest in the post-test years, provide safe and reliable service to the public, comply with regulations, and manage its operations as prudent financial stewards, all while facing the same inflationary pressure. TURN/SCGC's and TURN's reasoning for why it is appropriate to calculate inflationary effects in the test-year using Global Insights but not in post-test year lacks merit.

[3203] SCG/SDG&E OB at 841-42 (citing Exs. SCG-240-E (Nguyen) at 7-8, SDG&E-245 (Hancock) at 7).

[3204] *See, e.g.,* SCG/SDG&E OB at 842.

[3205] TURN/SCGC OB at 97.

[3206] *See,* D.20-01-002 at 10-11.

[3207] *See* 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."); *see also 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.").

TURN/SCGC's OB claim that the 7-year average method is more accurate since they used a "broader" and "deeper" data set[3208] also lacks merit, as SoCalGas and SDG&E's PTY ratemaking methodology is not the same as conducting a survey, where a larger sample size will lead to more accurate and representative results. The purpose of using a trended multiyear average in SoCalGas and SDG&E's proposal is to capture the current capital addition trend and use it as a proxy for forecasting future capital additions.[3209] The 5-year average (2020-2021 recorded and 2022-2024 forecasted) takes into account more current data and can provide a more accurate representation of future capital needs.

TURN/SCGC and TURN cite one example from PG&E's Test-Year 2014 GRC where forecasted capital additions were higher than recorded capital additions.[3210] However, this selectively chosen example under very different circumstances is not relevant to the facts of this case. The currently forecasted capital additions for SoCalGas and SDG&E capture the investment profiles and operating initiatives of the current utility environment, which has changed in the past few years.

TURN/SCGC suggests that SoCalGas and SDG&E's 5-year average methodology should not be used since SoCalGas cannot specify capital additions specifically related to "Safety," "Reliability" or "Sustainability." The Companies disagree that this comment is helpful in analyzing the reasonableness of the Companies' proposed PTY mechanism, and note that safety, reliability and sustainability related capital additions have not been identified in the 7-year average proposed by TURN/SCGC. TURN/SCGC's point is moot in determining whether a 5-year average or 7-year average should be used for capital additions.

In the case the Commission determines that a 7-year average is a more appropriate basis, SoCalGas and SDG&E requests that the Commission adopt a 7-year average encompassing 4 years of recorded and 3 years of forecasted data similar to the methodology adopted in D.19-09-051.

3208 *See* TURN/SCGC OB at 95.

3209 *See* SCG-40-2R-E (Nguyen) at 7; SDG&E-45-R-E (Hancock) at 8.

3210 *See* TURN/SCGC OB at 95-96.

45.1.3.1 SoCalGas and SDG&E's Request Already Reflects the Elimination of Line Extension Allowances

In TURN/SCGC's Opening Brief, the parties support their proposal for a 7-year average for capital additions on the basis that "the historical averages also include capital spending in other areas that will not recur during the attrition years, either at all or at comparable levels."[3211] TURN/SCGC uses the recent elimination of gas line allowance in D.22-09-026 as an example for their case because SoCalGas's historical averages include capital additions for new business. However, SoCalGas and SDG&E's Update Testimony adjusted the forecast to reflect D.22-09-026.[3212] Therefore, TURN/SCGC's support for their 7-year average proposal is misleading and should be dismissed.

45.1.3.2 The Companies' Proposed Post-Test Year Capital Exceptions Are Necessary to Fund Capital Additions in the Post-Test Years

As explained in the Opening Brief and in Mr. Nguyen's and Ms. Hancock's direct testimony exhibits,[3213] 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.[3214]

The proposed incremental total capital-related revenue requirements are summarized in the Companies' direct testimony Tables KN-7 and MH-7 for SoCalGas and SDG&E, respectively.[3215]

3211 TURN/SCGC OB at 107.

3212 *See* Ex. SCG-401/SDG&E-401 at I-3 and J-3.

3213 SCG/SDG&E OB at 844-848; *see also* Ex. SCG-40-2R-E (Nguyen) at 8-11; Ex. SDG&E-45-R-E (Hancock) at 8-10.

3214 Ex. SCG-40-2R-E (Nguyen) at 8-9; Ex. SDG&E-45-R-E (Hancock) at 8-9. *See* SCG/SDG&E OB at 844-845, Tables 45.5 through 45.8 for detail regarding capital projects, associated costs, of the Post-Test Year Capital Exceptions.

3215 Ex. SCG-40-2R-E (Nguyen) at 10; Ex. SDG&E-45-R-E (Hancock) at 10. The revenue requirements for capital were most recently updated and presented in SoCalGas and SDG&E's May 2023 errata

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[3216] should be rejected, for the reasons discussed *supra* and in testimony.[3217]

- Cal Advocates' opposition to the inclusion of the Moreno Compressor Modernization project and suggestions regarding the completion date and threshold requiring a separate application[3218] 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 of SCG/SDG&E's Opening Brief.[3219]

- 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. Smart Meter 2.0 and Wildfire Mitigation are discussed in further detail in Sections 21.3 and 20.3, respectively, of SCG/SDG&E's Opening Brief.[3220]

- 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 overcollection, should be filed via a Tier 2 advice letter.[3221] 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

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testimony. Post-test year revenue requirements are impacted by revisions and updates made by other witnesses since that point in time, such as SoCalGas and SDG&E's update testimony served on July 7, 2023.

3216 TURN-SCGC OB at 94-95.

3217 *See* Ex. SCG-240-E (Nguyen) at 7, addressing TURN-SCGC-07 (Yap) at 11.

3218 Cal Advocates OB at 354-355.

3219 *See* SCG/SDG&E OB at 141-143.

3220 *See id.* at 491-495 and 445-446.

3221 Cal Advocates OB at 354-355.

wildfire-related PTY proposal. The Gas Integrity Management Programs and the Wildfire Mitigation Program are discussed in further detail in Sections 43 and 20.3, respectively, of SCG/SDG&E's Opening Brief.[3222]

- TURN's opposition to the inclusion of Smart Meter 2.0 project in the post-test year[3223] 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 21.3 of SCG/SDG&E's Opening Brief.[3224]

- TURN's proposal regarding SDG&E's WMP being limited to covered conductor and undergrounding related spend only[3225] is addressed in Sections 43 and 20.3 of SCG/SDG&E's Opening Brief.[3226]

- UCAN's proposal to exclude Smart Meter 2.0 capital costs impacting the post-test year ratemaking[3227] 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 Section 21.3 of SCG/SDG&E's Opening Brief.[3228]

- Cal Advocates' proposal to exclude Customer Information System (CIS) as a PTY Capital Exception[3229] is addressed in Exhibit SCG-213 (rebuttal testimony of Evan D. Goldman) and in Section 21.1 of SCG/SDG&E's Opening Brief.[3230]

- Cal Advocates' proposal to exclude Honor Rancho Compressor Modernization (HRCM) as a PTY Capital Exception[3231] is addressed in Exhibit SCG-210, Gas Storage Operations and Construction (rebuttal testimony of Lawrence T. Bittleston and Steve A. Hruby) and Section 16 of SCG/SDG&E's Opening Brief.[3232]

3222 *See* SCG/SDG&E OB at 822-823, 831 and 445-446.

3223 TURN OB at 452.

3224 *See* SCG/SDG&E OB at 491-495.

3225 TURN OB at 449, 451-452.

3226 *See* SCG/SDG&E OB at 831 and 449-450.

3227 UCAN OB at 2 and 163.

3228 *See* SCG/SDG&E OB at 491-495.

3229 Cal Advocates OB at 355-356.

3230 *See* SCG/SDG&E OB at 460-463.

3231 Cal Advocates OB at 356-357.

3232 *See* SCG/SDG&E OB at 231-233.

- Cal Advocates' proposal to have a 110% threshold for all the Gas Integrity Management Programs[3233] is addressed in Section 43 of SCG/SDG&E's Opening Brief.[3234],
- TURN/SCGC's proposal for excluding SoCalGas's projects related to clean energy innovations[3235] is addressed in Exhibit SCG-212, Clean Energy Innovations (rebuttal testimony of Armando Infanzon) and Section 18 of SCG/SDG&E's Opening Brief[3236].

45.2 Intervenor Arguments Against the Commission's Support for Post-Test Year Mechanisms

45.2.1 PCF's Proposals Should Be Rejected as Inconsistent with Commission Precedent and the Facts of this Case

PCF's arguments against a PTY ratemaking mechanism are generally inconsistent with longstanding Commission precedent and policy and should be rejected. PCF's OB suggests that the Commission "require the Utilities to provide evidence of their actual planned expenditures" for the attrition years.[3237] PCF's positions do not reflect Commission policy or precedent, including the recent Rate Case Plan Decision confirming the Commission's adherence to the regulatory compact and commitment to cost of service ratemaking, D.20-01-002.

Issued as part of the Commission's recent development of a comprehensive "risk-based decision-making framework (RDF), the Rate Case Plan Decision confirmed that recent changes to the GRC Rate Case Plan (including the establishment of S-MAP and RAMP proceedings and annual accountability reporting,[3238] as well as the Rate Case Plan's Decision's adoption of a 4-year GRC cycle) did not alter the Commission's longstanding policy of setting "just and reasonable"[3239] rates in accordance with cost of service ratemaking and the regulatory compact. A GRC decision continues to be based on an "extensive review of the test year forecasts" combined with a formulaic approach to determining post-test year revenue requirements:

> The Commission's decision is based on its extensive review of the test year forecasts. The post-test year revenue requirements are typically determined by:

3233 Cal Advocates OB at 355.

3234 *See* SCG/SDG&E OB at 822-823.

3235 TURN/SCGC OB at 100.

3236 *See* SCG/SDG&E OB at 263-264.

3237 PCF OB at 67.

3238 *See* discussion in Section 9, *supra.*

3239 *See* Cal. Pub. Util. Code § 451.

