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 17 FROM CAL ADVOCATES – PUBADV-SCG_SDGE-017-MS
DATED: MARCH 17, 2026
SOCALGAS RESPONSE DATED: MARCH 31, 2026

Subject: Chapter 8 (Embedded Costs) & 9 (LRMC)

Question 1.

SCG and SDG&E explicitly reject the CPUC-mandated Long Run Marginal Cost (LRMC) benchmark study because a July 2023 policy eliminating natural gas line extension allowances mathematically dropped the residential capital cost to zero. If the LRMC accurately reflects current CPUC policy, please explain why the Commission should ignore it in favor of an Embedded Cost approach that relies on sunk historical costs?

Response

Applicants object to the extent the request misstates testimony. Subject to and without waiving the foregoing, Applicants respond as follows: As shown in Chapter 9 (Schmidt-Pines), page MSP-12, Table MSP-1, the Calculation of Marginal Customer Costs shows Residential Capital Expenditures (CAPEX) as $0. This represents the marginal unit. The builders are paying 100% of the new construction's capital expenditures for the customer costs: service line, regulator and meters due to the elimination of the natural gas service allowances. The residential class has the highest number of customers and customer costs. The Embedded Cost approach more accurately reflects the cost of servicing the existing residential customers. As stated in Chapter 9 (Schmidt-Pines), page MSP-3, "Cost causation seeks to determine which customers or customer groups causes the utility to incur particular types of costs. The essential element in the selection and development of a reasonable cost allocation methodology is the establishment of relationships between customer requirements, load profiles, usage characteristics, and the costs incurred by the utility in serving those requirements. A cost allocation based on cost causation therefore seeks to present cost-based rates."

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Question 2.

SCG proposes reallocating 20% ($116.4 million) of the combined Backbone Transmission (BBT) costs to the Local Transmission (LT) function. This is based on an analysis showing that Electric Generation (EG) facilities heavily utilize the system on summer peak days. Would this $116.4 million shift to Local Transmission result in increased the costs borne by core residential ratepayers to subsidize the transmission needs of massive power plants?

Response

Applicants object to the extent the request misstates evidence and calls for an incomplete hypothetical. Subject to and without waiving the foregoing, Applicants respond as follows: No. The premise is incorrect.

The $116.4 million is not a new cost imposed on core residential customers to subsidize EG. It is a functional reallocation within the existing combined $569.3 million backbone cost based to reflect the actual service provided by the transmission system.

As Chapter 8 (Seres/Schmidt-Pines) explains, Backbone and Local Transmission are defined by function, and where backbone assets are performing an additional local transmission function. See Ch.8 FS-MSP-21, line 3-15; FS-MSP-22, lines 2-10; and FS-MSP-24, lines 12-14.

As shown in Chapter 8 (Seres/Schmidt-Pines), page FS-MSP-33, Table FS-MSP-26, the local transmission is allocated by Cold Year – Peak Month, approximately 35% of the cost allocated to the residential customers. The backbone transmission is paid by all customers with the Backbone Transportation Service (BTS) rate.

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Question 3.

Please explain why SCG bases this 20% transmission reallocation strictly on summer peak day data to represent power plants, rather than a year-round average or cold-year peak, which dictates the system needs of residential heating customers?

Response

Summer peak-day data is used because it is the operating condition under which EG facilities, and the backbone assets that directly serve them, are most heavily and consistently utilized. As Chapter 8 (Seres and Schmidt-Pines) explains, that for EG facilities directly served by BBT assets "the backbone infrastructure performs both its primary backbone role and an additional local transmission role" (FS-MSP-24, lines 12-14). Chapter 8 further states that summer peak day data "more accurately represents the true need of power plans for the gas system than annual data" because the summer season "significantly stresses the electric infrastructure"(FS-MSP-25, lines 1-7).Winter conditions, by contrast, are influenced by lower non-EG electricity demand and greater availability of other generation resources. Using summer peak-day EG data therefore aligns the 20% factor, and the resulting $116.4 million reallocation costs with actual services provided by backbone pipelines with actual cost causation under the system's most critical operating conditions. (FS-MSP-26, lines 2-6)

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Question 4.

Based on the 2024 study, SCG allocates its embedded storage costs proportionally at 29.8% for injection, 37.3% for inventory, and 32.9% for withdrawal. Do these specific functional percentages accurately reflect how the storage system will be used between 2027 and 2029, especially given the rapid changes in statewide demand and system constraints?

Please provide supporting workpapers, models, or analyses demonstrating whether these percentages will remain accurate for the 2027–2029 period given forecasted changes in demand and constraints.

