SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS)

CALIFONIA PUBLIC UTILITIES COMMISSION (CPUC)
ENERGY DIVISION (ED)
(ED DATA REQUEST- PART II)

2025 SB 695 REPORT IOU RECOMMENDATIONS TO LIMIT COST AND RATE INCREASES
(ELECTRIC AND GAS IOUS)

DATE REQUESTED: FEBRUARY 4, 2025
DATE SUBMITTED: FEBRUARY 19, 2025

QUESTION:

This data request is issued regarding proposed recommendations of the electric and gas investor-owned utilities (IOU) to limit cost and rate increases consistent with the state's energy and environmental goals for reducing greenhouse gases, pursuant to Public Utilities Code Section 913.1 which requires the utilities to:

> "…study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."

In preparing your utility's response, the IOU should be as specific as possible in identifying and quantifying specific potential cost savings initiatives.[1]

The data provided in the response will be included in its entirety in an appendix to the 2024 SB 695 Report.

RESPONSE:

1. As stated in prior year's response, SoCalGas shares the State's goal of decarbonization and believes that there are several important policy considerations that can support these efforts. Specifically, the Commission should consider policies that can accelerate the development of a broad set of decarbonization solutions that are able to complement each other, including electrification, clean fuels and carbon management, distributed energy resources, and integrated demand-side management (IDSM) programs, among potentially others. These solutions should be thoughtfully considered not only independently, but comprehensively to understand where such pathways will be integrated, especially when assessing their decarbonization value, cost-effectiveness, risk management, equity characteristics, as well as operational attributes for a safe and reliable future energy system for customers at just and reasonable rates. To the extent that the Commission considers tools that may actively increase the rate of decline in natural gas usage, there must be thorough consideration on managing the cost and equity implications of these actions on all customers. The Commission should not prematurely foreclose the potential to assess leveraging existing gas system investments to provide essential service to customers while decarbonizing the energy system.

[1] Data reflecting rates trends, cost recovery mechanisms, types of cost recovery proceedings, and other data non-specific to studying and reporting on measures recommended to limit cost and rate increases should not be included, except to the extent that such data directly supports the recommendations.

2. Consistent with previous year's response, reductions in natural gas demand will likely result in gas rate and bill pressure for utility gas customers including those residing in our more vulnerable communities. Rather than potentially accelerating an increase in gas rate pressures, the Commission should instead explore opportunities to more broadly, equitably, and sustainably allocate and recover these costs and leverage this existing infrastructure to the extent possible to avoid stranding gas system assets paid for by ratepayers.

3. Importantly, echoing prior year's response, the gas system serves the gas demand of our customers including electric generation, which in turn provides a just-in-time energy resource to support electric system reliability. The reliability and resiliency attributes that the gas system provides to the interconnected energy system is especially critical to support increases in renewable resources. As part of the gas system transition, the Commission should establish a planning process that develops a comprehensive framework to understand the needs of the future energy system and the capabilities for the gas system to meet those needs including impacts on the different customer classes.

- SoCalGas has observed generally that the gas system costs and the cost drivers attributable to different gas customer classes are changing. In recent applications, such as SoCalGas's Angeles Link Phase 2 Application, Amended Joint IOU Hydrogen Blending Demonstration Application (SoCalGas/SDG&E), CEMA (Catastrophic Event Memorandum Account) and CPPMA (COVID-19 Pandemic Protection Memorandum Account) Application, the Equal Cents Per Therm (ECPT) Cost Allocation is proposed. The ECPT cost allocation method allocates costs across customer classes based on each customer class's respective share of total average year gas demand forecast from the most recent Triennial Cost Allocation Proceeding (D. 24-07-009). The allocation is 39.5% to Core customers, around two-thirds of which (26.3% of total) is allocated to the Residential class, and 60.5% to Noncore customers. This methodology allows for allocated costs to be socialized more in alignment with the cost of gas consumed rather than the costs of gas service (i.e., where the allocation of costs is tied to expenses incurred to serve each customer class). ECPT assigns less proportionate cost to core customers, and particularly residential customers, relative to methodologies based on cost of gas service, supporting affordability through relatively lower residential bill impacts. The Commission has authorized the ECPT method for public good-related programs. For example, SoCalGas uses the ECPT method to allocate costs across customer classes in the allocation of the California Alternate Rates for Energy (CARE) program costs for low-income customers. CARE program costs are recovered in the Public Purpose Program Surcharge (PPPS). SoCalGas uses the ECPT method for the cost recovery in transportation rates of the balance in the Residential Uncollectible Balancing Account (RUBA). The ECPT method can provide a more equitable cost allocation mechanism that can be complemented with more equitable rate design approaches.

Meeting California's decarbonization goal is forecasted to require significant reductions in fossil natural gas demand in the future, particularly for residential customers. To mitigate rates and bill impacts during this transition, it is imperative that the Commission address residential rate design issues, particularly the appropriate level of residential fixed charges.

An appropriately considered fixed charge should help to alleviate the inherent cost shift as some customer loads begin to shift away from gas service via fuel substitution (e.g., appliance electrification), and promotes customers who partially electrify to pay a fair share of the fixed costs associated with maintaining their gas service.

In the past, in considering whether to introduce/increase a residential fixed customer charge, the Commission had focused on immediate bill impacts. Transitions in the gas industry with forthcoming significant residential gas load impacts and customer departure to electrified end-uses require that the Commission proactively address the issue of increasing rates and bill impacts in the distant future and introducing the appropriate level of fixed charges now as a primary step.