> (1) escalating the test year O&M expenses, and (2) authorizing capital expenditures at a level determined by either (i) applying additional escalation factors, or (ii) further review of the applicant utility's actual capital budgets for those years.[3240]

The Rate Case Plan Decision noted that the Commission's use of a future GRC test year plus attrition years "inherently" establishes revenue requirement in the attrition years "using escalation measures that are bound to be less precise:"

> There is a tradeoff inherent whenever a utility's revenue requirement is authorized based on a future test year, followed by one or more attrition years: the Commission's decision on the test year is based on its examination of detailed utility budgets for a year very close in the future, while the revenue requirement for each subsequent attrition year is often established using escalation factors that are bound to be less precise for each successive attrition year.[3241]

The Rate Case Plan Decision confirmed that, in adopting a 4-year GRC cycle, it would continue to apply the "same ratemaking principles that guide … expectations of, GRCs"[3242] – *e.g.,* long-standing adoption of "just and reasonable rates" based on cost of service ratemaking and the regulatory compact, as well as the use of a future test year and post-test year ratemaking through adoption of a more formulaic mechanism for the attrition years,[3243] with a focus on flexibility to allow utilities to reprioritize funding for safety.[3244] PCF's apparent assumption that the Commission's RDF process has changed GRC ratemaking – implicit throughout its brief – is thus inconsistent with the Rate Case Plan Decision.

Contrary to PCF's beliefs, as noted in the Supplemental Testimony of Khai Nguyen and Melanie E. Hancock, the Commission does not conduct an extensive review of forecasts for each of the post-test years to determine revenue requirements,[3245] as PCF's OB requests.[3246] 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

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3240 D.20-01-002 at 8.

3241 *Id.* at 36-37.

3242 *Id.* at 38.

3243 *Id., passim.*

3244 *Id.* at 38, ("The Commission has always acknowledged that utilities may need to reprioritize spending between GRCs. Now, given the evolving reality we described above, that necessity may even be growing.").

3245 Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 2.

3246 *See* PCF OB at 67, *passim*.

in utility costs. 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.[3247] The Commission has opined that "there is a fundamental problem with budget-based ratemaking that boils down to the fact that budgets are not always implemented as planned."[3248] For example, the final decision in SCE's TY 2018 proceeding rejected SCE's budget-based capital addition forecast proposal for capital-related attrition, noting that the Commission also rejected similar approaches in SCE's GRCs for TY 2006, TY 2012, and TY 2015.[3249] PCF's arguments against Commission practice, policy and precedent in this regard is mistaken – and/or, PCF simply refuses to accept the Commission's decisions on these issues.[3250]

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.[3251] 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."[3252]

The Commission has also explained that reprioritizing spending allows utilities to "[r]espond to immediate or short-term crises outside of the RAMP and GRC process."[3253] As the Commission has stated: "RAMP and GRCs…are not designed to address immediate needs; the

3247 Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 2.

3248 *See e.g.*, D.12-11-051 at 606 (quoting D.09-03-025).

3249 D.19-05-020 at 283.

3250 *See e.g.,* PCF's claims regarding the "deficient 2019 RAMP Report" and the related TY 2019 PFM proceeding in its OB at 16-17, *passim*. The Commission rejected PCF's arguments in its decision closing the 2019 RAMP proceeding D.20-09-004, and its related decision adopting a PTY mechanism for attrition years 2022 and 2023, D.21-05-003. *See, e.g.,* D.20-09-004 at 11 ("POC suggests that the Commission is able to review individual projects for PTYs. While the above may be true in certain instances, we find that this is typically applied to specific projects and not across the board to all programs and projects that will be implemented during the PTYs."); *id., passim*. The Commission's rejection of PCF arguments does not deter PCF from repeating the same arguments in several proceedings. *See e.g.,* PCF OB, *passim.*

3251 Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 3.

3252 D.20-01-002 at 38.

3253 D.18-04-016 at 6 (citing D.16-08-018 at 151-152).

utilities have responsibility for addressing safety regardless of the GRC cycle."[3254] The revenue requirement increases that SoCalGas and SDG&E request in their post-test years are designed to allow SoCalGas and SDG&E to continue to invest in risk mitigation and safety-related activities.[3255] The post-test year proposals of SoCalGas and SDG&E therefore offer flexibility so that the Companies can adjust as needed to address risk priorities as they arise while holding the Companies accountable for risk spending.

The Commission's RDF provides that any changes occurring after the GRC decision would be reported through accountability reporting, both for the reprioritization to fund new activities as well as for risk mitigation programs that are deferred or canceled.[3256] The fact that SoCalGas and SDG&E will have flexibility in the attrition years to implement emergent risk mitigation and safety-related activities is thus how the Commission's policy is designed to work, as described in the Rate Case Plan Decision.[3257] PCF's arguments are contrary to the factual record and Commission policy and should be rejected.

45.2.2 EDF's Flawed Proposal Should Be Rejected

EDF's OB proposes what it calls a "budget-based PTY mechanism," which is simply a request to authorize revenue requirement in the attrition years below the Companies' costs.[3258] Specifically, EDF requests that "the Commission [should] adopt a negative adjustment percentage to be applied in line with declining demand," as part of a PTY mechanism.[3259] EDF's assumptions regarding gas demand and revenue requirement according to the facts of the TY 2024 GRC proceeding are incorrect,[3260] and the theory behind its PTY ratemaking proposal is similarly flawed. Nor did EDF offer PTY proposals in its testimony that could be vetted through the course of this proceeding. Rather, EDF's three-page OB argument on PTY is focused on criticisms of

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3254 D.16-08-018 at 152.

3255 Ex. SCG-40-S/SDG&E-45-S (Nguyen/Hancock) at 3.

3256 *See* accountability reporting requirements set forth in D.19-04-020 and D.14-12-025.

3257 *See*, *e.g.*, D.20-01-002 at 33 (emphasizing the importance of "creat[ing] more time for the utilities to focus on day-to-day operations" and "implementing the new risk-mitigation and accountability structures" as "compelling reason[s]" for adopting four-year GRC cycles).

3258 EDF OB at 96.

3259 *Id.*

3260 *See* Section 40.1, *supra.*

other intervenors' positions. For these and other reasons, the Commission should reject EDF's undeveloped and unsupported suggestions.

45.2.3 PCF's Claim that Corresponding Reductions Related to Capital Exception Additions Were Not Considered is Incorrect

PCF incorrectly claims that "the Utilities propose additions to the capital adjustment mechanism for a limited number of projects expected to be in service in 2025, 2026, and 2027 without disclosing or considering a corresponding reduction for projects not expected to be in service in 2025, 2026, and 2027."[3261] SDG&E and SoCalGas propose using a five-year average level of capital additions (2020-2021 recorded and 2022-2024 forecast, as presented in this TY 2024 GRC) as a proxy for the annual PTY 2025, 2026, and 2027 forecasted level of capital additions.[3262] This five-year average of capital additions includes a five-year average of capital retirements over the same timeframe, resulting in a net capital addition figure that serves as the basis for determining the capital additions for 2025, 2026, and 2027. Furthermore, SDG&E and SoCalGas excluded historical capital additions related to the capital exceptions being proposed in order to avoid double-counting those capital additions when calculating the escalated five-year average. Additional details can be found in Exhibit SDG&E-45-WP-R-E and Exhibit SCG-40-WP-2R-E.

45.2.4 PCF's Proposal to Eliminate PTY Attrition is Contrary to Ratemaking Principles and Commission Precedent and is Misleading

PCF claims that "[e]liminating the attritional adjustment would not deprive SDG&E and SoCalGas of 'an opportunity to earn its authorized rate of return'" and that "[t]he Utilities' soaring profits and earnings per share were not even considered in seeking ever increasing post-test year revenue requirements."[3263] PCF's arguments demonstrate its lack of foundational understanding of utility ratemaking.

As noted by TURN/SCGC in its Opening Brief, attrition mechanisms have been in place since the 1980s.[3264] Further – although outside the scope of this proceeding – PCF misstates the record regarding profits. Most, if not all, line items in Sempra's 10-K would be different than line

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3261 *See* PCF OB at 65 (emphasis omitted and citation omitted).

3262 *See* SCG-40-2R-E (Nguyen) at 7; SDG&E-45-R-E (Hancock) at 7.

3263 PCF OB at 67 (citations omitted).

3264 TURN/SCGC OB at 85.

items in SoCalGas and SDG&E's GRC. Sempra's 10-K includes all Sempra subsidiaries, not just SoCalGas or SDG&E. SDG&E's 10-K earnings information similarly includes non-CPUC jurisdictional items such as FERC-jurisdictional activities, and both SoCalGas and SDG&E's CPUC-jurisdictional activities that are outside the scope of the GRC are included in the 10-K. And, as discussed *supra* in Sections 6 and 45.1.1, as EDF and others recognize, SoCalGas and SDG&E's authorized rate of return only represents the opportunity to earn that rate of return. The Commission's ratemaking model incentivizes SoCalGas and SDG&E to achieve and exceed its authorized rate of return through prudent management and sound decision-making. Those efficiencies are then subsequently passed along to ratepayers.

45.3 Conclusion

No party challenged continuation of the currently authorized Z-factor mechanism or the use of annual PTY advice letter regulatory filings to update the authorized revenue requirements; therefore, these proposals should be approved as reasonable.

SoCalGas and SDG&E's PTY ratemaking proposals fairly balance the interests of both ratepayers and shareholders. The Companies believe that a reasonable PTY mechanism should meet the following goals: (1) use O&M and medical cost escalation indices that are representative of SoCalGas' and SDG&E's actual cost drivers, (2) use capital additions cost escalation that balances the certainty of historical spending with the best available estimates of future period capital additions, and (3) include a forecast for post-test year capital exceptions. For the reasons discussed above, in the Companies' OB, and in testimony, the proposals of Cal Advocates, FEA, TURN/SCGC, TURN, PCF, and EDF fail to meet these goals.

SoCalGas's and SDG&E's PTY ratemaking proposals provide the level of funding necessary to support important safety, reliability, and sustainability projects in the post-test years. SoCalGas's and SDG&E's PTY ratemaking proposals account for the major cost drivers impacting the Companies, which allows SoCalGas and SDG&E to provide safe and reliable service to its customers, comply with regulations, and manage their operations as prudent financial stewards.