Response

Applicants object to the extent the request misstates evidence and calls for an incomplete hypothetical. Subject to and without waiving the foregoing, Applicants respond as follows: The premise is incorrect. These percentages are not a forecast of how the storage system will operate in 2027-2029.

These percentages are a result of Appendix E storage allocation percentage study, not a forecast model. Chapter 8 (Seres/Schmidt-Pines) is explicit that this is a fully embedded cost study based on 2024 recorded data from FERC Form 2. Appendix E applies FERC account specific functional allocation to recorded storage costs, and the final percentages reflect the combined, weighted allocation of recorded capital costs and recoded O&M costs.

SoCalGas relied on its storage operations experts to thoroughly evaluate the underlying FERC account activities and operational functions addressed in Appendix E, so that the resulting percentages reflect an allocation of 2024 recorded costs consistent with cost-causation principles, not prediction of future system operations or constrains.

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Question 5.

Given that SCG and SDG&E propose using the Embedded Cost method instead of LRMC, please explain what is their primary reason for rejecting this CPUC-mandated benchmark study.

Response

As stated in Chapter 8 (Seres/Schmidt-Pines), pages FS-MSP-4 and FS-MSP-5, "On September 15, 2022, the California Public Utilities Commission (CPUC) issued D.22-09-026 as part of Rulemaking (R.) 19-01-011, Order Instituting Rulemaking (OIR) Regarding Building Decarbonization. Starting July 1, 2023, Residential New Construction Builders no longer receive allowances for natural gas line extensions. The embedded cost study is based on historical costs. Shifting to a more universal embedded cost approach for ratemaking would better align gas rates with Commission policy." See Response to Question 1.

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Question 6.

CPUC rules dictate that unscaled marginal cost revenues must be scaled to reconcile with the embedded-based authorized revenue requirement. Please explain why SDG&E's LRMC model require a massive 160% scalar multiplier to reconcile with its adjusted base margin of $470 million?

Please provide the unscaled marginal cost revenues, the detailed scalar calculation, and the reconciliation worksheet to the adjusted base margin of $470 million.

Response

Applicants object to the extent the request misstates evidence. Subject to and without waiving the foregoing, Applicants respond as follows: As shown, in Chapter 9 (Schmidt-Pines), page MSP-35, Table MSP-16, shows Residential Customer Costs $0. This lowers the customer costs considerably. As explained, Chapter 9 (Schmidt-Pines), page MSP-22, "A scalar factor is applied to adjust total marginal cost revenues so that the total revenue requirement from the cost studies, both LRMC and Embedded cost studies, equal the authorized base margin."

The unscaled marginal cost revenues, the detailed scalar calculation, and the reconciliation worksheet to the adjusted base margin of $470, are shown in Chapter 9 (Seres/Schmidt-Pines), page MSP-47, Table MSP-26 and page MSP-48, Table MSP-27 Workpaper Revised_Ch_12SDGE Rate Design Model_12-29-2025.xlsm, tab: Testimony Tbl-LRMC TCAP Exhibits, columns R:AJ show the excel calculations.

Scaled LRMC $485,519 divided by Unscaled LRMC $303,130 = 160%.

Scaled LRMC $485,519 added to Backbone Transmission $61,352 added to NGV Public Access $428 = Base Margin $547,299.

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Question 7.

Please explain whether the requirement of an extreme 160% scalar multiplier for SDG&E's LRMC model indicates that the underlying model is undervaluing the true cost of operating the system.

Response

The SDG&E LRMC studies costs are lower compared to Base Margin (less Transmission and NGV Public Access costs) and result in a 160% scalar. The LRMC studies are using a different methodology, marginal costs compared to Base Margin, which reflect the recorded cost of operating the system. As stated in Chapter 9 (Schmidt-Pines), page MSP-1, "The LRMC method refers to the incremental cost to serve one additional unit in the long run; such a unit cost is called the marginal unit cost."

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Question 8.

While SDG&E requires a 160% scalar, SoCalGas requires an 84% scalar to reconcile with its base margin. Please explain how the Commission can rely on a marginal cost methodology that produces such inconsistent scaling factors (160% for SDG&E and 84% for SoCalGas) between two utilities operating under the same parent company.

Response

SoCalGas's and SDG&E's LRMC studies are completed independently of each other with different data sets and have different scalars. SoCalGas Base Margin, shown in Chapter 9 (Schmidt-Pines), Table MSP-12, page MSP-28, is $3,859,731 thousand. SDG&E Base Margin, shown in Chapter 9 (Schmidt-Pines), page MSP-48, Table MSP-27 is $547,299 thousand.

Question 9.

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

Response

Not applicable.