APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY & SAN DIEGO GAS & ELECTRIC COMPANY FOR AUTHORITY TO REVISE THEIR NATURAL GAS RATES AND IMPLEMENT STORAGE PROPOSALS IN THE 2027 COST ALLOCATION PROCEEDING (A.25-09-014)
DATA REQUEST SET 8 FROM CAL ADVOCATES – PUBADV-SCG_SDGE-008-MS
DATED: DECEMBER 10, 2025
SOCALGAS RESPONSE DATED: JANUARY 2, 2026

Question 1.

1. SCG's LRMC study reflects 2021 actual costs for capital components, while O&M loaders are based on 2024 actual costs. What is the justification for using different vintages of data (2021 versus 2024) for capital versus O&M inputs?

Response 1.

According to Chapter 9 (Schmidt-Pines), Attachment A to D.24-07-009, states in relevant part that "The next Cost Allocation Proceeding application will contain, at a minimum, a fully embedded cost study based on 2024 FERC Form 2, as well as a benchmark cost allocation utilizing Long Range Marginal Cost (LRMC) studies for the customer-related and distribution functions. The benchmark cost allocation may leverage underlying LRMC data presented in this cost allocation proceeding, updated to account for changes in line extension allowance policy, loaders, and demand projections, and scaled to representative dollars in the corresponding test year."

SoCalGas's LRMC study takes into account that residential capital costs have gone to zero due to the change in line extension policy, calculates updated loaders based on the attached 2024 FERC form 2 and utilizes updated demand projections. Costs are escalated to 2027 dollars to reflect SoCalGas costs for the first year of the new CAP cycle.

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Question 2.

2. The LRMC studies for both SCG and SDG&E utilize a 15-year regression period spanning ten years of historical data (2015–2024) and five years of forecast data (2025–2029) to determine marginal distribution capital costs. How does the inclusion of older historical data (beginning in 2015) remain relevant for determining long-run marginal costs for rates effective in 2027, given known system changes and demand shifts?

Response 2.

D.92-12-058 states in pertinent part, "We should adopt for marginal distribution costs DRA's demand-related facilities approach with adjustment for future replacement cost. Data used in the regression analysis should include a time period mix of 10 year historical and 5-year forecasted." To conduct the regression analysis, 15 points of data are needed. D.92-12-058 states that 15 years are adequate for the regression analysis.

Question 3.

3. Please explain why peak-day demand is used as the Marginal Demand Measure (MDM) for the Medium Pressure Distribution system, while peak-month demand is used as the MDM for the High Pressure Distribution system. How do these different measures accurately establish the relationship between customer requirements and incurred costs (cost causation) for each system?

Response 3.

The Marginal Demand Measures (MDMs) are adopted by the Commission. In D.92-12-058 (Conclusion of Law 2), the Commission adopted the LRMC framework and found cold-year peak-month demand to be the appropriate MDM for SoCalGas's High-Pressure Distribution, and peak-day for Medium Pressure Distribution.

Peak-day demand is used as the MDM for Medium Pressure Distribution because that system is engineered and planned to meet short-duration. As explained in Chapter 9 (Schmidt0Pines) LRMC testimony, peak day demand is the marginal demand measure and cost driver for the MPD system, and the regression analysis establishes the causal relationship between cumulative load-growth-related MPD capital investment and cumulative peak-day demand growth.

By contrast, the High Pressure Distribution system functions as a backbone network, with costs driven by moving large volumes over the sustained winter period rather than a single day; cold-year peak-month demand therefore better captures the loads that drive HPD investment. In D.92-12-058 (Conclusion of Law 2), the Commission adopted the LRMC framework and found cold-year peak-month demand to be the appropriate MDM for SoCalGas's high-pressure distribution, and it has repeatedly approved SoCalGas's use of peak-day for MPD and peak-month for HPD in subsequent cost allocation proceedings, including the most recent CAP.

Question 4.

4. Please explain what specific underlying factors or cost data necessitate scaling SDG&E's marginal costs at 160% to reconcile with the adjusted base margin, and how this high scalar impacts the interpretability and reliability of the LRMC study as a benchmark.

Response 4.