46. Revenues and Rates

46.1 Present and Proposed Gas Transportation Revenues and Rates

Only EDF discussed the Present and Proposed Gas Transportation Revenues and Rates in its Opening Brief. EDF simply argues that the gas rates would be "unjust and unreasonable," and discusses affordability further in Sections 1 and 4. EDF does not otherwise discuss or oppose the content of the SoCalGas and SDG&E Present and Proposed Gas Transportation Revenues and Rates testimony. SoCalGas and SDG&E respond to EDF's arguments about just and reasonable rates in other areas of this Reply Brief.

46.2 Present and Proposed Electric Transportation Revenues and Rates

No party opposed the Present and Proposed Electric Transportation Revenues and Rates in Opening Briefs. SBUA references Mr. Stein's testimony simply to state SBUA's belief that rates are a more important indicator of affordability than a customer's bill.[3265] SDG&E addressed in its Opening Brief how SDG&E's bills are below the national average, and that bills are a better indicator of affordability. To answer SBUA's question about how this distinction could be explained to a customer, the answer is whether a customer would rather have a lower bill with the same rate, or the same bill with a lower rate.

47. Affordability Metrics

Four intervenors submitted opening briefs addressing the Companies' Affordability Metrics: TURN, UCAN, EDF, and SBUA. Although each intervenor makes a number of arguments, we address only those arguments we consider most significant for the Commission's decision in this proceeding. Further, this section addresses intervenors' positions on the affordability metrics and not affordability to the extent it is addressed from the policy perspective. SoCalGas and SDG&E address affordability policy in Section 6 and generally in Section 7 above. Failure to address any particular argument does not indicate agreement.

47.1 TURN and UCAN Misinterpret the Decision Adopting Metrics and Methodologies for Assessing the Relative Affordability of Utility Service (D.20-07-032) and the Decision Implementing the Affordability Metrics (D.22-08-023)

TURN and UCAN, predictably, although improperly, attempt to draw the Commission's attention to only certain affordability metrics that support their argument that SDG&E and SoCalGas's rates are increasing faster than customer income. For instance, TURN attempts to make conclusions about SDG&E's electric affordability based solely on its analysis of the AR20 metric (Affordability Ratio for the 20th percentile of income distribution in SDG&E's territory).[3266] Similarly, UCAN argues that the "most meaningful measure is the AAC metric . . . ."[3267] These

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[3265] SBUA OB at 8-9.

[3266] TURN OB at 52-53; *see also* Ex. SDG&E-50-S-E (Baez) at 11.

[3267] UCAN OB at 199.

arguments ignore the other metrics required by D.20-07-032 and D.22-08-023, and importantly, ignores the Commission's direction "to use all three metrics [Affordability Ratio, Hours-Minimum-Wage, and Areas of Affordability Concern] in concert so that together they may better inform the Commission by providing a more complete picture regarding the affordability of essential utility services."[3268] Not surprisingly, no party argued that Hours-at-Minimum wage is the most important or should be given significant consideration by the Commission when this metric shows SDG&E customers in the City of San Diego will have to work *fewer* hours in 2027 as compared to today to pay their essential electric bills.[3269] This is not to say that intervenors' affordability concerns should not be considered, but only that their arguments should be considered in context and against the backdrop of all of the Affordability Metrics, as intended by the Commission, as well as other proceedings addressing affordability, as discussed above.

Additionally, TURN argues that D.20-07-032 supports its position that the AR metrics for electric and gas can and should be added for a combined metric, *despite different denominators*.[3270] This position misinterprets D.20-07-032 and ignores the laws of mathematics. According to D.20-07-032, "[t]he AR metric seeks to quantify the percent of a representative household's income that is required to pay for an essential service after non-discretionary costs such as housing and other essential utility services are removed from the household's income."[3271] Because electric utility essential service is removed from income for purposes of the gas calculation and vice versa for purposes of the electric calculation, this results in different denominators for the gas AR metric and the electric AR metric, which is why a combined AR metric is not possible. TURN, however, argues that it is.[3272] The entire section of D.20-07-032 that TURN quotes from as justification of its position is included below:

> SoCalGas and SDG&E opined that while the AR is useful it may be helpful if a single denominator (income after housing costs) were used for all utility AR evaluations. This would allow for consistent comparisons between utility AR scores for a given location and allow for summation to a single combined AR if necessary. However, using a common denominator would ignore the reality that the cost of other essential utility services impacts a household's ability to pay for

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3268 D.20-07-032 at 2; D.22-08-023 at 2.

3269 Ex. SDG&E-50-S-E (Baez) at 7-8.

3270 TURN OB at 53.

3271 D.20-07-032 at 16, 91 (FOF 7).

3272 TURN OB at 53.

> the utility services that are being analyzed. As these costs are highly geographically-dependent, it makes sense to include them in the denominator as an essential expense that impacts affordability, similar to housing costs.[3273]

Thus, the Commission has not rejected the argument that the metrics should not be added. Rather, this section should properly be interpreted as concluding that although the AR metrics may lose some utility because they cannot be added, the Commission nonetheless believes it is important for the metrics to consider all essential utilities in the denominator despite the limitation imposed by different denominators.

47.2 Contrary to EDF's Argument, The Sempra Utilities Complied With Commission Directives in Calculating Their Affordability Metrics

EDF argues that the Companies used stale gas demand projections in calculating their affordability metrics and therefore the Commission should require that we provide the metrics using up-to-date demand projections.[3274] EDF is correct that SoCalGas and SDG&E used 2018 gas demand assumptions, but their conclusion regarding these projections—that this is improper and results in a skewed result[3275]—is incorrect. The affordability metrics requires use of information and rates data effective at the time of analysis.[3276] At the time the affordability metrics were calculated, and even now, the most recent approved triennial cost allocation proceeding (TCAP) was filed in 2018 and a final gas forecast associated with that application was approved in D.20-02-045. The most recently approved TCAP forecast was the forecast used in effective rates in November 2022 when the supplemental affordability metrics testimony was served. Accordingly, this was, and is still (pending a decision in the current TCAP proceeding, A-22-09-015), the appropriate forecast to use in the affordability analysis required by D.22-08-023.

Further, it is important to note and repeat that the affordability metrics are meant to be relative.[3277] Thus, they are meant to be a standardized metric for the purpose of showing change

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3273 D.20-07-032 at 17-18 (internal citation omitted).

3274 EDF OB at 48-49.

3275 *Id.*

3276 Note that D.22-08-023 at 84 (OP 5) requires use of "revenues in effect at the time of filing." While this does not explicitly require current rate design, that is the only reasonable interpretation to allow for isolation and meaningful consideration of the impact of revenues proposed in the relevant application, here the impact of the proposed change in GRC revenues.

3277 D.22-08-023 at 2 (the three metrics "would assess the *relative* affordability of essential utility service across industries and proceedings . . .") (emphasis added).

over time.[3278] Accordingly, it is important to use standard rate information (not necessarily the most recent information we have, but the most recent information that is included in effective rates), such that the calculation methodology is consistent and the relative values can be assessed over time.

47.3 The ALJ Has Already Ruled that Affordability Metrics for Nonresidential Customers is Out of Scope

SBUA argues that the Commission should require the utilities to propose in testimony and apply an affordability benchmark for small commercial class customers in their next GRC.[3279] This issue is out of scope of this proceeding. Not only is the scoping memo clear,[3280] but ALJ Lakhanpal specifically ruled on this very issue in hearings, noting that "[o]ne of the issues that was stated in the scoping ruling was about supplemental testimony and affordability metrics for nonresidential customer classes as not being within the scope of this GRC Phase 1 proceeding."[3281] Accordingly, because small commercial customers are nonresidential customers, the Commission has already ruled on this issue and should disregard SBUA's request.

48. Other Issues

48.1 Results of Examination

As Cal Advocates acknowledges, it conducted an examination of SoCalGas's and SDG&E's financial data that was used to forecast the Companies' proposed revenue requirements, with a primary focus on what costs should be included for GRC forecasting.[3282] Cal Advocates recommended only 2 adjustments:

> <u>To remove the costs of 21 SoCalGas and 15 SDG&E attorney-client privileged internal audits.</u> As detailed in SoCalGas's and SDG&E's Opening Brief (Section 29, Corporate Center–General Administration), Cal Advocates does not claim that these expenses were incorrect or imprudent, nor does Cal Advocates challenge the Companies' assertion of the attorney-client privilege. Instead, Cal Advocates only contends that that the expenses should be removed because Cal Advocates

[3278] *Id.* at 80 (COL 5) ("The standardized format of the affordability framework improves the assessment of affordability impacts across geographies, utility industries, proceedings, and over time.")

[3279] SBUA OB at 2, 18-20.

[3280] Assigned Commissioner's Scoping Memo and Ruling (October 3, 2022) at 14-15 ("In D.22-08-023, the Commissioner did not adopt a metric for nonresidential customers' affordability impacts. Therefore, Sempra Utilities is not required to develop metrics for non-residential customers in Phase 1 of this GRC.") (internal citation omitted).

[3281] Tr. V19:3419:13-17.

[3282] Cal Advocates OB at 357-358.

was not provided a copy or permitted access to review the privileged reports.[3283] For the reasons stated in Section 29.1, *supra*, no amount should be disallowed. These historical expenses further did not inform the TY 2024 forecast, as the allocation of the Audit Services department costs is based on the annual Audit Plan. Therefore, Cal Advocates' recommendation has no impact on the forecasted costs.

<u>To remove the $827,832 in 2019 and 2020 nonlabor consulting services for SDG&E's Safety Management System.</u>[3284] As demonstrated in SDG&E's Opening Brief, SDG&E's TY 2024 cost forecast was developed using BY 2021 incurred costs plus incremental activities, and the 2019/2020 historical costs identified by Cal Advocates did not inform SDG&E's TY 2024 forecast.[3285] These historical costs are not part of SDG&E's 2024 forecast, and therefore should not be removed or excluded from SDG&E's forecast.

The Commission should reject Cal Advocates' recommendations.

48.2 Political Activities Booked to Ratepayer Accounts

No party disputes that SoCalGas is permitted to engage in Political Activities so long as those expenses are not included in SoCalGas's rates. FERC affirmatively stated "[b]y requiring that expenditures for political purposes be placed in Subaccount 426.4 for accounting purposes, we do not impose any censorship or prohibition upon expenditures of that nature by electric and gas utilities."[3286] Therefore, the only relevant issue is whether SoCalGas has included any of its Political Activities expenses in its GRC forecast. If there are no costs for Political Activities included in SoCalGas's GRC forecast, then there is no cost to disallow.

In their Opening Briefs, Cal Advocates and CEJA argue that the Commission should reduce SoCalGas's GRC request because SoCalGas has not sufficiently shown that it has excluded Political Activities expenses from its GRC request.[3287] As SoCalGas has shown in its Opening Brief, none of the Political Activities costs alleged by Cal Advocates in its testimony are included in SoCalGas's forecast.[3288]

3283 *Id.* at 359-361.

3284 *Id.* at 361-362.

3285 SCG/SDG&E OB at 852-853.

3286 *Expenditures for Political Purposes—Amendment of Account 426, Other Income Deductions, Uniform System of Accounts and Report Forms Prescribed for Electric Utilities and Licensees and Natural Gas Companies—FPC Forms Nos. 1 and 2*, 30 F.P.C. 1539, 1541 (1963).

3287 *See* Cal Advocates OB, Section 48.2 at 364-402; CEJA OB Section XLVIII.B at 132.

3288 SoCalGas notes that approximately $494,000 was correctly booked as ATL and remained in SoCalGas's forecast.

In addition, Cal Advocates and CEJA allege that SoCalGas has a pattern and practice of improperly billing ratepayers for its Political Activities. These allegations are based on speculation and manipulation of facts. As discussed in further detail below, Cal Advocates relied on accounting information that did not form the basis of SoCalGas's GRC forecast to create the misperception that SoCalGas is charging ratepayers for Political Activities. Cal Advocates and CEJA also allege that SoCalGas is evasive or not forthright in its responses to data requests. Their argument is based on their continued refusal to understand the ratemaking process, refusal to look at what costs are included in SoCalGas's GRC forecast, and/or refusal to recognize SoCalGas's attorney-client privilege. Finally, Cal Advocates and CEJA appear to hold SoCalGas to the impossible standard of 100% accuracy in its accounting with a zero-tolerance for errors. When SoCalGas voluntarily takes the appropriate action of excluding discovered errors, Cal Advocates and CEJA claim that the remedial acts are further evidence of SoCalGas's malfeasance.

When the evidence is reviewed as a whole and under the correct GRC ratemaking principles and processes, it is clear that none of the Political Activities costs at issue were included in SoCalGas's GRC forecast. Therefore, Cal Advocates and CEJA's recommended reductions should be rejected.

48.2.1 Booking Costs to Above-the-Line Accounts Does Not Equate to Charging Ratepayers.

Cal Advocates' continued argument, in its Opening Brief, that its recommended "disallowance of roughly $80 million from the GRC request is more than justified" based on "evidence of SoCalGas' ongoing practice of **booking** [Political Activities] costs to ratepayers"[3289] shows a fundamental failure to understand basic ratemaking principles in California. As SoCalGas has explained in its Opening Brief, **booking** costs to above-the-line accounts does not equate to **charging** ratepayers.[3290] FERC USOA accounts (*i.e.*, ATL and BTL) are accounting constructs used for accounting purposes and do not dictate ratemaking.[3291] FERC makes a similar distinction in its rate cases. For FERC, utilities may either follow "formula rate" or "stated rate." Formula rates are updated regularly based on a pre-set formula that uses pre-defined accounts (usually

[3289] Cal Advocates OB at 366.

[3290] SCG/SDG&E OB at 855-856.

[3291] *Id.* at 855.

FERC USOA accounts) to generate new rates.[3292] On the other hand, for stated rates, rates do not change until a new one is filed and approved by FERC.[3293]

> Crucially, when a stated rate is used, the recoverability of expenditures does not depend on the identity of the account to which the expenditures are assigned. ***Accounts may be used for convenience and organization, but lack the legal significance they have in formula rates***. Instead, the Commission examines expenditures on a case-by-case basis to determine whether they can be recovered from ratepayers as "just and reasonable" costs of serving the public under section 205 of the Federal Power Act. Braintree, 550 F.3d at 9 (citing 16 U.S.C. § 824d(a)).[3294]

The CPUC's general rate case proceedings are similar to FERC's stated rate cases and uses a similar "just and reasonable" standard.

Accordingly, while SoCalGas leverages FERC USOA account categorizations in order to determine its adjusted-recorded historical costs, FERC USOA accounting is not determinative.[3295] In order to determine what costs are included in SoCalGas's forecast, parties should look at the costs included in the relevant adjusted-recorded historical years. For workpapers that use a 5-year average forecasting methodology, the relevant adjusted-recorded historical years are 2017-2021.[3296] For workpapers that use a 3-year average forecasting methodology, the relevant adjusted-recorded historical years are 2019-2021.[3297] And for workpapers that use a base year forecasting methodology (as is the case for most of the workpapers that Cal Advocates recommended disallowances), 2021 is the only relevant adjusted-recorded historical year.[3298] Therefore, ***expenses only impact ratepayers if***: (1) they are included in the adjusted-recorded historical years used as the basis of individual workpapers in SoCalGas's GRC forecast; and (2) the Commission approves SoCalGas's forecast.

3292 *Newman v. FERC*, 27 F.4th 690, 693,702-703 (D.C. Cir. 2022).

3293 *Id.*

3294 *Id.* at 703 (emphasis added).

3295 SCG/SDG&E OB at 856.

3296 *Id.* at 859.

3297 *Id.* at 859.

3298 *Id.* at 859, 861.

SoCalGas's adjusted-recorded historical cost can be found in SoCalGas testimony, workpapers and Master Data Request responses.[3299]

48.2.2 Cal Advocates' Analyst Refused to Follow the Same Auditing Process that Cal Advocates' Auditors Undertook in this GRC.

Cal Advocates' actual *auditors,* Ms. Chia and Ms. Lee, appropriately reviewed SoCalGas's adjusted-recorded historical costs and "selected transactions to review the associated supporting documents (*i.e.*, SAP transactions, invoices, and other source data) to determine the accuracy of SoCalGas's recorded transaction entries."[3300] In its report, Cal Advocates' *auditors* recommended no adjustments to SoCalGas's O&M expenses for, among other organizations, Ex. SCG-29 Administrative & General, one of the organizations that Cal Advocates' *analyst*, Mr. Castello, recommended a 35% reduction.[3301]

Mr. Castello, who does not appear to be an auditor,[3302] did not follow the same auditing process that Cal Advocates' *auditors* undertook in this GRC or past GRCs.[3303] Perhaps it is because Mr. Castello shares the same sentiment as Cal Advocates' attorney. When discussing Cal Advocates' own audit being conducted by her own client's auditors, Cal Advocates' attorney stated that "the 'audit' currently being performed is high level – many accountants would say it does not even raise to the level of an audit."[3304] Yet, despite summarily dismissing Cal Advocates' own "audit" in this GRC as insufficient, it appears Mr. Castello and Cal Advocates' attorney did not even know how to verify that no Political Activities costs have been included in SoCalGas's GRC forecast asking SoCalGas in a data request to:

3299 MDR Audit Chapter 32, Q.7, Q.9, and Q.16 were provided to Cal Advocates on December 9, 2022, June 17, 2022, and July 12, 2022, respectively.

3300 Ex. SCG-245-E (Mijares) at 15.

3301 *Id*. at 15-16.

3302 Ex. CA-23-C-E-R (Castello) at 39.

3303 *See* Ex. CA-19 (Chia/Lee) at 6 ("Cal Advocates conducted its examination of the Applicants' financial records in accordance with the authority and mandates set forth in the Public Utilities Code sections 314, 314.5 and 309.5. *Typically, the basis for GRC requested revenue requirements are forecasts based on recorded financial historical data*.") (emphasis added); *see also*, A.17-10-008, Ex. ORA-33 at 2 (Cal Advocates' testimony in SoCalGas and SDG&E's 2019 GRC stating, "Typically, the basis for GRC requested revenue requirements are forecasts based on recorded financial historical data."), *available at:* https://docs.cpuc.ca.gov/PublishedDocs/SupDoc/A1710007/1335/213461844.pdf.

3304 *See* Ex. SCG-320 (Castello) at pdf p. 3.

> "Please identify in detail the procedures Cal Advocates should follow to confirm for itself that the costs of all Political Activities – including legal costs to support Political Activities and SoCalGas employee support for such activities- have been booked to shareholder accounts."[3305]

Despite SoCalGas's multiple efforts to explain that "[t]he detailed procedures that Cal Advocates *analysts* should have followed would be similar to that executed by the Cal Advocates' *auditors* during their Financial Examination Process…" in a series of emails in December 2022, during a January 2023 GRC walk-through that SoCalGas provided to Cal Advocates' attorney and Mr. Castello to help them understand the GRC process, and, again, in SoCalGas's rebuttal testimony dated June 2023, Cal Advocates' *analyst* and attorney did not undertake those efforts.[3306] In addition, when SoCalGas offered to provide Cal Advocates' *analyst* with the exact same data that SoCalGas provided Cal Advocates' *auditors* for each of the witness areas that Cal Advocates' *analyst* had concerns with, Cal Advocates did not take SoCalGas up on that offer either.[3307] It is unclear from the record whether Mr. Castello even reviewed SoCalGas's adjusted-recorded historical costs.[3308]

Cal Advocates' *analyst* and attorney refused to follow the normal GRC process of reviewing SoCalGas's adjusted-recorded historical costs to confirm that no costs are included that should not be included. Instead, Cal Advocates demands that SoCalGas prove that it removed <u>all</u> Political Activities cost from its GRC request,[3309] the equivalent of asking SoCalGas to prove a negative. While this flips normal auditing procedures on its head, SoCalGas did so by making available all the costs that were included in its adjusted-recorded historical costs[3310] and described the process as to how it arrived at those adjusted-recorded historical costs.[3311]

3305 Ex. CA-120-R at 12 (Data Request SCG-TBO-207).

3306 *Id.* at 12-15 (emphasis added).