For SDG&E, the 160% scalar is driven directly by the relationship between (1) the unscaled LRMC revenues and (2) the adjusted gas base margin the Commission has already authorized in SDG&E's GRC. As shown in Chapter 9 (Schmidt-Pines), the LRMC study for SDG&E produces about $303 million of unscaled marginal revenues for customer costs, Medium Pressure Distribution, and High Pressure Distribution functions, as shown in Table MSP-26. Those marginal costs must then be reconciled to an "scaled LRMC revenues" of approximately $486 million, which is the current SDG&E gas transportation base margin without Transmission and NGV Public Access costs. The "adjusted base margin" is $547 million, as shown in Table MSP-27effective September 1, 2025). The ratio of that adjusted base margin to the unscaled LRMC revenues is implemented as a 160% scalar in Table MSP-26, consistent with D.92-12-058's requirement that marginal cost revenues be scaled to the embedded-based authorized revenue requirement under the utilities' ratemaking procedures.

Question 5.

5. Please explain what specific factors account for the wide variance in required scaling factors between the two utilities, with SCG marginal costs scaled at 84% and SDG&E marginal costs scaled significantly higher at 160%.

Response 5.

SoCalGas and SDG&E are separate studies to different companies and have different results. The difference in scaling factors is a mathematical outcome of reconciling each utility's LRMC revenues to its own embedded-cost-based base margin. For SoCalGas, the unscaled LRMC revenues are higher than the adjusted base margin, so the LRMC results must be scaled down to about 84%. For SDG&E, the unscaled LRMC revenues are lower than its adjusted base margin, so they must be scaled up to about 160%. In both cases, the scalar simply aligns total LRMC revenues with each utility's authorized base margin, as required by D.92-12-058. The difference in scalars reflects differences between the systems.

Question 6.

6. Please explain the total Transmission and Storage costs excluded from the LRMC scalar calculation for both SCG and SDG&E, and how these non-scaled costs were functionalized and subsequently allocated to customer classes in Table MSP-12 and Table MSP-27.

Response 6.

This is to keep each function internally consistent with the Commission's directives: customer and distribution functions are reconciled to the adjusted base margin via the LRMC scalar, while Transmission and Storage recover their full embedded revenue requirements through the embedded-cost functionalization and allocation.

Non-scaled costs are handled in the embedded cost study the fallowing ways. For SoCalGas, embedded costs are functionalized into Backbone Transmission, Local Transmission, and Storage, then allocated in Table MSP-12 using cost-causative drivers (e.g., Local Transmission on cold-year peak-month throughput by class; Storage on storage inventory/injection/withdrawal to core and balancing services). For SDG&E, Transmission is functionalized 100% as Backbone Transmission and allocated to the BTS class in Table MSP-27, while NGV Public Access costs are directly assigned to the NGV class.

Question 7.

7. Please provide any sensitivity analyses or alternative regression periods (e.g., shorter historical windows) that were considered, and explain why the 15-year regression was ultimately selected.

Response 7.

SoCalGas and SDG&E retained the 15-year planning-horizon regression (10 years of history plus 5 years of forecast) that is consistent with the LRMC regression methodology adopted in D.92-12-058 and stated in Chapter 9 (Schmidt-Pines) as the basis for developing marginal demand capital costs over a 15-year period spanning historical and forecast periods. See Response 2.

Question 8.

8. Please explain how SCG and SDG&E plan to monitor and adjust LRMC methodologies in future CAP periods to ensure alignment with evolving system conditions and demand forecasts.

Response 8.
Per Chapter 9 (Schmidt-Pines), "These LRMC updated studies are in compliance with CPUC Decision (D.) 24-07-009, 19 Ordering Paragraph (OP) 2. OP 2 states that the "all party settlement […] attached to this decision as Attachment A is approved and adopted without modification." Attachment A to D.24-07-009, states that "The next Cost Allocation Proceeding application will contain, at a minimum, a fully embedded cost study based on 2024 FERC Form 2, as well as a benchmark cost allocation utilizing Long Range Marginal Cost (LRMC) studies for the customer-related and distribution functions." SoCalGas and SDG&E recommend that the full Embedded Cost method for all functions be adopted. The LRMC study is based on the last marginal unit. The residential cost has significantly decreased with the capital cost going to zero. Line Extension Allowance for residential customers is zero, as per SoCalGas Rule No. 20, C2, SDG&E Rule No. 15, C3. SoCalGas and SDGE recommend that only the Embedded Cost study be presented in future CAPs. The LRMC study is no longer adequate or relevant.

Question 9.

9. If SCG and SDG&E cannot provide the requested information to answer the questions above, state the reason in the response.

Response 9.
Not applicable