3307 *Id.* at 13-14.

3308 Tr. V21:3769:5-17, 3781:23-3782:3 (Castello).

3309 Cal Advocates OB at 392.

3310 Ex. CA-120-R at 13-14.

3311 To the extent that Cal Advocates argues that SoCalGas has only provided testimony on certain matters and has not provided documentary accounting evidence, the law is clear—testimony is evidence. (*See* Judicial Council Of California Civil Jury Instruction, CACI 202, Direct or Indirect Evidence ("[T]he witness's testimony is evidence"); Cal. Ev. Code. § 411 ("[T]he direct evidence of one witness who is entitled to full credit is sufficient for proof of any fact.").).

Contrary to Cal Advocates claims that SoCalGas "asks us to take it on faith that all costs have been removed, even as it refuses to provide salient details – such as which costs were removed and how much was removed,"[3312] SoCalGas has provided Cal Advocates with its adjusted-recorded historical costs and even offered to provide Cal Advocates with the same level of information as it provided Cal Advocates' *auditors* for the organizations in question. Cal Advocates has simply refused to do the actual work of reviewing the relevant financial information supporting the adjusted-recorded historical costs that inform the TY 2024 GRC forecast.

Cal Advocates also misleadingly asserts that SoCalGas was evasive or refused to provide evidence in response to data requests.[3313] Cal Advocates cites to a data request requesting SoCalGas provide "supportive documentation and breakdown calculation that clearly explains how SCG arrived at labor and non-labor costs excluded and reflected in this general rate case."[3314] SoCalGas did exactly that by referring Cal Advocates to its response to PAO-SCG-019-BKZ Question 10 which explained the steps it took to develop its adjusted-recorded historical costs and referred Cal Advocates to "a reconciliation of Base Year dollars recorded in the FERC general ledger to the Business Warehouse dollars used by the GRC witnesses in response to the Master Data Request, Audit Chapter 32, Question 7. The attachment 'Ch32-Q7C-F-SCG_2021.xlsx' shows the Company-wide Adjustments and the Manual Adjustments made by planners that are referenced herein."[3315]

48.2.3 Cal Advocates Refusal to Follow the Appropriate Auditing Processes Has Led it to Rely on Information that is Not Part of SoCalGas's GRC Forecast.

Instead of reviewing or auditing the relevant adjusted-recorded historical years used in SoCalGas's GRC forecast, Cal Advocates relies on information that was not used as a basis for SoCalGas's GRC forecast:

- Cal Advocates relies on SoCalGas's data request responses that were prepared years before SoCalGas undertook its GRC process to develop its adjusted-recorded historical costs (some as far back as 2019). While these responses may have shown

3312 Cal Advocates OB at 370.

3313 *Id.* at 390.

3314 Cal Advocates OB at 390-391.

3315 Ex. SCG-245-E (Mijares), Appendix E at 4-5 (Response to Data Request PAO-SCG-019-BKZ, Q.10).

that certain Political Activities costs were booked to above-the-line accounts at the time of the response, it does not mean that those costs remained above-the-line or that those costs are included in SoCalGas's GRC forecast. SoCalGas indicated as much in its objections to those data requests stating, for example:

> Additionally, SoCalGas objects to this data request to the extent the request pre-litigates the next General Rate Case (GRC). The costs that Cal Advocates requests from 2017 to present are not litigated until the next GRC, where the 5-year historical period of actual costs is examined. Thus, while an estimate of costs does not currently exist, as the scope of the request is vague and premature and SoCalGas is not obligated to create records, SoCalGas is nonetheless providing information gathered that might be used by Cal Advocates in estimating costs...SoCalGas reserves the right to supplement, clarify or amend the following responses due to its vague and premature nature in pre-litigating GRC activities.[3316]

As SoCalGas explained in its Opening Brief, since the time of the response to the non-proceeding data requests, SoCalGas has undergone its GRC financial review and exclusion process to exclude costs that should not be included in its GRC forecast, including reviewing the non-proceeding data request responses to remove costs that should settle to FERC Account 426.4.[3317]

- Cal Advocates relies on data that it obtained directly from SoCalGas's SAP financial system.[3318] As SoCalGas explained in its Opening Brief, SAP is SoCalGas's system of record for <u>all</u> accounting activities and serves as a starting point for SoCalGas's GRC financial review and exclusion process.[3319] After obtaining the raw financial data from SAP, SoCalGas then performs a series of steps to exclude costs that should not be included in the GRC, including its automated exclusion process, manual adjustments, and other exclusion process specific to this GRC.[3320] As proof, of the $2.7 million that were paid to six vendors

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3316 This objection shows up at least 30 times in Cal Advocates workpapers which only include a small sample of all the data requests that SoCalGas responded to in the non-proceeding. (*See e.g.*, CA-23-WP-R-E (Castello), WP 29 at 98-99).

3317 SCG/SDG&E OB at 858, 860; *see also* Ex. SCG-245-E (Mijares) at 14.

3318 *See e.g.*, Ex. CA-23-WP-R-E (Castello), WP 318.

3319 SCG/SDG&E OB at 858-859.

3320 *Id.* at 858-859, 862.

that Cal Advocates identified through its review of SoCalGas's SAP,[3321] none were included in SoCalGas's GRC forecast except for approximately $494,000 which was not related to Political Activities and correctly included in its forecast.[3322] While Cal Advocates asserted that SoCalGas terminated access preventing it from performing a meaningful review of SAP,[3323] Cal Advocates admitted that SAP access was not critical to its GRC analysis.[3324]

- Cal Advocates relies on data from SoCalGas's G.O. 77-M report. However, the G.O. 77-M is a separate report generated in a different manner and for a different purpose and does not form a basis for SoCalGas's GRC forecast.[3325] For example, by relying on the G.O. 77-M report, Cal Advocates estimates of outside counsel expenses includes <u>all</u> costs for <u>all</u> services that the law firms performed for SoCalGas and does not represent the actual expenses for the services that Cal Advocates is challenging.[3326]

3321 Cal Advocates claims in its Opening Brief that it was unable to conduct a "meaningful review" despite its four staff members spending their available time reviewing SAP during their two-weeks of access and declining the additional two weeks granted by the ALJ. (Cal Advocates OB at 401.) According to its response to a data request, the four staff members spent an average of about 3 hours per day (excluding weekends) on issues related to SAP. *See* Ex. SCG-318 at pdf p. 3 (Supplemental Response to Data Request SCG-SDGE-PAO-011, Q.1).

3322 SCG/SDG&E OB at 862-863.

3323 Cal Advocates claims that by the time SoCalGas agreed to provide further SAP access, Cal Advocates had already re-allocated its staff to other assignments. (Cal Advocates OB at 401.) Yet, SoCalGas offered to provide Cal Advocates an additional two-weeks access on March 24, 2023, during which time Cal Advocates staff members still had access to SAP and presumably were still reviewing SAP. Due to Cal Advocates refusal to accept SoCalGas's offer, SoCalGas terminated access later that day in accordance with its representations to the Executive Director of the Commission. (*See Southern California Gas Company and the Public Advocates Office of the California Public Utilities Commission Third Joint Status Report in Compliance with ALJ Lakhanpal's February 14, 2023 Ruling on the Parties' Discovery Dispute*, April 4, 2023, at 3).

3324 Tr. V21:3783:14-3784:2 (Castello).

3325 Ex. CEJA-48 at 1 (Data Request CEJA-SEU-009); *see* General Order No. 77-M for the reporting requirements.

3326 *See* Cal Advocates OB at 365 fn.1877, 372-373. It appears that Cal Advocates included expenses for all legal services provided by Gibson Dunn & Crutcher LLP to the Company in the years 2020, 2021, and 2022 totaling "over $4 million", based on irrelevant GO 77-M data, even though Cal Advocates is only challenging one matter--the Cal Advocates non-proceeding appellate matter's outside legal costs.

48.2.4 There is No Evidence that SoCalGas Historically Misused Ratepayer Funds for Political Activities.

Cal Advocates claims that its "proposal to remove $80 million from the GRC request" is appropriate to address SoCalGas's "ongoing and historic misuse of ratepayer funds for political activities."[3327] This statement is false and misleading.

As the Commission is well aware, California sets rates on a forecast basis.[3328] SoCalGas's prior GRC (TY 2019) set the rates for 2019-2023 based on the 5-year historical data from 2012-2016.[3329] The current GRC (TY 2024) will determine rates for 2024-2027 based on the 5-year historical data from 2017-2021.[3330] To date, Cal Advocates has only pointed to activities that occurred in or after 2017 as alleged "evidence" that SoCalGas misused ratepayer funds for Political Activities. As Ms. Mijares explained during cross-examination, the rates that SoCalGas is collecting from 2017 through present "were driven off the previous rate case and the previous costs that were incurred. And, so the rates that are being collected don't take into account the actual activity that's happening within that year."[3331]

This current GRC is where activities from 2017 to 2021 are taken into consideration in developing SoCalGas's rate forecast to the extent SoCalGas used a 5-year average forecasting methodology. As shown in SoCalGas's Opening Brief and further explained below, the activities Cal Advocates alleges in its testimony are not included in SoCalGas's forecast so they will never inform SoCalGas's rates. As such, these activities have not and will not have an impact on rates.[3332]

3327 Cal Advocates OB at 402.

3328 Ex. SCG-245-E (Mijares) at 11, Appendix H at 20; *see also* Ex. SCG-16-2E (Prusnek).

3329 Ex. SCG-245-E (Mijares) at 11, Figure SM-2.

3330 *Id*.

3331 Tr. V17:3030:11-15 (Mijares).

3332 To the extent that the Commission were to determine that additional historical costs should not be included in the data supporting SoCalGas's forecast, the appropriate remedy would be to revise the forecast. (*See* D.19-05-020 at 257 ("[A]djustments are made consistent with forecast ratemaking …. As with other forecasts, we begin with recorded costs and make adjustments for costs that are not recoverable or no longer anticipated. Once adjustments are made we adopt the remaining fair and reasonable costs as the forecasts.").) No refunds or interest is appropriate, because the costs incurred at issue were not included in historical years used to forecast the rates in the TY 2019 GRC. (*See* SCG/SDG&E OB at 678-679).

48.2.5 SoCalGas Has Met its Burden by Detailing How it Has Removed Political Activity Expenses from its GRC Forecast.

Cal Advocates asserts that SoCalGas has the burden of proving that it has removed all costs for Political Activities from its GRC request.[3333] SoCalGas has done so. SoCalGas has described in detail its process for how it developed its GRC forecast, which not only included the automated exclusion process and manual adjustment process that it undertakes for each GRC, but for this particular GRC, the additional steps it took in a good faith effort to exclude costs associated with Political Activities.[3334]

In its testimony, Cal Advocates relied on four campaigns, one vendor contract, and payments to six vendors as evidence that SoCalGas is charging ratepayers for Political Activities. Cal Advocates also argues that SoCalGas has failed to meet its burden to show that it has removed employee labor expenses arguing that SoCalGas "made no meaningful effort over the years to accurately track employee lobbying activities."[3335] Cal Advocates asserts that because it has rebutted SoCalGas's prima facie claim that its billings are appropriate and consistent with law, "the burden falls to the utility to provide evidence showing that Cal Advocates' evidence is flawed."[3336] SoCalGas has met its burden.

For the identified vendor costs, SoCalGas provided evidence that none of the costs for the four campaigns,[3337] one vendor contract,[3338] and payments to six vendors (except for approximately $494,000 which SoCalGas believes is correctly booked as ATL)[3339] were included in SoCalGas's GRC forecast.[3340] Cal Advocates also appears to take issue with IO number 300796601 (referred to by Cal Advocates as the Balanced Energy initiative).[3341] As the evidence shows, the settlement rule for IO number 300796601 was corrected on November 1, 2019.[3342]

3333 Cal Advocates OB at 370-371.

3334 SCG/SDG&E OB at 858-859.

3335 Cal Advocates OB at 388.

3336 *Id.* at 402.

3337 SCG/SDG&E OB at 860-861.

3338 *Id.* at 861-862.

3339 *Id.* at 862-863.

3340 *Id.* at 860-863.

3341 Cal Advocates OB at 393.

3342 SCG/SDG&E OB at 861-862.

SoCalGas also reclassed costs in IO 300796601 to FERC USOA Account 426.4.[3343] As such, costs booked to IO number 300796601 are not included in SoCalGas's GRC forecast.[3344]

As for labor costs, SoCalGas acknowledged and communicated multiple times to Cal Advocates that 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 made manual adjustments to labor costs for 2017-2020 in GRC workpapers using 2021 Political Activities labor costs as a proxy.[3345] SoCalGas explained that because 2021 included SoCalGas's negotiation of the City of Los Angeles franchise agreement, the 2021 proxy likely resulted in more Political Activities time being recorded to BTL than SoCalGas would have actually incurred in each of the years from 2017-2020.[3346] In other words, 2021 as a proxy is a more conservative assumption for BTL exclusions than using a multi-year average methodology.

It is unclear whether Cal Advocates is challenging SoCalGas's proxy exclusions for 2017-2020. Cal Advocates argues that "the utility's quantification of the costs of its political activities in its rebuttal testimony is simply not credible" referencing the alleged "40 employees supporting those activities."[3347] To the extent that Cal Advocates is challenging SoCalGas's proxy exclusions, Cal Advocates fails to justify how its recommended 80% reductions to Regional Public Affairs, Clean Energy Innovations, and Customer Services – Information and 35% reduction to Administrative and General are reasonable. Cal Advocates' recommended reduction would result

[3343] *Id*. at 862.

[3344] *Id*. at 862.

[3345] *Id*. at 861.

[3346] *Id*. at 861.

[3347] Cal Advocates OB at 394.

in the reduction of approximately 292 FTEs for these organizations.[3348] Even assuming that those 40 employees solely engaged in Political Activities and that those employee's labor time is still entirely included in SoCalGas's forecast (which SoCalGas disputes and there is no evidence that supports such a claim), the magnitude of Cal Advocates' recommended reductions are outrageously disproportional and unreasonable even based on its own focus on 40 employees.

More importantly, the vast majority of the organizations for which Cal Advocates recommended a revenue reduction either did not engage in Political Activities or used a 2021 BY forecast, which means adjusted-recorded historical costs from 2017-2020 are irrelevant, as they were not included in SoCalGas's GRC forecast.[3349] Cal Advocates has not challenged SoCalGas's use of a base year forecasting methodology. Cal Advocates did not propose an alternative forecasting methodology (*e.g.,* a 5-year average forecasting methodology, which could have taken into account activities in 2017). Instead, Cal Advocates cherry picks activities that occurred prior to 2021 and applies those reductions to the 2021 base year. Even if, as Cal Advocates claims and SoCalGas disputes, SoCalGas did not appropriately remove those costs from its adjusted-recorded historical years, it is inappropriate to reduce SoCalGas's 2021 adjusted-recorded historical costs (and correspondingly TY 2024 costs) by the amount of expenses incurred in other years.[3350]

SoCalGas has met its burden of showing that Cal Advocates' evidence is flawed and incorrect. Unable to refute SoCalGas's evidence and "present evidence to raise a reasonable doubt

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[3348] *See* Ex. SCG-12-WP-R-E at 3, 11, 32, and 39; Ex. SCG-16-WP-R-E at 3; Ex. SCG-04-WP-R-2E at 110; Ex. SCG-29-WP-R-E at 3, 49, 66, 77, 83, 94, and 102 (presented in tabular form below).

		(a)	**(b)**	**(c)= (a) x (b)**
		TY24 FTE	% Reduction	FTE Reduction
Ex. SCG-12-WP-R-E at 3, 11, 32, and 39.	CEI	77.3	80%	61.8
Ex. SCG-16-WP-R-E at 3.	CS-Info	131.8	80%	105.4
Ex. SCG-04-WP-R-2E at 110.	RPA	28.9	80%	23.1
Ex. SCG-29-WP-R-E at 3, 49, 66, 77, 83, 94, and 102.	A&G	289.6	35%	101.4
		527.6		**291.8**

[3349] Ex. SCG-245-E (Mijares) at 23-24, Table SM-8.

[3350] To the extent Cal Advocates argues that a GRC Test Year is based on the years that have come before it because each budget builds on prior authorized budgets resulting in unreasonably inflated subsequent Test Year requests, this argument has no merit. In each GRC, SoCalGas conducts a comprehensive review of past costs and activities, anticipates future costs and activities in the test year and presents what it believes is the most reasonably accurate assessment. (*See Opposition of Southern California Gas Company (U 904 G) to the Public Advocates Office Motion to Compel Information*, January 23, 2023, at 12).

and show a different result was warranted,"[3351] Cal Advocates, instead, summarily dismisses SoCalGas's evidence by claiming that it is not credible without providing any refuting evidence and contends that it "does not have an obligation to demonstrate more…"[3352] This is simply not the law. To hold so would mean that any party in any proceeding can simply dismiss actual evidence with a mere wave of their hand and claim that the evidence is not credible.

48.2.6 Cal Advocates Belatedly and Unpersuasively Shifts Its Arguments from "Political Campaigns" to Outside Legal Counsel Fees as Evidence of SoCalGas's "Pattern and Practice" of Booking Political Activities to Ratepayers.

Apparently recognizing the failures of the evidence it proffered in its testimony and during evidentiary hearings, Cal Advocates now for the first time appears to have shifted its reliance from its "political campaigns" evidence to CEJA's proffered evidence related to SoCalGas's treatment of outside legal counsel fees. Cal Advocates dedicates a significant portion of its Opening Brief discussing CEJA's proffered evidence and documents that it has sought admission through a last-minute Motion for Official Notice.[3353] Cal Advocates now argues that SoCalGas's treatment of four outside legal counsel matters as examples of further evidence of SoCalGas's alleged "pattern and practice" of booking Political Activities costs to ratepayers.[3354]

First, Cal Advocates reliance on these four outside legal counsel matters is entirely misplaced as those costs are not even within the four witness areas that Cal Advocates recommended its $80 million reduction. As a result, the costs associated with the four outside counsel matters, to the extent they are included in SoCalGas's Corporate Center witness area's forecast, do not support Cal Advocates recommended $80 million reduction—a reduction that Cal

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3351 D.11-03-049 at 9 (citing D.87-12-067 at 35-37); D.04-03-034 (In Southwest Gas's rate case, the Commission held, "[W]here other parties propose a result different from that asserted by the utility, they have the burden of going forward to produce evidence, distinct from the ultimate burden of proof. The burden of going forward to produce evidence relates to raising a reasonable doubt as to the utility's position and presenting evidence explaining the counterpoint position."); *see also* 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."); D.19-05-020 at 7; D.15-11-021 at 8-9; D.11-05-018 at 34.)

3352 Cal Advocates OB at 389.

3353 *See Motion of the Public Advocates Office for Official Notice of Officially Noticeable Information*, August 14, 2023 (filed the same day as Cal Advocates OB).

3354 Cal Advocates OB at 383.

Advocates analyst admitted was not supported by any actual calculations[3355]—to four entirely different witness areas.[3356]

Second, as SoCalGas explained in its Opening Brief, none of the four outside legal counsel matters (Reichman Jorgensen LLP,[3357] CEC litigation,[3358] Attorney General matter,[3359] and non-proceeding appeal[3360]) were Political Activities under FERC 426.4 but instead were legitimate and ordinary business expenses.[3361] Legal expenses to conduct legal research (i.e., Reichman Jorgensen LLP), litigation to enforce a state legislative mandate (CEC litigation),[3362] legal expenses to respond to government inquiry (Attorney General matter),[3363] and legal expenses to respond to Cal Advocates' requests for information, protect confidentiality, protect attorney client privilege and work product, and protect constitutional principles (non-proceeding matter)[3364] are not Political Activities under FERC 426.4. Cal Advocates puts forth the new argument that because SoCalGas is a client of the same law firm, Reichman Jorgensen LLP, that represented the plaintiffs in the Berkeley litigation, SoCalGas is therefore funding the litigation.[3365] Cal Advocates makes this connection based on SoCalGas's retention of the firm to conduct research and advise SoCalGas on the broad subjects of liability, land use and environmental matters, existing and proposed federal, state, and local laws, and issues of federal preemption.[3366] Cal Advocates alleges that these are the very same issues raised in the Berkeley litigation and therefore it "strains

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3355 SCG/SDG&E OB at 856 fn.4340.

3356 The four outside legal matters are in Corporate Center, not in the four witness areas that Cal Advocates recommended the $80 million reduction, which are Regional Public Affairs, Clean Energy Innovations, Customer Services – Information, and Administrative and General.

3357 Cal Advocates OB at 374-376.

3358 *Id.* at 377-380.

3359 *Id.* at 381-384.

3360 *Id.* at 364-366.

3361 SCG/SDG&E OB at 671-678.

3362 *Id.* at 675-677; CEJA's argument that the CEC litigation was to challenge state climate policy is facetious. The litigation was to enforce a State law, AB 1257 (California's Natural Gas Act), which, by definition, is State policy. (*See* Section 29.3.4, *supra*).

3363 SCG/SDG&E OB at 677.

3364 *Id.* at 677-678.

3365 Cal Advocates OB at 377.

3366 *Id.*

credibility to suggest that the utility did not fund research" for the litigation.[3367] What "strains credibility" is Cal Advocates' fantastical leap in logic. Based on Cal Advocates' logic, if SoCalGas hires a law firm to conduct research on a personal liability issue and the law firm also represents a person in a personal injury lawsuit, then SoCalGas is funding that person's personal injury lawsuit. SoCalGas has made it abundantly clear that it did not fund the Berkeley litigation.[3368] Cal Advocates simply refuses to accept facts that do not support its own view. SoCalGas also explained that it removed the cost from its GRC forecast not because the cost should have been booked to FERC 426.4, but because SoCalGas believed removing all Reichman Jorgensen LLP costs from its forecast would render CEJA's Motion to Compel moot and preserve its attorney-client privilege.[3369]

Third, Cal Advocates and CEJA attempt to invent a "pattern and practice" of SoCalGas intentionally misclassifying Political Activities costs based on SoCalGas's corrections or reduction of its GRC forecast to correct for discovered error. However, correcting errors is part of the normal GRC process. Although instances of misclassifications have been identified during the 2017-2021 historical period, despite SoCalGas's good faith effort to exclude all costs that should not be included in its forecast, this is not atypical for a utility of SoCalGas's size (*e.g.,* over 400,000 invoices a year and 8,000 employees).[3370] There is no evidence of intentional misclassifications of Political Activities to above-the-line accounts[3371] and Cal Advocates and CEJA refuses to acknowledge SoCalGas's enhancements to its policies, training, and governance related to Political Activities tracking in 2020.[3372] As the record shows, to the extent an error is discovered, whether by SoCalGas or other parties, SoCalGas corrected those errors by excluding them from its forecast.[3373] Cal Advocates and CEJA have not shown that SoCalGas's misclassifications relative to the amount of financial data in its GRC is disproportionate compared to its prior GRC or the GRCs of any other utility.

3367 *Id*.

3368 Ex. CEJA-48 at 3 (Third Supplemental Response to Data Request CEJA-SEU-009, Q.5(b)).

3369 *Response in Opposition of Southern California Gas Company and San Diego Gas & Electric Company to Motion to Compel*, February 22, 2023, at 3.

3370 Ex. CA-120-R at 10.

3371 Ex. CA-120-R at 10; *see also* Ex. CA-23-WP-R-E (Castello), WP 189 (PwC report).

3372 See SCG/SDG&E OB at 856-857.

3373 Ex. SCG-245-E (Mijares), Appendix E at 5 (Response to Data Request PAO-SCG-019-BKZ, Q.10).

Fourth, perhaps because the four outside legal counsel matters do not fit within the FERC 426.4 definition, Cal Advocates appears to be advocating for the expansion of the definition to require all advocacy in support of the use of natural gas be booked to FERC 426.4.[3374] Cal Advocates argues that "[t]he cost of each of these efforts to advance a political campaign in support of the use of natural gas should have been booked to FERC Account 426.4, a shareholder funded account."[3375] As explained above, these matters were not Political Activities under FERC 426.4 but instead were legitimate and ordinary business expenses. Further, Cal Advocates' recommendation that any advocacy "in support of the use of natural gas" should be booked to FERC Account 426.4 would significantly modify the definition of Political Activities under FERC 426.4 which Cal Advocates had previously agreed was the appropriate definition to use for GRC purposes[3376] and completely eliminate the exception contained in FERC 426.4(b).[3377]

It would also be entirely inconsistent with any gas utility's understanding of its regulatory franchise and legal obligations to provide safe, reliable, and affordable gas service and communicate accordingly. For instance, would it be "advocacy" for SoCalGas to talk about how Aliso Canyon provides reliability during winter and summer peak demands? Or would that advocacy standard be similarly applied to Southern California Edison Company (SCE) when it

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[3374] This is not the first time that Cal Advocates has tried to expand the definition for Political Activities. In numerous data requests, Cal Advocates has tried to force SoCalGas to use the Sempra Political Activities policies definition for lobbying to determine costs, instead of FERC 426.4's definition. SoCalGas has repeatedly objected and explained that Sempra Political Activities policy's definition is broader than FERC 426.4 because it was intended for other reporting purposes, and that trying to use the definition from Sempra Political Activities policy for accounting purposes is inappropriate and causes unnecessary confusion. (*See* Ex. SCG-245-E (Mijares), Appendix B at 2 (Data Request PAO-SCG-019-BKZ).) For example, Sempra Political Activities definition for lobbying does not include FERC 426.4's exception for expenditures that are directly related to appearances before regulatory or other governmental bodies, such as this GRC. Yet, Cal Advocates caused this exact confusion during Mr. Prusnek's cross-examination by trying to, once again, infuse the definition for lobbying from Sempra Political Activities policy instead of the FERC 426.4 definition. (*See* Cal Advocates OB at 399-400.) In fact, Cal Advocates' Opening Brief seems to indicate that it still does not understand the difference between the two definitions and their distinct purposes, even though they agreed that the FERC 426.4 definition was the appropriate definition in testimony. (*See* Ex. CA-23-E-R (Castello) at 1 fn.2.).

[3375] Cal Advocates OB at 372.

[3376] *See* D.93-12-043 ("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.").

[3377] 18 C.F.R. § 367.4264(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.").

recently supported the Commission's decision to increase the storage limit at Aliso Canyon in part due to potential for customer savings (which SoCalGas and SDG&E also "advocated" for)? Moreover, such a discriminatory and inequitably subjective treatment of advocacy would tether compliance to Cal Advocates (and CEJA's) favored policy preferences and agendas (and selective scrutiny of SoCalGas on this topic), and not a reasonable, clear, and consistent standard applied equally to all IOUs.

Similarly, CEJA argues that "SoCalGas must book the costs of influencing public officials to shareholder-funded Account 426.4."[3378] CEJA states that "the basic purpose of voluntarily investing resources in an agency rulemaking or planning process is to affect its outcome" and "[i]t is not necessary to scrutinize SoCalGas' comments for prescriptive language to determine whether their purpose was to influence the decisions of public officials because their context reveals their purpose."[3379] Based on Cal Advocates and CEJA's reasoning, all of SoCalGas's time and effort spent advocating in any proceeding in front of any state agency or public official, including this GRC, would have to be booked below-the-line. This cannot be the case and is inconsistent with prior Commission precedent, as well as FERC guidance.[3380] This suggestion is particularly concerning since the proposed definition appears to only target gas utilities (*e.g.*, "in support of the use of natural gas,"[3381] "benefits of methane-burning equipment,"[3382] "swiftly transition to zero-emission technologies,"[3383] "rulemaking and planning dockets related to gas equipment on customers' side of the meter,"[3384] etc.). SoCalGas has serious concerns, in light of Cal Advocates Joint Prosecution Agreement with CEJA's attorney, Matt Vespa[3385] and Cal Advocates refusal to

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[3378] CEJA OB at 123; CEJA argues that SoCalGas is "misusing ratepayer funds to obstruct electrification policies." (*Id.* at 2).

[3379] *Id.* at 116.

[3380] In SoCalGas's last GRC decision, the Commission reviewed a number of comment letters submitted to state and local government agencies and found that while the letters included "information on the benefits of natural gas and renewable gas options or suggest consideration of these options," it was appropriate to include those activities' costs in SoCalGas's forecast. (D.19-09-051 at 379-380).

[3381] Cal Advocates OB at 372.

[3382] CEJA OB at 120.

[3383] *Id.* at 121.

[3384] *Id.* at 128.

[3385] Pursuant to Rule 13.10 and Evidence Code Section 452(h), SoCalGas seeks official notice of the Common Interest, Joint Prosecution, and Confidentiality Agreement between Public Advocates respond to whether it has entered into any other Joint Prosecution Agreement with any other party in this proceeding,[3386] that Cal Advocates and CEJA's recommended modifications to FERC 426.4 targeting SoCalGas is in furtherance of their efforts to silence or chill SoCalGas's ability to speak on policy positions that are inconsistent with Cal Advocates and CEJA.[3387] This would not only violate SoCalGas's First Amendment rights,[3388] it is inconsistent with State policy. All levels of California's state government hold the view that clean fuels and a clean fuels network are essential to achieving the State's environmental goals.[3389] SoCalGas is aligned with California's decarbonization goals and committed to delivering safe, clean, and reliable natural gas service to customers at reasonable rates while paving a path toward the clean energy future. 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."[3390]

SoCalGas does not dispute that the definition of FERC 426.4 can be subjective. FERC itself recognized that FERC 426.4 is "ambiguous and indefinite as to exactly what expenditures were intended to be included" and that "[n]o matter where the line be drawn with respect to either the general category of expenditures to be labeled as 'political' for purposes of accounting and reporting or assignment of particular costs, there will be many people who will believe that some

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Office and Sierra Club dated August 30, 2019, attached as Exhibit 4 to the Declaration of Jason H. Wilson in Support of Comments of Southern California Gas Company to Draft Resolution ALJ-391 (submitted with the CPUC on November 19, 2020). The document has not been disputed by Cal Advocates and is "capable of immediate and accurate determination by resort to sources of reasonably indisputable accuracy" as it was submitted as comments to the CPUC's issuance of Draft Resolution ALJ-391 and is within the CPUC's files. A copy is also available on Cal Advocates' website, available at: https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/5--socalgas-decl-exhs-of-j-wilson-re-draft-resolution-alj391--111920.pdf.

3386 Ex. SCG-318 at 5 (Data Request SCG-SDGE-PAO-011, Q.9).

3387 Cal Advocates attempts to distract from the issue arguing that SoCalGas's use of ratepayer funds for Political Activities would violate customers' First Amendment Rights against compelled speech; however, as SoCalGas has shown, SoCalGas has not included its Political Activities expenses in its rates, therefore, compelled speech is not an issue. (*See* Cal Advocates OB at 389-390).

3388 Disallowing costs associated with a utility's efforts to protect its First Amendment rights would not only further chill the utility's Constitutional rights but would be bad Commission policy.

3389 SCG/SDG&E OB Chapter 18, at 244-327.

3390 Tr. V4:832:17-21 (Brown).

expenditures so listed should not have been classified as political and others who will be equally convinced that certain operating expenses were in fact expenditures for political purposes."[3391]

Deloitte & Touche LLP, an independent accounting firm that prepares an annual FERC Audit Findings report, found that:

> "The USoA is a basis of accounting that differs from accounting principles generally accepted in the United States of America. As a result of these differences, evolving resources and expertise at both FERC and jurisdictional utilities, and lack of a single, accessible compendium of USoA requirements, effective application of the USoA has been difficult."[3392]

Further, in a FERC 2022 Office of Enforcement (OE) Annual Report, FERC observed that "it is widely known in the utility industry that FERC audits routinely identify findings related to the classification of non-operating expenses, regardless of whether the Company is an electric, gas or oil utility. Specifically, the recent FERC Report found that other common accounting findings include improperly classifying as operating expenses the non-operating expenses associated with lobbying activities."[3393]

As such, SoCalGas would welcome further clarity from the Commission on appropriate bounds around what constitutes Political Activities that should not be recoverable under FERC 426.4 by any utility. Such rules should be clear, consistent, and should be developed in an open and transparent proceeding where all the affected utilities may participate and be bound by the same result, not in this GRC which only applies to SoCalGas and SDG&E.

48.2.7 SoCalGas and SDG&E's Capital Reassignment Process is Supported by the Record and Reasonable.

Cal Advocates raised for the first time in its Opening Brief that, based on its review of SoCalGas and SDG&E's G.O. 77-M report, "the Sempra utilities have booked a portion of nearly every law firm payment to Account 107 and Account 184 (Clearing Account) for at least the last 7 years" and calls for "a full investigation of both SoCalGas and SDG&E accounts going back at

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3391 *Expenditures for Political Purposes—Amendment of Account 426, Other Income Deductions, Uniform System of Accounts and Report Forms Prescribed for Electric Utilities and Licensees and Natural Gas Companies—FPC Forms Nos. 1 and 2*, 30 F.P.C. 1539, 1540 (1963).

3392 Ex. CA-120-R at 10.

3393 *Id.* at 10 (citing FERC, 2022 *Staff Report on Enforcement*, November 17, 2022, at 55, *available at:* https://www.ferc.gov/media/fy2022-oe-annual-report.).

least ten years."[3394] SoCalGas and SDG&E requests that the Commission strike Section 48.2.4 of Cal Advocates' brief. The Commission has granted motions to strike portions of briefing that essentially serve as testimony, where recommendations are not part of the testimony entered into the record and no party has had an opportunity to present evidence on the proposal, as is the case here.[3395]

In the event the Commission is inclined to consider Cal Advocates' new allegations, Cal Advocates' argument is without merit and should be disregarded for that reason as well. In fact, it appears that Cal Advocates' attorney for this section of the Opening Brief is contradicting a prior section in the Opening Brief discussing this very issue and the testimony of her own client's witness.

SoCalGas and SDG&E's Capital Reassignment process and reassignment rates are set forth in detail in the revised testimony of Angel N. Le and Paul D. Malin and discussed in SoCalGas and SDG&E's Opening Brief.[3396] "Capital Reassignment is how SDG&E and SoCalGas reassign certain costs that have not been directly assigned (to O&M or capital) to capital to recognize that the costs are incurred in support of construction efforts."[3397] SoCalGas and SDG&E's capital reassignment follows the Electric Plant Instructions, Part 101 and Gas Plant Instructions, Part 201 in the Code of Federal Regulations.[3398]

Cal Advocates' own witness on Capital Reassignment, Jerry Oh, examined both SoCalGas and SDG&E's Capital Reassignments and stated:

> Cal Advocates reviewed the testimony and workpapers of SoCalGas' and SDG&E's reassignment ***rates*** and does not oppose the reassignment of certain

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3394 Cal Advocates OB at 386.

3395 *See, e.g.*, D.10-06-038 at 45 (striking portions of the City of Duarte's opening brief where recommendations were not part of testimony entered into the record, no party had an opportunity to cross-examine sponsoring witnesses or present evidence on the proposals, and no explanation was provided as to why the additional "testimony" in briefing could not have been served as prepared testimony, in accordance with Rule 13.8); D.02-08-064 at 36-38 (granting motion to strike a portion of reply briefing based on "untested new evidence"); D.92-06-065 at 61-62 (granting motion to strike portions of opening and reply briefing based on extra-record material, where parties had no opportunity to cross-examine any witness on it, and rejecting the contention that such briefing is "simply argument," stating, "If that is so, it is not proper argument. The material serves no useful purpose because it cannot be considered by the Commission, either as fact or argument.").

3396 Ex. SCG-30-R/SDG&E-34-R (Le/Malin); SCG/SDG&E OB at 769-770.

3397 D.19-09-051 at 601.

3398 Ex. SCG-30-R/SDG&E-34-R (Le/Malin) at 27.

> costs to capital. Tables below are from SoCalGas' and SDG&E's testimony and show categories of costs that are subject to capitalization via a reassignment A&G, labor overhead or clearing accounts, which Cal Advocates does not oppose.[3399]

Similarly, in the specific chapter that Cal Advocates addressed Capital Reassignments in its Opening Brief, Cal Advocates did not oppose SoCalGas and SDG&E's reassignment of certain costs to capital, including A&G, only recommending adjustments to the totals:

> Cal Advocates reviewed SCG's and SDG&E's testimony and workpapers and does not oppose the reassignment of certain costs to capital. Cal Advocates does not oppose categories of costs that are subject to capitalization via a reassignment A&G, labor, and overhead, or clearing accounts. Cal Advocates recommends $210,060,000 for SCG and $192,026,000 for SDG&E for Reassignment to Capital for TY 2024. Cal Advocates' recommendations for SCG and SDG&E Reassignment to Capital for TY2024 differ from SCG and SDG&E's forecast, reflecting the summation of Cal Advocates' different expense and capital recommendations made by other Cal Advocates' witnesses.[3400]

Capital Reassignment is not a new process. SoCalGas and SDG&E's proposed capital reassignment process is the same as prior GRCs, which were examined and approved by the Commission. For example, in the TY 2019 GRC Decision (D.19-09-051), the Commission found that:

> The Capital Reassignment process complies with the Plant Instructions provided in CFR430 and has been applied in Applicants' prior GRCs. Lastly, SDG&E's Business Segmentation and Electric Transmission allocation approaches apply methods, such as the allocation ratio applied to labor, that have been adopted by FERC and the Commission in prior GRCs. We find that compliance with Federal Regulations and application of standards authorized by FERC ensures consistency between state and federal regulations which is appropriate in this case. As with Shared Services and Shared Assets billings, what is important with respect to our analysis is the reasonableness and appropriateness of the allocation methods and policies adopted. The actual values will to be calculated by the RO model and will depend in part on the O&M costs and capital projects that will be authorized in the decision.[3401]

Cal Advocates asserts that "neither Southern California Edison Company (Edison) and Pacific Gas & Electric Company (PG&E) booked *any* of the legal costs they incurred over the last seven years to Account 107, and booked far fewer costs to Account 184"[3402] in reference to Edison and PG&E's

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[3399] Ex. CA-15 (Oh) at 13 (internal citations omitted).

[3400] Cal Advocates OB at 292-293.

[3401] D.19-09-051 at 606-607 (emphasis added).

[3402] Cal Advocates OB at 386.

G.O. 77-M reports. SoCalGas and SDG&E are not aware of SCE and PG&E's processes for generating their G.O. 77-M reports and how they are accounted for in those respective utilities' GRCs. As Cal Advocates only raised this issue for the first time in Opening Briefs, including the G.O. 77-M reports it introduced the same day via motion, SoCalGas and SDG&E have not had the opportunity to understand the differences between the utilities. Regardless, as for SoCalGas and SDG&E's capital reassignment process and rates, SoCalGas and SDG&E have shown that both are supported by the record of this proceeding and reasonable.[3403] Cal Advocates last-minute suggestion of potential impropriety is based on pure speculation and should be dismissed.

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. The final decision should also order that the balances recorded in SoCalGas's and SDG&E's respective General Rate Case Memorandum Accounts from January 1, 2024, until the effective date of the new tariffs shall be amortized in rates thirty days after the effective date of the decision through an appropriate time thereafter.

Respectfully submitted,

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[3403] SCG/SDG&E OB at 769-770.